



中信建投証券股份有限公司
CSC Financial Co., Ltd.

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

Stock Code: 6066

2016
Annual Report



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DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this annual report:

“Articles of Association” or “Articles”	the articles of association of CSC Financial Co., Ltd.
“AUM”	assets under management
“Board” or “Board of Directors”	the Board of Directors of our Company
“BSCOMC”	Beijing State-owned Capital Operation and Management Center (北京國有資本經營管理中心)
“collective asset scale”	collective asset scale
“Company Law”	Company Law of the People’s Republic of China
“Central Huijin”	Central Huijin Investment Limited (中央匯金投資有限責任公司)
“Century Jinyuan”	Century Jinyuan Investment Group Limited (世紀金源投資集團有限公司)
“China Jianyin”	China Jianyin Investment Limited (中國建銀投資有限責任公司)
“China Securities Capital”	China Capital Management Limited (中信建投資本管理有限公司)
“China Securities Funds”	China Securities Funds Management Limited (中信建投基金管理有限公司)
“China Securities Futures”	China Futures Co., Ltd. (中信建投期貨有限公司)
“China Securities International”	China Securities (International) Finance Holding Company Limited (中信建投(國際)金融控股有限公司)
“CITIC Group”	CITIC Group Corporation Ltd.(中國中信集團有限公司)
“CITIC Limited”	CITIC Limited (中國中信股份有限公司)
“CITIC Securities”	CITIC Securities Co., Ltd. (中信證券股份有限公司)
“connected transaction(s)”	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS (Continued)

“CSC” or “Company”, “our Company”	CSC Financial Co., Ltd. (中信建投証券股份有限公司)
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)
“CSRF”	China Structural Reform Fund Co., Ltd. (中國國有企業結構調整基金有限公司)
“Director(s)”	director(s) of our Company
“Domestic Shareholders”	holders of Domestic Shares
“Domestic Shares”	ordinary Shares issued by our Company in the Share capital of our Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in Renminbi
“FICC”	Fixed income securities, currencies and commodities
“Glasslake Holdings”	Glasslake Holdings Limited (鏡湖控股有限公司)
“Group”	CSC Financial Co., Ltd. and its subsidiaries
“H Share(s)”	overseas listed foreign Shares in the Share capital of our Company with a nominal value of RMB1.00 each, listed on the Hong Kong Stock Exchange and traded in HK dollars
“H Shareholders”	holders of H Shares
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IPO”	initial public offering
“Listing Date”	the date, i.e., 9 December 2016, on which the H Shares of the Company are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)

DEFINITIONS (Continued)

“QDII”	Qualified Domestic Institutional Investor (合格境內機構投資者)
“QFII”	Qualified Foreign Institutional Investor (合格境外機構投資者)
“Reporting Period”	from 1 January 2016 to 31 December 2016
“RMB” or “Renminbi”	the lawful currency of the PRC
“RQFII”	Renminbi Qualified Foreign Institutional Investor (人民幣合格境外機構投資者), a pilot program launched in the PRC which allows Hong Kong subsidiaries of PRC securities and funds companies to facilitate investments of offshore Renminbi into PRC capital markets
“Shanghai and Shenzhen Stock Exchanges”	Shanghai Stock Exchange and Shenzhen Stock Exchange
“Shanghai Shangyan”	Shanghai Shangyan Investment Center (Limited Partnership) (上海商言投資中心(有限合夥))
“Shannan Jinyuan”	Xizang Shannan Century Jinyuan Investment Management Limited (西藏山南世紀金源投資管理有限公司)
“Share(s)”	ordinary Shares in the Share capital of our Company with a nominal value of RMB1.00 each, comprising Domestic Shares and H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Supervisor(s)”	the supervisor(s) of the Company
“Supervisory Committee”	the supervisory committee of the Company
“the end of the Reporting Period”	31 December 2016
“US\$”	United States dollars, the lawful currency of the United States
“Wind Info”	Wind Information Co., Ltd. (上海萬得信息技術股份有限公司), a joint-stock company with limited liability incorporated in the PRC and a service provider of financial data, information and software

CHAIRMAN'S STATEMENT

Dear Shareholders,

This is the first time that I extend my greetings to you all on behalf of the Company and its Board of Directors. I hereby submit the first annual report of CSC, as a listed company, after more than 11 years since its establishment. As such, I am so excited, with a little tremble. What is the most exciting is that I have witnessed the entire development of the Company since its founding and have been impressed by the successful achievements made after wholehearted and persistent devotion to the Company. On the other hand, the Company will be encountering greater challenges and more obstacles upon its listing. Should we march on to pursue excellence or merely get satisfied with ordinary performance after listing, just like some other enterprises do, is one of the issues that makes me struggle and contemplate. On this opportunity, I would like to share my review and analysis on the development of the Company and seek for your support.

2016 was a year of tremendous changes for capital markets in China. Following the substantial abnormal fluctuation in the stock market in 2015, the daily transaction volume of the stock markets in Shanghai and Shenzhen recorded a decrease of nearly 50% as compared with that of the previous year whereas a relatively significant increase was seen in the primary market in terms of the volume of both equity financing and bond financing, which demonstrated the capital markets serving the real economy in full swing. With the successful implementation of Shenzhen-Hong Kong Stock Connect in early December of last year, capital markets in China had achieved new progress towards internationalization. Meanwhile, as regulatory punishments were further stringently imposed in 2016, which signified the main focus on lawful, strict and complete compliance with laws in the capital markets in the long run.

Facing the ever-changing business environment, the Group has not only maintained its strategic positioning and proactively implemented business structure, but also responded to the market promptly and pursued advancement in a moderate manner. While capturing market opportunities and making efforts in expanding its businesses, the Group persisted in maintaining compliant operation and monitoring risks, and achieved encouraging operating results. In 2016, the Group realized total revenue and other income amounting to RMB17,584 million, and net profit attributable to Shareholders of the Company of RMB5,259 million, representing a decrease as compared with last year which was far better than the industry average though. The return on weighted average equity of ordinary shareholders (ROE) of the Group for the year was 18.10%, which ranked first among all domestic listed securities companies which disclosed such information.

CHAIRMAN'S STATEMENT (Continued)

In 2016, the top highlight of business development of the Company was laid on the investment banking business. According to Wind Info, the Company ranked first in the industry in terms of both amount of securities underwriting and number of projects, among which, the number and amount of equity offerings ranked first and second respectively while both number and amount of bond offerings underwritten by us as lead underwriter ranked first in the industry. We should give thanks for all these achievements to our endeavor to “make the best enterprises our clients and our clients better enterprises” as our philosophy for business development and to the precise strategies adopted for the investment banking business over the years as well as the major client manager system that has been widely encouraged within the Company in recent years. The remarkable performance of the investment banking business of the Company has become one of the vital elements to the establishment of our brand and has also served as an important driver to the development of other businesses of the Company.

The brokerage and wealth management business has been the core business of the Company. Though there was intensified competition in the industry in recent years that led to a continuous decrease in commission rate and a downward trend for the percentage of revenue, such business continued to secure a dominant proportion to the total revenue of the Company. In the past year, we had paid our greatest efforts to brokerage business by adhering to the client-centric philosophy and were determined to innovate the management structure and incentive policies of the brokerage business. Besides, we had invested many resources in the Internet securities business and cooperated with various commercial banks through diversified channels in response to the latest development trend of the industry, which allowed us to rank among the top five in the industry in terms of market value of entrusted securities for corporate clients. Meanwhile, the margin financing and securities lending business of the Company recorded a significant increase of over 5% in market share through efficient works.

The investment management business is one of the key businesses for which the Company holds high expectations and is also an important growth point for the revenue of the Company in the future. Such business continued to maintain a relatively rapid growth rate over the past year. Besides, we ranked among the top five in the industry in terms of AUM of the headquarters of the Group and made considerable improvement in fund management business and private equity management business. In particular, China Securities Funds Management Limited recorded an increase of over two times compared to the Group in terms of weighted average rate of ROE in 2016.

Our trading and institutional client service business recorded a decrease in revenue in the previous year. Amid the uncertainties in the market, the Company not only managed to place high priority on risk mitigation but also maintained a return rate at a higher-than-average level. In addition to our proprietary business, the Company has also maintained a relatively rapid development in various businesses, including research business, sales of stocks and bonds, and institutional client services.

CHAIRMAN'S STATEMENT (Continued)

On 9 December 2016, the Company was successfully listed on the Hong Kong Stock Exchange, facilitating the Company to have access smoothly to the financing platform in international capital markets. Under the progress of the issuance of H shares, the Group obtained the fullest support from its substantial Shareholders and recognition among its cornerstone investors, and was welcomed by medium- to small-sized investors. As the operation and management team, we would like to express our sincere gratitude towards the Shareholders' recognition on our corporate value and guarantee that we will keep on generating maximum returns to all Shareholders in order to reward the trust you placed in us.

Our Group is a comprehensive securities group with its foothold in domestic capital markets and the changes in the trend of the PRC economy and capital markets have a prolonged influence over the operating results of the Group. Based on our preliminary judgment, the PRC economy will maintain stability while making progress, and capital markets will further solidify their important roles in serving the real economy, allowing enormous room for the securities industry to expand in the coming five years. We regard the listing of the Company as a starting point to a better future, and, with this belief, we target to adhere to the overall guiding direction of "pursuing advancement and excellence in a moderate manner" while implementing specific arrangement of tasks under the strategy of "reinforcement of solid foundation and enhancement in quality and efficiency". "Pursuing advancement and excellence in a moderate manner" requires the Group to commence strictly compliant and lawful operation and increase its awareness of risk prevention. Besides, the Group needs to maintain its pace of steady and healthy growth while attaching utmost importance to business development by properly allocating capital resources of the Company so as to maximize value and generate better returns to Shareholders. "Reinforcement of solid foundation and enhancement in quality and efficiency" requires the Group to make further improvements in various aspects, such as client base, talent team, capital strength, technology capability and compliance level of risk control, and at the same time to keep enhancing the efficiency and quality of management and operation.

At the press conference held on 26 February this year organized by the Information Office of the State Council, Mr. Liu Shiyu, Chairman of the CSRC, concisely summarized the core of the regulatory practice of capital markets in three words, namely "stability", "strictness" and "advancement", and highlighted the importance of strictly following the reform direction towards market-orientation, legal governance and internationalization while ensuring the consistency of policies. All such policies serve as the direction to guide the Company on the right path to a sound development in the long run.

CHAIRMAN'S STATEMENT (Continued)

CSC is a large-scale and comprehensive investment bank with leading position in value creation capability. We are proud of the brilliant achievements that we had made in the past and we will get ourselves well prepared to achieve many more, in a more progressive manner. I believe that, with the fullest support of all Shareholders and the hard work of all of our operation and management team and staff members, the Group will manage to make greater progress with the core value of “recognition for achievement” by persisting in our inherent operation concept of stable and long-term development. We will be dedicated to becoming a respectable top-grade listed securities company equipped with comprehensive strengths, advanced management, excellent reputation and sound development so as to create more values for clients, generate better returns for Shareholders, and make greater contribution to the healthy and rapid development of the PRC economy.



WANG Changqing

Chairman

20 April 2017

SECTION 1 IMPORTANT NOTICE

The Board of Directors and the Supervisory Committee of the Company and the Directors, Supervisors and senior management warrant the truthfulness, accuracy and completeness of this annual report and that there is no false representation, misleading statement contained herein or material omission from this annual report, and for which they will assume joint and several liabilities.

This annual report was considered and approved at the 62nd Meeting of the First Session of the Board of Directors of the Company. All Directors of the Company attended the meeting. WANG Chenyang (Director) authorized WANG Shouye (Director) in writing to exercise his voting right on his behalf. No Director or Supervisor raised any objection to this annual report.

The financial reports of the Company were audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, and auditor's report with standard unqualified audit opinion was issued by PricewaterhouseCoopers accordingly.

Mr. WANG Changqing, Chairman of the Board, Mr. QI Liang, Executive Director, General Manager and Mr. PENG Heng, the person-in-charge of finance, and the head of the Company's Financial Planning Department, warrant that the financial statements set out in this annual report are true, accurate and complete.

The Company's 2016 profit distribution proposal considered and approved by the Board of Directors is: to distribute cash dividend of RMB1.80 (tax inclusive) for every 10 Shares. This proposal is subject to the approval of the general meeting of the Company.

Forward looking statements, including future plans and development strategies, contained in this annual report do not constitute a substantive commitment to investors by the Company. Investors should be aware of investment risks.

The Company prepared this annual report in both English and Chinese. In the event of any discrepancies in interpretation between the English version and Chinese version of this annual report, the Chinese version shall prevail.

In this annual report, the discrepancies in the decimal place between the sum of the amount of each sub-item and the grand total are due to rounding to the nearest integer.

SECTION 2 MATERIAL RISK FACTORS

The Group's business operation is highly dependent on the general economic and market conditions of China and the other areas in which the Company operates its business. Therefore, volatility in the Chinese and international capital markets will have significant effect on the operating results of the Group.

The major risks the Group is exposed to include but are not limited to: legal and compliance risk caused by failure of business management and standards to align by the Company in a timely manner with changes in national laws and regulations and rules promulgated by the regulatory authorities; strategic risk due to the implementation of inappropriate development plans and strategic decisions in response to profound changes in capital markets; market risk that may arise from the fluctuating price of various classes of securities and derivatives held by the Group; credit risks due to defaults of our counterparties, securities issuers of our investment targets and clients of securities financing and futures business; liquidity risk arising from potential failure to obtain sufficient funds in a timely manner and at reasonable cost to pay debts as they become due, meet other payment obligations, and satisfy capital requirements in the ordinary course of business; operation risk of losses arising from defective or problematic management of internal procedures, personnel misconduct and IT system failure, or from external events; reputation risk that may arise from negative evaluation on the Company made by stakeholders due to the Company's executive management and other actions or external events. In particular, credit risk and liquidity risk are the major risks currently being faced by the Group.

To cope with the above risks, the Group takes preventive measures through its organizational structure, management system, information technology, etc., and continues to improve risk management methods to manage various types of risks including risks relating to markets, credit, operation and liquidity, and focuses on strengthening the management of credit risk and liquidity risk.

SECTION 3 COMPANY INFORMATION

Profile

Name in Chinese	中信建投証券股份有限公司
Abbreviation in Chinese	中信建投証券
Name in English	CSC Financial Co., Ltd.
Abbreviation in English	CSC
Legal Representative	WANG Changqing
General Manager	QI Liang

Registered Capital and Net Capital

Unit: RMB Yuan

	As at the end of the Reporting Period (31 December 2016)	As at the end of the previous year (31 December 2015)
Registered Capital	6,100,000,000.00 ^{Note 1}	6,100,000,000.00
Net Capital (the Company)	36,198,482,225.10 ^{Note 2}	28,829,580,240.62

Note 1: As of 31 December 2016, the total number of Shares of the Company was 7,176,470,000. Due to the issue of additional Shares on 5 January 2017 as a result of the partial exercise of the over-allotment option, as of the date of this annual report, the total number of Shares of the Company was 7,246,385,238. The Company is undergoing the change of registration with the Administration for Industry and Commerce for the registered capital.

Note 2: The net capital and related percentage by the end of the previous year had been re-stated in accordance with the Administrative Measures for Risk Control Indicators of Securities Companies (Revised in 2016).

Scope of Business and Business Qualifications for Each Individual Business of the Company

As approved by regulatory authorities and the Administration for Industry and Commerce, the business scope of the Company recorded in the business license includes: securities brokerage; securities investment consulting; financial advisory business relating to securities trading and securities investment activities; securities underwriting and sponsorship; proprietary securities trading; securities asset management; agency sale of securities investment funds; provision of intermediary business to futures companies; margin financing and securities lending business; agency sale of financial products; sideline insurance agency business; stock options market making; custodian for securities investment fund; sale of precious metal products.

SECTION 3 COMPANY INFORMATION (Continued)

In addition, the Company also possesses the following individual business qualifications (items 1–3 were business qualifications newly obtained in 2016):

- 1 Qualification for conducting Southbound Trading business under Shenzhen-Hong Kong Stock Connect
- 2 Issuing institution of credit-linked notes
- 3 Key trader of CRMW instruments
- 4 Interbank gold inquiry business
- 5 Foreign currency lending membership of China Foreign Exchange Trading System
- 6 An institution providing private fund business outsourcing
- 7 Physical precious metals business
- 8 Conducting overseas securities investment and management business by Qualified Domestic Institutional Investor (QDII)
- 9 Options settlement business
- 10 Stock options market making business
- 11 Participants for stock options trading (stock option brokerage and proprietary trading)
- 12 Business of financing of exercising Share incentive scheme
- 13 CRMW instruments selling business
- 14 Shanghai-Hong Kong Stock Connect business
- 15 Rongxintong internet collateralized stock repurchase business
- 16 Participant of quotation and service system for inter-institutional private equity products
- 17 Securities member of Shanghai Gold Exchange
- 18 Market making business of National Equities Exchange and Quotations System for small and medium enterprise
- 19 Piloting of Internet securities business
- 20 Repurchase business with collateralized quotes on Shenzhen Stock Exchange
- 21 Pilot of conducting capital consumption payment services for client securities
- 22 Counter trading business of OTC option and swapping financial derivatives
- 23 Agency business for precious metal spot contracts
- 24 Proprietary business for spot gold contracts
- 25 Class A rating for financial adviser of merger, acquisition and reorganisation
- 26 Proprietary business of treasury futures
- 27 Registered participant of quotation and service system for private equity products
- 28 Issuing institution of CRMW
- 29 Collateralized stock repurchase transaction business
- 30 Business of entrusted management of insurance funds
- 31 Business of autonomous option exercise with respect to Share incentive schemes of listed companies
- 32 Opening accounts for clients remotely
- 33 Securities refinancing business
- 34 Contractual repurchase business of securities transaction on Shenzhen Stock Exchange
- 35 Lead underwriter for debt financing instruments of non-financial institutions

SECTION 3 COMPANY INFORMATION (Continued)

- 36 Counter trading business
- 37 Provision of agency service for registration of pledge of securities
- 38 Qualification for consultation services for military confidential business
- 39 Contractual repurchase securities transaction business on Shanghai Stock Exchange
- 40 Refinancing business
- 41 Interest rate swap using its proprietary funds of securities
- 42 Dealing of CRMW business
- 43 License for foreign exchange operation in the securities business
- 44 License for telecommunications and information service business
- 45 Business of bond collateralized repurchase with quotes on Shanghai Stock Exchange
- 46 Member of the underwriting syndicate for financial bonds of The Export-Import Bank of China
- 47 Member of the underwriting syndicate for financial bonds of Agricultural Development Bank of China
- 48 Member of book-entry treasury bond underwriting syndicates
- 49 Providing trading units for insurance agency investors by securities companies
- 50 Primary trader for Shanghai Stock Exchange fixed income securities consolidated electronic trading platform
- 51 Chief agency broker for agent of Share transfer business
- 52 Implementation of the broker system
- 53 Direct investment business
- 54 Member of the inter-bank market

Basic Information

Registered Address	Unit 4, No. 66 Anli Road, Chaoyang District, Beijing
Postal Code of Registered Address	100101
Office Address	No. 188 Chaonei Avenue, Dongcheng District, Beijing
Postal Code of Office Address	100010
Place of Business in Hong Kong	18/F, Two Exchange Square, Central, Hong Kong
Website	www.csc108.com
Telephone	+8610-8513 0588
Facsimile	+8610-6518 6399
National Customer Service Hotline	95587/400 8888 108
Investor Relations Hotline	+8610-6560 8107
United Social Credibility Code	91110000781703453H
Websites for information disclosure	HKExnews website of HKEx: www.hkexnews.hk Official website of CSC: www.csc108.com
Authorized Representatives of the Company	WANG Changqing, QI Liang
Joint Company Secretaries	WANG Guangxue, WONG Wai Ling

SECTION 3 COMPANY INFORMATION (Continued)

Contact Persons and Methods

Contact Person	WANG Guangxue
Contact Address	No. 188 Chaonei Avenue, Dongcheng District, Beijing
Telephone	+8610-8513 0852
Facsimile	+8610-6518 6399
Email	Investorrelations@csc.com.cn

Places Where Annual Reports of the Company are Available

No. 188 Chaonei Avenue, Dongcheng District, Beijing
18/F, Two Exchange Square, Central, Hong Kong

Summary Information of the Shares

Class of Shares	Stock Exchange of Listing	Stock Name	Stock Code
H Shares	Hong Kong Stock Exchange	CSC	6066

History and Shareholding Structure

China Securities Finance Limited (中信建投証券有限責任公司), the Company's predecessor, was jointly invested and established by CITIC Securities and China Jianyin in 2005 pursuant to the Approval for Commencing Operation of China Securities Finance Limited (Zheng Jian Ji Gou Zi [2005] No. 112) (《關於同意中信建投証券有限責任公司開業的批覆》(證監機構字[2005]112號)) issued by the CSRC. On 2 November 2005, the Company obtained the business license from the Administration for Industry and Commerce. The registered address is Unit 4, No. 66 Anli Road, Chaoyang District, Beijing, with registered capital of RMB2,700,000,000, of which CITIC Securities and China Jianyin contributed RMB1,620,000,000 and RMB1,080,000,000, representing 60% and 40% of the total registered capital, respectively. The Company was established to acquire all securities business and related assets originally owned by Huaxia Securities Co., Ltd. and then operated as a comprehensive securities firm.

On 9 November 2010, the CSRC issued the Approval for the Change of Shareholders Holding More Than 5% Equity Interests by China Securities Finance Limited (Zheng Jian Xu Ke [2010] No. 1588) (《關於核准中信建投証券有限責任公司變更持有5%以上股權的股東的批覆》(證監許可[2010]1588號)) to approve the eligibility of BSCOMC as a Shareholder of the Company holding more than 5% equity interests, with no objection to the lawful transfer of RMB1,215,000,000 equity interests of the Company (representing 45% of the total capital contribution) originally held by CITIC Securities to BSCOMC. On 15 November 2010, the Company completed the change of registration with the Administration for Industry and Commerce.

SECTION 3 COMPANY INFORMATION (Continued)

Pursuant to the Approval of the MOF for Asset Transfer by China Jianyin to Central Huijin (Cai Jin Han [2009] No. 77) (《財政部關於中國建銀投資有限責任公司向中央匯金投資有限責任公司劃轉資產的批覆》(財金函[2009]77號)), China Jianyin, a Shareholder of the Company originally holding 40% equity interests, transferred its equity interests in the Company to Central Huijin at nil consideration. On 18 November 2010, the CSRC issued the Approval for the Change of Shareholders Holding More Than 5% Equity Interests by China Securities Finance Limited (Zheng Jian Xu Ke [2010] No. 1659) (《關於核准中信建投證券有限責任公司變更持有5%以上股權的股東的批覆》(證監許可[2010]1659號)), with no objection to the lawful transfer of RMB1,080,000,000 equity interests of the Company (representing 40% of the total capital contribution) originally held by China Jianyin to Central Huijin. On 16 December 2010, the Company completed the change of registration with the Administration for Industry and Commerce.

On 25 November 2010, the CSRC issued the Approval for the Change of Shareholders Holding More Than 5% Equity Interests by China Securities Finance Limited (Zheng Jian Xu Ke [2010] No. 1693) (《關於核准中信建投證券有限責任公司變更持有5%以上股權的股東的批覆》(證監許可[2010]1693號)) to approve the eligibility of Century Jinyuan as a Shareholder of the Company holding more than 5% equity interests, with no objection to the lawful transfer of RMB216,000,000 equity interests of the Company (representing 8% of the total capital contribution) originally held by CITIC Securities to Century Jinyuan. On 16 December 2010, the Company completed the change of registration with the Administration for Industry and Commerce.

On 30 June 2011, the CSRC issued the Approval for the Conversion of China Securities Finance Limited into a Joint Stock Limited Company (Zheng Jian Xu Ke [2011] No. 1037) (《關於核准中信建投證券有限責任公司變更為股份有限公司的批覆》(證監許可[2011]1037號)) to approve the conversion of the Company into a joint stock limited company. Upon completion of the conversion, the Company was renamed China Securities Finance Co., Ltd. with registered capital of RMB6,100,000,000 (by conversion of net asset value of China Securities Finance Limited into Shares). On 28 September 2011, the Company completed the change of registration with the Administration for Industry and Commerce.

On 8 March 2016, Century Jinyuan entered into a Share Transfer Agreement with Shannan Jinyuan (山南金源) to transfer 300,000,000 of its Shares in the Company (representing 4.92% of the total Share capital) to Shannan Jinyuan. Upon completion of the transfer, the proportion of the Company's Shares held by Century Jinyuan was decreased from 8% to 3.08% and Shannan Jinyuan held 4.92% of the Company's Shares.

On 22 August 2016, Century Jinyuan entered into a Share Transfer Agreement with Shanghai Shangyan (上海商言) to transfer 150,624,815 of its Shares in the Company (representing 2.47% of the total Share capital) to Shanghai Shangyan. Upon completion of the transfer, the proportion of the Company's Shares held by Century Jinyuan was decreased from 3.08% to 0.61% and Shanghai Shangyan held 2.47% of the Company's Shares.

SECTION 3 COMPANY INFORMATION (Continued)

On 9 December 2016, the Company was listed on the Hong Kong Stock Exchange and trading of its Shares commenced. Upon partial exercise of the over-allotment option, the Company issued or sold and converted from Domestic Shares a total of 1,261,023,762 H Shares, and the total Share capital of the Company increased to 7,246,385,238 Shares, of which 82.60% are Domestic Shares and 17.40% are H Shares, and the registered capital of the Company was changed to RMB7,246,385,238 (undergoing change of registration with the Administration for Industry and Commerce).

Changes of Registration during the Reporting Period:

On 13 October 2016, the Company filed the change of business scope of the business license with Beijing Administration for Industry and Commerce.

Reason for the change: renewal of the “sideline insurance agency business”

Scope of business after the change: securities brokerage; securities investment consulting; financial advisory business relating to securities trading and securities investment activities; securities underwriting and sponsorship; proprietary securities trading; securities asset management; agency sale of securities investment funds; provision of introducing brokerage business to futures companies; margin financing and securities lending business; agency sale of financial products business; sideline insurance agency business; stock options market making business; custodian for securities investment fund business; and sales of precious metals.

Relevant Information of the First Registration:

Date of first registration: 2 November 2005

Address of first registration: Unit 4, No. 66 Anli Road, Chaoyang District, Beijing

Registration number of corporate legal person business license: 1100001901768

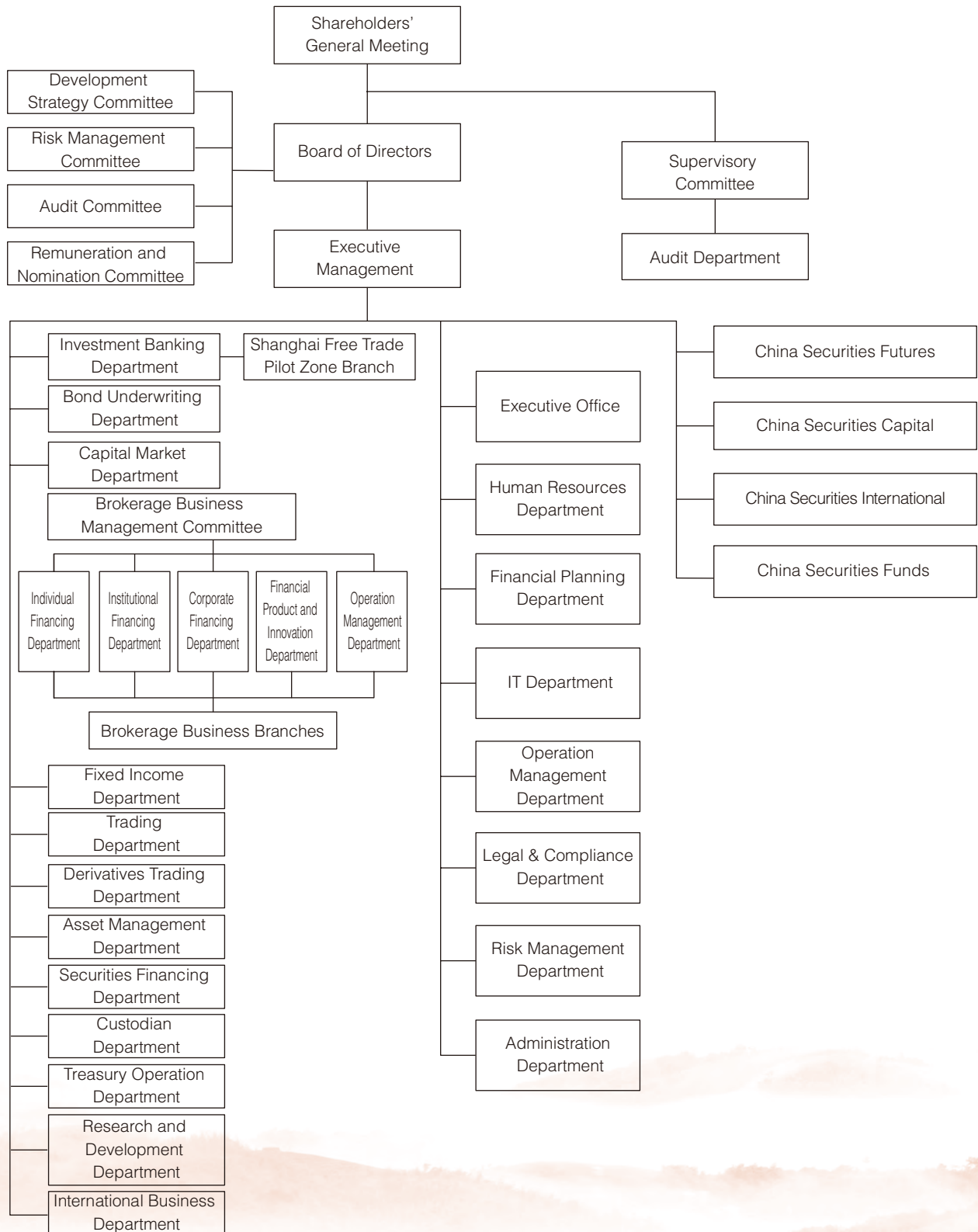
Certificate of organization code: 78170345-3

Change of Substantial Shareholders

Please refer to “History and Shareholding Structure” of this annual report for details.

SECTION 3 COMPANY INFORMATION (Continued)

Organization and Structure Chart of the Company



SECTION 3 COMPANY INFORMATION (Continued)

As of the end of the Reporting Period, the Company has three wholly-owned subsidiaries, namely China Securities Futures, China Securities Capital and China Securities International, and one controlled subsidiary, namely China Securities Funds. Please refer to “Analysis of Principal Subsidiaries and Non-Controlling Companies” of this annual report for details.

Number and Network of Securities Branches of the Company

As of the end of the Reporting Period, 225 securities branches of the Company in total were established. The network of securities branches is as follows:

Province/autonomous regions/municipalities	Number of branches
Beijing	36
Shanghai	16
Tianjin	5
Chongqing	10
Heilongjiang	3
Jilin	2
Liaoning	5
Hebei	4
Shandong	10
Shanxi	2
Henan	5
Anhui	1
Jiangsu	17
Hubei	12
Hunan	11
Jiangxi	13
Zhejiang	12
Fujian	11
Guangdong	23
Hainan	2
Shaanxi	8
Sichuan	7
Yunnan	1
Guizhou	1
Gansu	3
Inner Mongolia	1
Guangxi	1
Xinjiang	1
Qinghai	1
Ningxia	1
Total	225

SECTION 3 COMPANY INFORMATION (Continued)

Other Relevant Information

Auditors	PricewaterhouseCoopers Zhong Tian LLP 11/F PricewaterhouseCoopers Center, 2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai PricewaterhouseCoopers 22/F, Prince's Building, Central, Hong Kong
H Share Registrar	ComputerShare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Company's Awards in 2016

The Company

1. Selected by "Caixin Capital Market Achievement Award" jointly organized by Caixin Insight Group and Dealogic: Best Underwriter in Bond Capital Markets for Chinese Issuers, Best Onshore Chinese Investment Bank, Best Investment Bank of Consumption and Retail Industry in Chinese Market, Best Chinese A-Share IPO Underwriter, Best Chinese Broker in Onshore Bond Market and Best Panda Bond Underwriters (In term of Exchange Market)

Issued by: Caixin Insight Group and Dealogic

2. Best DCM Investment Bank in China

Issued by: FinanceAsia

3. Best Product Selling Award

Issued by: China OTCTOP Co., Ltd.

4. Pioneer and Outstanding Contribution Enterprise for Construction and Going Online of New-generation Trading System of Shenzhen Stock Exchange

Issued by: Shenzhen Stock Exchange

5. Shanghai Market Data Hub Founding Broker

Issued by: HKEX

SECTION 3 COMPANY INFORMATION (Continued)

6. “14th New Fortune Best Analyst Selection”

Team awards: Ranked No. 10 – “New Fortune Best Local Research Team”
 Ranked No. 9 – “New Fortune Most Influential Research Institution”
 Ranked No. 3 – “New Fortune Fastest-growing Research Institution”

“New Fortune Best Analyst” Ranked No. 1 for “fixed income study”
Personal awards: Ranked No. 1 for “military project”
 Ranked No. 1 for “telecommunication”
 Ranked No. 2 for “coal mining”
 Ranked No. 4 for “papermaking in light industry”
 Ranked No. 5 for “strategic research”
 Ranked No. 5 for “real estate”

Issued by: New Fortune

7. “Excellence Award” for Information Technology Application in Securities Industry for 2016

Issued by: Cloud Application Branch of China Computer Users Association

8. Beijing Financial Moral Model Innovation Award

Issued by: Beijing Working Committee of Chinese Financial Workers’ Union

9. 2016 Best Asset Management Securities Company in China, Short-term Financing Issuer of Outstanding Securities Company

Issued by: China Government Securities Depository Trust & Clearing Co. Ltd.

10. Best Investment Value Award, Best IPO Award

Issued by: China Financial Market

SECTION 3 COMPANY INFORMATION (Continued)

China Securities Futures

1. Selected by Ninth Best Futures Company in China cum Best Futures Analyst: 2016 Best Futures Company in China, 2016 Best Service Award for Financial Futures, 2016 Best Futures Award for Private Equity

Issued by: Futures Daily

2. “Outstanding Member for Market Growth” of Zhengzhou Commodity Exchange for 2016

Issued by: Zhengzhou Commodity Exchange

3. 14th China Finance Industry Power Chart: 2016 Gold Medal Industrial Research Award, 2016 Gold Medal Investment and Research Team

Issued by: hexun.com

China Securities Funds

1. 2016 Outstanding Bond Dealers

Issued by: Shanghai Stock Exchange

2. 2016 Economic Development Contribution Award

Issued by: Beijing Huairou District Committee of Chinese Communist Party and The People's Government of Beijing Huairou District

China Securities International

“China Securities International High Yield Bonds Fund” was awarded the 1st runner up for “Outstanding Performance – Fixed Asset Category in Greater China (One Year)” in 2016 Offshore Chinese Fund Award

Issued by: Chinese Asset Management Association of Hong Kong

SECTION 4 FINANCIAL SUMMARY

Key Accounting Data

Unit: RMB million

Items	2016	2015	Increase/ decrease as compared to the same period last year (%)	2014
Total revenue and other income	17,584	24,512	-28.26	11,452
Operating profit	7,060	11,461	-38.40	4,543
Profit before income tax	7,057	11,461	-38.43	4,543
Net profit attributable to equity holders of the Company	5,259	8,639	-39.12	3,407
Net cash flow from operating activities	20,411	-11,418	N/A	-4,636

Unit: RMB million

Items	31 December 2016	31 December 2015	Increase/ decrease as compared to the same period last year (%)	31 December 2014
Total assets	181,695	183,188	-0.82	123,406
Total liabilities	140,432	153,005	-8.22	106,678
Equity attributable to equity holders of the Company	41,063	30,106	36.39	16,669
Total Share capital	7,176	6,100	17.64	6,100

SECTION 4 FINANCIAL SUMMARY (Continued)

Key Financial Indicators

Items	2016	2015	Increase/ decrease as compared to the same period last year (%)	2014
Basic earnings per Share (RMB Yuan/Share)	0.81	1.37	-40.88	0.56
Diluted earnings per Share (RMB Yuan/Share)	0.81	1.37	-40.88	0.56
Return on weighted average equity (%)	18.10	40.00	Decreased by 21.90 percentage points	22.90

Items	31 December 2016	31 December 2015	Increase/ decrease as compared to the same period last year (%)	31 December 2014
Net assets per Share attributable to equity holders of the Company (RMB Yuan/Share)	5.72	4.94	15.79	2.73
Gearing ratio (%)	66.98	72.84	Decreased by 5.86 percentage points	79.07

Note: In calculating the gearing ratio for the Reporting Period of the table above, accounts payable to brokerage clients have been excluded from the assets and the liabilities.

SECTION 4 FINANCIAL SUMMARY (Continued)

Net Capital and Relevant Risk Control Indicators of the Company

On 16 June 2016, the CSRC issued the Administrative Measures for Risk Control Indicators of Securities Companies (Revision in 2016) and Provisions for Standards of Calculating Risk Control Indicators of Securities Companies with amendments to the framework and criteria of risk control indicators with which securities companies must comply on an ongoing basis, and such amendments are required to become effective on 1 October 2016. The Company has restated various risk control indicators including net capital as at 31 December 2015 in accordance with the above-mentioned requirements.

As at 31 December 2016, the net capital of the Company amounted to RMB36,198 million, representing an increase of RMB7,368 million as compared to net capital of RMB28,830 million as at 31 December 2015 (restated), mainly due to the public issuance of H Shares by the Company and the increase in net profit during the Reporting Period. All risk control indicators including net capital of the Company complied with the relevant requirements of the Administrative Measures for Risk Control Indicators of Securities Companies (Revision in 2016) issued by the CSRC.

Items	31 December 2016	31 December 2015
Net capital (RMB million)	36,198	28,830
Net assets (RMB million)	40,068	29,488
Total risk capital reserves (RMB million)	15,778	10,830
Risk coverage ratio (%)	229.43	266.19
Capital leverage ratio (%)	27.83	20.80
Liquidity coverage ratio (%)	172.00	253.07
Net stable funding ratio (%)	154.52	136.30
Net capital/net assets (%)	90.34	97.77
Net capital/liabilities (%)	52.92	42.70
Net assets/liabilities (%)	58.58	43.68
Proprietary equity securities and securities derivatives/net capital (%)	14.02	18.57
Proprietary non-equity securities and securities derivatives/net capital (%)	127.56	122.53

SECTION 4 FINANCIAL SUMMARY (Continued)

Financial Position for the Last Four Years

Profit Status

Unit: RMB million

Items	2016	2015	2014	2013
Total revenue and other income	17,584	24,512	11,452	7,322
Total expenses	10,524	13,051	6,909	4,901
Share of profits or losses of associates	-3	-	-	-
Profit before income tax	7,057	11,461	4,543	2,421
Net profit attributable to equity holders of the Company	5,259	8,639	3,407	1,787

Assets Status

Unit: RMB million

Items	31 December 2016	31 December 2015	31 December 2014	31 December 2013
Share capital	7,176	6,100	6,100	6,100
Total equity	41,263	30,183	16,728	13,154
Equity attributable to equity holders of the Company	41,063	30,106	16,669	13,091
Total liabilities	140,432	153,005	106,678	54,786
Accounts payable to brokerage clients	56,736	72,045	43,487	19,653
Total assets	181,695	183,188	123,406	67,940

SECTION 4 FINANCIAL SUMMARY (Continued)

Key Financial Indicators

Items	2016	2015	2014	2013
Dividends per Share (<i>RMB yuan/Share</i>)	0.18 (proposed)	–	–	0.03
Basic earnings per Share (<i>RMB yuan/Share</i>)	0.81	1.37	0.56	0.29
Diluted earnings per Share (<i>RMB yuan/Share</i>)	0.81	1.37	0.56	0.29
Return on weighted average equity (%)	18.10	40.00	22.90	14.30
Gearing ratio (%)	66.98	72.84	79.07	72.76

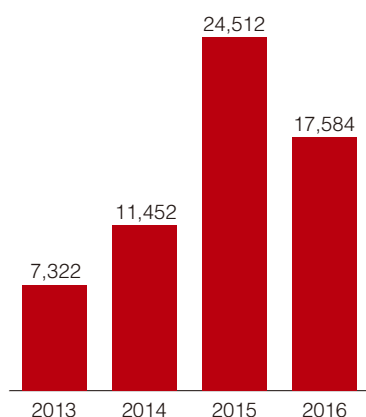
Notes:

- (1) Accounts payable to brokerage clients represent the amount received from and repayable to clients arising from the normal course of the Group's securities brokerage business. Such amounts are subject to regulation of third-party depository institutions.
- (2) In calculating the gearing ratio for the Reporting Period of the table above, accounts payable to brokerage clients have been excluded from the assets and the liabilities.

SECTION 4 FINANCIAL SUMMARY (Continued)

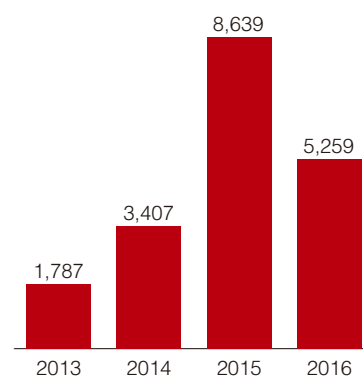
Total revenue and other income

(Unit: RMB million)



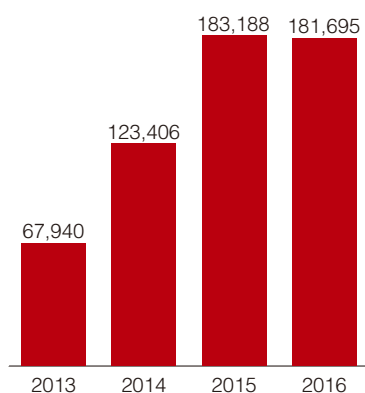
Net profit attributable to the equity holders of the Company

(Unit: RMB million)



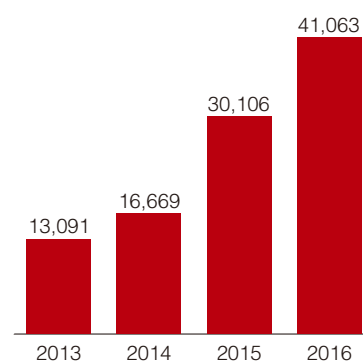
Total assets

(Unit: RMB million)

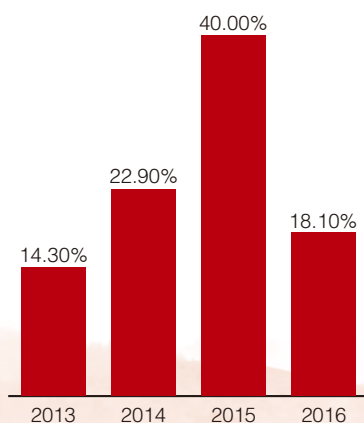


Equity attributable to the equity holders of the Company

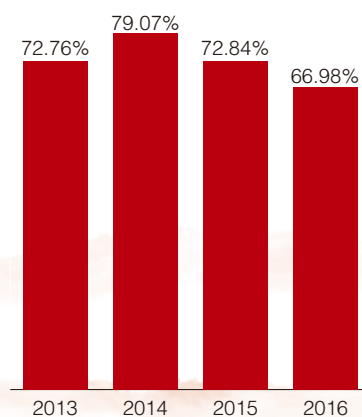
(Unit: RMB million)



Return on weighted average equity



Gearing ratio



SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS

Strategy and Operating Model

Competition Landscape and Development Trend of the Industry

In 2016, China's economy achieved the optimization and upgrade of the economic structure on the basis of stabilized growth. The financial market of China maintained a stable development. Regulatory approval for IPO was accelerated while the size of bond issuance hit a historically high level, of which the issuance of corporate bonds was particularly robust. The direct financing ability of the capital market in China increased significantly in 2016 with the NEEQ and M&A business growing continuously. However, both the amount and volume of market transactions decreased, and commission rates continued to decrease unilaterally. The performance of securities companies' brokerage business was sluggish as compared to that of 2015. The increase of leverage ratio limits of the industry is favorable to the lending business of securities companies. Nevertheless, due to the decrease in the balance of margin financing and securities lending business, the average leverage level of the industry has not increased significantly. In 2016, asset prices were affected by a series of events which have political and economic influence globally including the Brexit, U.S. presidential election, referendum in Italy and interest rate hike by the U.S. Federal Reserve. They will continue to be under huge fluctuation, thereby driving the demand for asset allocation and investment portfolio management. In general, it is estimated that the securities companies in China will adhere to the principle of maintaining stability while making progress in 2017.

Development Strategies

The Company aims to become a large, best-in-class, full-service investment bank with the base in the PRC and global vision. The Company will adhere to the business model of equal emphasis on capital-light and capital-intensive businesses, continue to strengthen the synergies among business lines and optimize the market incentive mechanism. The Company will strive to enhance our capabilities for serving our clients, for supporting real economy, and for improving the efficiency of wealth generation and management, through implementing the following strategies:

- Solidify the leading position of our investment banking business, maintain our status as the top choice for clients;
- Strengthen our extensive sales channel, build an industry-leading wealth management platform;
- Enhance our FICC product advantages, build a preferred prime brokerage service platform;
- Optimize the multi-layered investment management platform, become an industry-leading financial product provider;
- Build a leading full-spectrum investment research team;

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

- Enhance our overseas businesses, develop a full-service international investment bank;
- Reinforce our IT infrastructure, provide technological foundation for our leading businesses;
- Optimize our risk management system, maintain our industry leadership; and
- Strengthen employee career development, attract and cultivate top talents.

Our Business Plan for 2017

In 2017, we will implement a multi-faceted plan which will further build upon our industry-leading value creation capabilities. We will focus on enlarging client base and improving client services. We will raise the professional expertise of our team to even higher levels based on our talent strategy. We will also boost capital strength to make a better and healthier balance sheet. There will also be focus on continuous development of our information technologies while adhering to the compliance and risk protocols which ensure healthy growth. We will also strengthen management and operating capability to enhance efficiency and returns.

For the investment banking business, the Company will capture the opportunities of booming direct financing and maintain its leading edge in the sector. For brokerage business, the Company will strive to develop business through Internet to build a wealth management brand. For the asset management business, the Company will seize the business opportunities of general asset management and continue to promote the scale and competitiveness of the asset management business, and in turn enhance the investment and management capabilities of the Company. For overseas business, leveraging on its H Shares listing, the Company will take more efforts in developing overseas business to promote the balanced development of the domestic and overseas business. For compliance and risk control, we will strictly comply with the regulatory benchmarks and endeavor to enhance risk control and compliance management.

Capital Requirement

In 2017, the Company will deliberately manage the size of liabilities based on business development needs and maintain a healthy gearing ratio. In 2016, the Company successfully completed a series of debt fundraising, including: two tranches of RMB-denominated corporate bonds with an offering size of RMB4.5 billion; one tranche of short-term corporate bonds by securities companies with an offering size of RMB3 billion; one tranche of short-term commercial papers with an offering size of RMB3 billion (which have been fully repaid as at 31 December 2016); and 88 tranches of structured notes with an aggregate offering size of approximately RMB8.8 billion. The cumulative debt financing (excluding Placements from banks and other financial institutions and Financial assets sold under repurchase agreement) of the Company for the year reached approximately RMB19.3 billion, and the balance of structured notes was approximately RMB4.8 billion. The financial leverage ratio decreased to 3.04 times from 3.69 times at the beginning of the year.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Potential Risks

Entering 2017, the economic growth of China is still under great downside pressure. There are multiple challenges posed to the target of “stabilized growth” and risks associated with the economic and financial systems are non-negligible. Risks that the Company may be exposed to include: (i) credit risk. The economy is at the bottom of the economic cycle and events of default occur more frequently, thus increasing the credit risk of distressed industries and areas; (ii) bond market risk. The stable and neutral monetary policy at the backdrop of reducing leverage and preventing an asset bubble, combined with the hike in the US dollar exchange rate and interest rate, may pose pressure on the valuation level of the bond market which leads to fluctuation of interest rate and yield; and (iii) under money supply estimated to be further tightened overall, liquidity risk as a result of a tightened money supply at a specified time and the surge of the lending rate. In addition, the Company is subject to strategic risk, operational risk, compliance risk, legal risk, technical risk, reputational risk, etc. In general, due to the intertwined risks mentioned above, the Company will face certain challenges in its operation. For details, please refer to the “MATERIAL RISK FACTORS” section of this annual report.

Business Overview

Overview

As at the end of 2016, the total assets of the Group were RMB181,695 million, representing a year-on-year (“YoY”) decrease of 0.82% as compared to that at the end of 2015. Equity attributable to equity holders of the Company was RMB41,063 million, representing a YoY increase of 36.39% as compared to that at the end of 2015. During the Reporting Period, total revenue and other income of the Group amounted to RMB17,584 million, representing a YoY decrease of 28.26%. Total expenses amounted to RMB10,524 million, representing a YoY decrease of 19.36%. Net profit attributable to equity holders of the Company amounted to RMB5,259 million, representing a YoY decrease of 39.12%.

Analysis of Principal Businesses

The principal businesses of the Group comprise four segments: investment banking business, wealth management business, trading and institutional client services business and investment management business. During the Reporting Period, total revenue and other income of the investment banking segment amounted to RMB4,682 million, representing a YoY increase of 37.79%. Total revenue and other income of the wealth management segment amounted to RMB7,234 million, representing a YoY decrease of 47.53%. Total revenue and other income of the trading and institutional client services segment amounted to RMB3,575 million, representing a YoY decrease of 34.33%. Total revenue and other income of the investment management segment amounted to RMB1,564 million, representing a YoY increase of 11.71%.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Investment Banking Segment

The investment banking segment of the Group mainly comprises equity financing business, debt financing business and financial advisory business.

Equity Financing Business

In 2016, the A Share primary market remained robust and, with the normalization of IPO approval procedures, the issuance of Shares on such market has been gradually accelerated accordingly. A total of 1,033 equity financing deals were launched in the A Share market throughout the year, representing a YoY decrease of 4.79%. The amount of proceeds raised reached RMB1,975,600 million, representing a significant increase of 27.81% as compared to that in 2015 (source: Wind Info). Refinancing business also achieved solid progress in 2016. During the Reporting Period, the investment banking business of the Company continued to grow and maintained a leading position in the market. The Company completed 63 equity financing transactions, ranking No. 1 in the industry. The aggregate amount of equity offerings underwritten by us as a lead underwriter was approximately RMB103,400 million, ranking No. 2 in the industry. In particular, the number and aggregate amount of IPOs underwritten by us as a lead underwriter was 14 and approximately RMB18,300 million, ranking No. 3 and No. 1 in the industry, respectively.

Details of equity underwriting and sponsorship in 2016 are set out below:

Items	2016		2015	
	Aggregate amount underwritten (RMB'00 million)	Number of offerings	Aggregate amount underwritten (RMB'00 million)	Number of offerings
IPO	183.49	14	28.66	5
Follow-on Offerings	850.33	49	575.33	44
Total	1,033.82	63	603.99	49

Source: Wind Info and the Company

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

For overseas business, in 2016, China Securities International completed seven IPOs and two follow-on offerings in Hong Kong.

Outlook for 2017

In 2017, the Company will continue to leverage on its advantage in balanced investment banking product offerings and take more efforts in exploring large enterprises with significant industry position and SMEs with growth potential to proactively build a stronger deal pipeline.

Debt Financing Business

In 2016, the Company's debt underwriting business (see table below) grew significantly as compared to that of the previous year and ranked No. 1 in the industry. The number and aggregate amount of corporate bond offerings underwritten by us had the highest growth and ranked No. 1 in the industry. In 2016, the Company completed the offerings of 284 corporate bonds as a lead underwriter, representing a YoY increase of 242.17%; and the aggregate amount underwritten was approximately RMB571,800 million, representing a YoY increase of 187.16%.

Details of debt underwriting and sponsorship business of the Company in 2016:

Items	2016		2015	
	Aggregate amount underwritten (RMB'00 million)	Number of offerings	Aggregate amount underwritten (RMB'00 million)	Number of offerings
Corporate bonds	5,718.18	284	1,991.32	83
Enterprise bonds	204.50	17	202.00	18
Convertible bonds	11.11	1	24.00	1
Financial bonds	1,168.00	23	1,401.70	27
Others	1,750.44	140	2,299.61	127
Total	8,852.23	465	5,918.63	256

Source: Wind Info and the Company

Note: Others mainly consist of medium-term notes, short-term commercial papers, private placement notes, asset securitization, government-backed agency bonds and exchangeable bonds; for joint lead underwriting transactions, the aggregate offering size represents the aggregate amount underwritten.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

For overseas business, in 2016, China Securities International completed 13 overseas bond issuance transactions in Hong Kong.

Outlook for 2017

In 2017, along with the continuous development of traditional products for which we have already built competitive advantages such as corporate bonds and enterprise bonds, the Company will also focus on innovative products such as panda bonds, green bonds, exchangeable bonds, innovation and entrepreneurship corporate bonds and ABS, so as to adapt to market changes with a widened bond product offering.

Financial Advisory Business

The Company's financial advisory business mainly comprises M&A of listed companies, as well as NEEQ quotation recommendations.

In September 2016, the CSRC revised the Administrative Measures for Significant Asset Restructuring to restrain "speculation in stocks with poor performance" and "speculation in stocks of shell companies", as well as pursuit of market hot spots by way of cross-industry M&A. This had certain impact on the M&A business, whilst it accelerated approval for those M&A projects which do not fall into the above situations. In 2016, 300 companies in the A Share market completed M&A with an aggregate transaction amount of RMB823,900 million, representing a YoY decrease of 18.92% and 11.02% as compared to that of 2015 in terms of number of transactions and aggregate transaction amount, respectively. During the Reporting Period, the M&A business of the Company continued to develop rapidly. In 2016, the Company acted as financial advisor in 18 significant asset restructuring projects, ranking No. 5 in the industry. The transaction amount of acquisition was RMB42,200 million, representing a YoY increase of 15.10%.

The NEEQ market continued to grow rapidly in 2016. During the year, a record high of 5,034 companies was quoted on the NEEQ, representing a YoY increase of 42%. The number of NEEQ quoted companies has exceeded 10,000 in total. Issues such as lack of liquidity, difficulty in fundraising and divergence among different types of indices have also emerged along with the rapid growth of market size. In June 2016, the NEEQ market implemented bifurcated management, under which quoted companies are categorized into three levels based on factors including corporate governance, operating revenue, market capitalization, etc. Companies which satisfy any one set of standards may enter into the innovation level. As of the end of 2016, there were 9,211 and 952 companies in the basic level and innovation level, respectively (source: NEEQ Company). Meanwhile, the NEEQ Company applied more stringent requirements on the selection of quotation candidates, internal approval by chief agency brokers and other aspects, with increasingly stringent regulations.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

As a chief agency broker, the Company recommended 156 companies in 2016 and 359 companies in aggregate to be quoted on the NEEQ, ranking No. 4 in the industry.

For overseas business, in 2016, China Securities International completed 2 financial advisory transactions in the Hong Kong market.

Outlook for 2017

In 2017, it is expected that market-driven M&A and consolidation of state-owned enterprises will remain active. The Company will seize market opportunities to actively explore the financial advisory business and pursue opportunities in investment and financing business brought by M&A transactions to raise revenue from capital-based intermediary and other services. With respect to NEEQ business, in 2017, the Company will continue to pay attention to the quality of quoted companies, select high-quality enterprises to nourish their value growth and strive for excellent operating results and economic benefits.

Wealth Management Segment

The Company's wealth management segment mainly comprises brokerage and wealth management business, margin financing and securities lending business and repurchase business.

Brokerage and Wealth Management Business

The Company provides individual and corporate clients with brokerage of stocks, bonds, funds, derivatives and other tradable securities. During the Reporting Period, the total trading volume of equity and funds in the market was RMB138.91 trillion, representing a YoY decrease of 48.72% (source: Shanghai and Shenzhen Stock Exchanges). The competition among securities firms is increasingly fierce on commission rate, business flow, service approach, service provided and expertise of employees. As the stock trading amount decreased in general, the brokerage business encountered great challenges.

In 2016, the Company endeavored to establish an ecological chain of integrated client services platform and to develop businesses covering financial products, margin financing and securities lending, the NEEQ, private equity, investment advisory services, futures, precious metals and IB business through resource integration. The Company continued to strengthen the core competitiveness of brokerage business with clients as the focus, and strive to fulfil diversified wealth management, investment and financing needs of retail, high net worth, institutional, corporate and other clients at different levels.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In 2016, the net income from the securities brokerage business of the Company comprised 3.21% of the market, ranking No. 10 in the industry. Trading volume of the agency sales of equity funds amounted to RMB7.75 trillion with a market Share of 2.98%, ranking No. 10 in the industry. The distribution of standardized products for the year amounted to RMB78,000 million, and the net income from the distribution of financial products had a market Share of 5.60%, ranking No. 4 in the industry, up one place from last year. The number of new Shareholder accounts was 2,918,200, representing a YoY increase of 62.62%; the total number of clients' capital accounts at year end was 6,014,400. The market value of securities in our client accounts was RMB1.61 trillion with a market Share of 4.77%, ranking No. 5 in the industry, up five places from last year; in which new client assets amounted to RMB383,745 million (sources: Shanghai and Shenzhen Stock Exchanges, China Securities Depository and Clearing Corporation (中國證券登記結算有限責任公司), the Securities Association of China (中國證券業協會) and the Company). As of the end of 2016, the Group had 225 securities branches, of which 56% were located in the relatively affluent Five Provinces and Two Municipalities (Beijing, Shanghai, Guangdong, Fujian, Zhejiang, Jiangsu and Shandong), and among which 36 were located in Beijing. Being the securities company with the largest number of securities branches in Beijing, the Company has established a solid client base for its brokerage and wealth management businesses. For the overseas business, China Securities International provides wealth management services to clients of our securities brokerage business including institutional clients. As of the end of 2016, the total asset value under custody for our retail clients reached HK\$8,500 million, representing a YoY increase of 30%; and the total asset value under custody for our institutional clients reached HK\$25,000 million, representing a YoY increase of 73%.

Outlook for 2017

In 2017, the brokerage business of the Company will adhere to the basis of compliance and risk management, focus on the development of and services for three major types of clients, namely individual, institutional and corporate clients, pursuant to the Internet strategy, in order to enhance the satisfaction of clients and employees. The Company will raise its core competitiveness with an aim to build the best investment advisory and transaction brand in the industry and establish the "Invincible Army of Wealth Management" for stable development with a long-term vision and steady pace, so as to achieve robust growth of the revenue from brokerage services. Meanwhile, the Company will maintain its leading position by expanding its network of securities branches in Beijing and expand its securities branches in line with the nationwide strategy, so as to lay a solid foundation for the prosperous development of its brokerage business.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Margin Financing and Securities Lending Business

In 2016, the margin financing and securities lending business has declined in terms of scale with a relatively low overall standard. As of the end of 2016, the balance of margin financing and securities lending of the Shanghai Stock Exchange and Shenzhen Stock Exchange was RMB939,249 million, which decreased by 20.01% as compared to that of the end of 2015 (source: Wind Info).

As of the end of 2016, the closing balance of the Company's advances to client and securities lending business was RMB29,900 million, representing a decrease of 15.58% as compared to that at the end of 2015; and the market Share was 3.18%, ranking No. 11 on a combined basis, among which the balance of margin accounts ranked No. 10. The number of margin financing and securities lending accounts was 127,020, representing an increase of 5.41% as compared to that at the end of 2015.

Outlook for 2017

In 2017, the Company will further strengthen the dynamic monitoring of and adjustment to the leverage ratio of margin financing and securities lending business and establish a more comprehensive compliance and risk management system for the margin financing and securities lending business. Besides, the Company will continue its efforts in client service and quality enhancement so as to provide more extensive and comprehensive services. Moreover, the Company will further increase the core competitiveness of the business by way of product and service innovations.

Repurchase Business

In 2016, the collateralized stock repurchase business of the whole market maintained a momentum of rapid growth. As of the end of 2016, the scale of collateralized stock repurchase business of the whole market amounted to RMB1,284,005 million, representing an increase of 85.04% (source: Shanghai and Shenzhen Stock Exchanges) as compared to that at the end of 2015. The scale of collateralized stock repurchase business has surpassed the scale of margin financing and securities lending business.

During the Reporting Period, the collateralized stock repurchase business of the Company accomplished a consistent growth. As of the end of 2016, the balance of the collateralized stock repurchase business of the Company amounted to RMB35,600 million, representing an increase of 66.15% as compared to that at the end of 2015, ranking No. 9 in the industry, which was two ranks higher as compared to last year. As of the end of 2016, the balance of margin accounts of the contractual stock repurchase transaction business of the Company amounted to RMB370 million, representing a decrease of 5.55% as compared to that at the end of 2015, ranking No. 5 in the industry, which was one rank higher as compared to last year.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Outlook for 2017

Looking ahead, in 2017, the collateralized stock repurchase business is expected to maintain a momentum of relatively rapid growth. It is expected that the scale of collateralized stock repurchase business of the whole market will grow rapidly in 2017.

Trading and Institutional Client Services Segment

The trading and institutional client services segment of the Group mainly comprises equity sales and trading business, fixed income sales and trading business, investment research business, prime brokerage business and the QFII business.

Equity Sales and Trading Business

The equity sales and trading business of the Company mainly provides trading, advisory and research services, and distributes equity securities underwritten by the Company to institutional clients. The Company also engages in proprietary trading and market-making activities of stocks, funds, and financial derivatives including stock index futures, commodity futures, options and total return swaps. It provides clients with customized options and swaps products linked to various types of assets to meet the hedging and investment demand of institutional clients. With respect to the securities and trading business, the Company successfully guarded its bottom line for risk management. The Company put more effort on the deployment in the blue-chip segment in the stock market, and carried out its NEEQ market-making business based on the fundamentals for companies to pursue a balance between value and growth. The Company became qualified to conduct NEEQ market-making business in July 2014. The NEEQ team provided market-making services to 84 listed companies in 2016, representing an increase of 64.71% as compared to that at the end of 2015. The on-floor trade amount ranked among the top 20% in the market with full score in the review of transaction management assessed by National Equities Exchange and Quotations Co., Ltd. The accumulated trading volume was RMB1,040 million, representing an increase of 56.86% as compared to that of 2015.

Along with the stable development of the existing business, the derivatives trading business actively explored new business models to enhance its investment strategies using its own funds to fulfil various business needs of clients. With respect to on-floor business, the Company constantly improved its traditional business such as quantitative investment and liquidity services while developing bulk commodities related business. With respect to over-the-counter (“OTC”) business, the Company consistently enriched the business models of swap transactions and OTC options with new linked subjects and revenue structure to meet the personalized investment needs of clients.

As one of the first batches of participants in the stock index futures market, the Company was licensed to provide liquidity to ETF options on the Shanghai Stock Exchange in April 2015.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Outlook for 2017

In 2017, the macro-economy and the capital market tend to be stable. The Company will keep strengthening its tracking and research on stock index futures, stock options, commodity futures and other new products, contribute more resources on commodities segment, and explore cross-border investments and business cooperation to provide clients with hedging and risk management services. Meanwhile, leveraging on its advantage in fundamental pricing and based on the concept of value investment, the Company will continue to boost the diversification of its investment products and strategies to achieve a stable income in line with the market environment.

Fixed Income Sales and Trading Business

Since 2016, under the rapid development of the bond offering size and intensified market competition, the Company successfully built a cross-region sales network with no blind spots by product categories according to its business development needs. Account managers maintain and provide professional service to satisfy the requirements of institutions in their respective responsible regions by such product categories. Whilst securing existing major clients, the Company focused on the development of investors including city commercial banks, rural commercial banks and private equity investment firms by province, and dug deep into the bond investments needs of various types of clients to achieve satisfactory sales performance. The sales of interest rate products for the year grew by 53%, and the scale of corporate bond sales ranked No. 1 in the industry.

With respect to the FICC business, the Company actively explored the FICC segment for opportunities of investment in gold, foreign exchange and derivatives while investment transactions under traditional fixed income proprietary business maintained good performance in, so as to bring the synergy of FICC related business into full play by the cooperation between the FICC business and traditional fixed income products. Under the frequent occurrence of credit bond default events in the market, the Company successfully issued the “Credit Risk Mitigation Warrant (First Tranche) 2016 for CSC Financial Co., Ltd.”, which targeted troubled assets and set securities company as the subject of credit sharing for the first time. This is a new attempt in the credit derivatives market of China after five years’ break, and provided credit risk hedge products for the market and the investors. Besides, the Company established an industry flagship brand in the credit derivatives sector and further strengthened its leading position in the fixed income derivatives industry.

With respect to the proprietary business, the Company continued to maintain a prudent proprietary investment approach, and the proprietary corporate bonds business was at a good pace of development. As of the end of 2016, among the proprietary investment assets of the Company, the size of bond investments reached RMB30,475 million, representing an increase of 52.77% as compared to that in 2015. Bond investments accounted for 59.16% of the total size of proprietary investment. The average return of bond investments outpaced the market, while the risk of significant market investments was hedged against. In 2016, the annualized rate of return of corporate bond investments reached 6.41%, far surpassing the level of return of major bond indices in the market.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The investment advisory business of the Company kept market risks and credit risks well managed, and also kept abreast with the market pace to seize trading opportunities and to utilize derivatives for risk hedging properly to accomplish better investment results. In addition, the Company put more efforts in the marketing, and product design of the investment advisory business, proactively reached out to extensive market participants, and established cooperation with interested and potential clients to enhance its market influence.

With respect to the asset securitization business, in 2016, the Company steadily developed its asset securitization business, of which both the total size and individual size of asset securitization projects underwritten by us as lead underwriter ranked among the top in the market. Our underwriting capability, sales ability and project development capability were widely recognized by the market. The Company successfully issued the Nong Ying Phase I Troubled Asset Securitization Project with the largest offering size among all NPL securitization products and the lowest interest rate among products of the same type during the same period. It had an extensive market influence and was well recognized by clients and investors. According to the statistics provided by Wind Info, in terms of the size of underwriting, the asset securitization projects underwritten by the Company ranked No. 6 in the market in 2016, among which the interbank asset securitization projects ranked No. 4 in the market.

Outlook for 2017

In 2017, the Company will continue to develop the underwriting, issuance and sales business of bonds and asset securitization products, enhance market research and seize market opportunities to enhance investment in fixed income products and proactively explore investment advisory business.

Investment Research Business

Specialized research capability is the foundation for institutional client services. The Company's research is well recognized and highly influential in the industry, and highly trusted by institutional clients. The investment research business of the Company mainly provides institutional clients with research consultation services covering macro-economy, fixed income, strategy, industry, corporate, financial engineering and other aspects. Clients mainly include mutual funds, insurance companies, the National Social Security Fund, private equity funds, securities firms and other institutions. The research business of the Company provides clients with research reports and various kinds of tailored research consultation services. In 2016, the Company had a research and sales team comprising 143 members, and published a total of 2,284 research reports of various types. The Company's stock research covered 24 industries and 2,073 domestic listed companies.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The Company's research business is highly influential in the industry. In the "14th New Fortune Best Analyst" competition in 2016, the Company's research team ranked No. 10, No. 9 and No. 3 in the categories of "Best Domestic Research Team", "Most Influential Research Institution" and "Research Institution with Best Progress", respectively. Of all the 34 sectors of research for the competition, the Company ranked No. 1 in three sectors, namely the fixed income, military and communications sectors, and No. 2 in the sectors of coal mining.

Outlook for 2017

In recent years, the competition for research talents has been extremely intense. In 2017, the Company will continue to reinforce the establishment of the research team to improve its research capability.

Prime Brokerage Business

The Company provides market-leading full-chain prime brokerage services to institutional investors, including trading service, account service, product design and agency sales, institutional investment and financing service, custody and outsourcing, research service, financing solution and value-added services. In 2016, the total assets under the custody and outsourcing business of the Company amounted to RMB129,100 million, representing an increase of 125%, ranking among the top in the industry. The number of products under custody was 996, ranking No. 6 in the industry according to the statistics provided by Wind Info. The number of outsourced products was 793 at a scale of services RMB62,700 million, representing an increase of 90% and 2.3 times, respectively.

Outlook for 2017

Institutional clients will play a more important role in capital market, and their demand for products and services will be more diversified and complicated. The Company will endeavor to develop prime brokerage business to provide institutional clients with investment and financing services.

QFII Business

The QFII business of the Company mainly comprises QFII and RQFII brokerage agency business. With years of development, our QFII and RQFII businesses have developed a professional service brand featuring advanced transaction system and trading algorithm and extensive research information services. In 2016, the average AUM of our QFII and RQFII business clients reached RMB3,300 million, with a trading volume of RMB6,700 million.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Outlook for 2017

In 2017, the Company will expand the number of QFII and RQFII clients on top of the existing clients and potential clients and increase the AUM. Furthermore, leveraging on the advantages and resource consolidation of its domestic business as well as the overseas platform of China Securities International, the Company will increasingly explore the international market and proactively carry out QFII and RQFII businesses to provide high-level, all-round, diversified, differentiated and integrated financial services.

Investment Management Segment

The investment management segment of the Group mainly comprises asset management business, fund management business and private equity investment business.

Asset Management Business

The Group provides asset management services to manage the financial assets of its clients. We have established a comprehensive product line covering currency, bonds, stocks, hybrid products, project investment, index-linked products, quantitative investment and asset securitization. We are qualified to conduct business related to insurance fund trust management and QDII, and we are a member of the Insurance Asset Management Association of China and the Securities Investment Association of China, respectively. The Group manages its investment through three types of schemes, namely the collective asset management scheme, the targeted asset management scheme and the specialized asset management scheme.

As of the end of 2016, our AUM reached approximately RMB811.4 billion, ranking No. 5 in the industry, representing an increase of 47.08% as compared to that at the end of 2015. The targeted wealth management products of the Company have been transforming from channel-based business to actively managed business. As of the end of 2016, the AUM of actively managed wealth management products of the Company amounted to approximately RMB153.2 billion, representing an increase of 27.54% as compared to that at the end of 2015.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The scale of our asset management business is as follows:

Unit: RMB'00 million

	AUM	
	31 December 2016	31 December 2015
Collective asset management business	224.90	194.86
Targeted asset management business	7,808.45	5,278.88
Specialized asset management business	80.96	43.35
Total	<u>8,114.31</u>	<u>5,517.09</u>

Source: the Securities Association of China, Asset Management Association of China and the Company

For the overseas business, China Securities International provides consultation services and asset management with various investment instruments. In 2016, its total AUM reached US\$658 million. On 30 November 2016, "China Securities (International) High Yield Bond Fund" was awarded first runner-up for "Best Total Return – Greater China Fixed Income (1 Year)" in the 2016 HKCAMA-Bloomberg Offshore China Fund Awards.

Outlook for 2017

In 2017, the Company will continue to strengthen the development of traditional asset management business together with business expansion to enhance its sales ability and client service capabilities. Moreover, the Company will overall improve the product performance on top of the implementation of stringent risk management and establish an asset management team with expertise.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Fund Management Business

The Group established a fund management subsidiary, China Securities Funds, in September 2013 and has strived to develop it into an advanced fund management platform with robust and prudent investment style. China Securities Funds has a highly diversified client base covering commercial banks, securities firms, trust companies, financial companies, private equity funds and other clients. As of the end of 2016, the AUM of the fund management business was RMB212,400 million, representing an increase of 146.65% as compared to that at the end of 2015. Among them, the AUM of mutual fund and segregated account management (including that of Yuandaxin Capital Management (Beijing) Company Limited* (元達信資本管理(北京)有限公司), being its subsidiary) was RMB9,500 million and RMB202,900 million, respectively, representing an increase of 64.56% and 152.51% as compared to that at the end of 2015, respectively. The fund management business of the Company has survived the challenge of significant fluctuation in the stock market in 2015. As of the end of 2016, all fund products of the Company reported good results, among which 10 out of 12 mutual fund products recorded accumulated profits.

Outlook for 2017

In 2017, the Company will strive for innovative development and sound operation, and endeavor to enhance investment and research capabilities to accelerate product innovation and expansion of sales channels. The Company will also highlight the advantages of fixed income products to enhance core competitiveness, so as to achieve steady growth in the AUM and to build a first-class fund management company in China.

Private Equity Investment Business

In 2016, in view of the grim domestic economy and a further optimized economic structure driven by the economic structure transformation in China, state-owned capital, private capital and direct investment companies established by securities firms competed for supremacy by utilizing their respective advantages, which has brought new opportunities, new landscape and new challenges to investments in the primary market. By leveraging on internal and external resources of the Company, China Securities Capital fully explored projects with potential, while striving to enlarge existing funds and develop new funds, eventually achieving the healthy operation and steady growth of the Company.

As of the end of 2016, China Securities Capital managed a total of 12 funds, including six integrated funds, two industrial funds and four designated funds. The newly established funds amounted to RMB890 million, representing a YoY increase of 26.64%. As of the end of 2016, China Securities Capital completed over 70 investment projects, including six main board listings, 18 NEEQ quotations, and nine exit projects, with average investment yield of 360%. According to China's annual equity investment rankings published by Zero2IPO Research Center in 2016, China Securities Capital ranked No. 9 among direct investment companies established by securities firms in the top 100 private equity investment institutions in China.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Outlook for 2017

In 2017, China Securities Capital will enhance its presence in the industry by improving channel construction to acquire more high-quality projects with higher expected return. China Securities Capital will further expand the scale by way of designated funds and parent funds to raise its ranking to progressively build an integrated brand of private equity investment fund.

Financial Statement Analysis

Profitability Analysis

In 2016, the Group continued to maintain a positive development in respect of its various business operations and both of its revenue and net profit grew higher as compared to previous years.

In 2016, the Group recognized total revenue and other income of RMB17,584 million in the aggregate, representing a YoY decrease of 28.26%. Net profit attributable to equity holders of the Company amounted to RMB5,259 million, representing a YoY decrease of 39.12%. Basic earnings per Share amounted to RMB0.81, representing a YoY decrease of 40.88%. Weighted average return on net assets was 18.10%, representing a YoY decrease of 21.90 percentage points.

Asset Structure and Asset Quality

Total assets and total liabilities decreased at different levels. In 2016, the Group completed the listing of H Shares and the issuance of RMB-denominated corporate bonds, enabling the Group to supplement its working capital and maintain good liquidity. During the Reporting Period, due to market fluctuations, the Group made corresponding allowances for impairment losses in respect of assets which had indication of impairment, enabling the Group to maintain more prudent operations and high asset quality.

As of 31 December 2016, the Group's total assets amounted to RMB181,695 million, representing a YoY decrease of RMB1,493 million, or 0.82%. Excluding accounts payable to brokerage clients, the Group's total assets amounted to RMB124,959 million, representing a YoY increase of RMB13,816 million, or 12.43%. As of 31 December 2016, the Group's total liabilities amounted to RMB140,432 million, representing a YoY decrease of RMB12,573 million, or 8.22%. Excluding accounts payable to brokerage clients, the Group's total liabilities amounted to RMB83,696 million, representing a YoY increase of RMB2,736 million, or 3.38%. As of 31 December 2016, the Group's equity attributable to equity holders of the Company amounted to RMB41,063 million, representing a YoY increase of RMB10,957 million, or 36.39%.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

A stable asset and liability structure was maintained. As of 31 December 2016, excluding accounts payable to brokerage clients, the Group's total assets amounted to RMB124,959 million, among which investments, including investments in associates and investments in financial assets, accounted for 50.43% of the total assets; margin accounts and financial assets held under resale agreements accounted for 30.98% of the total assets; cash and bank balances accounted for 14.03% of the total assets; and other assets in aggregate accounted for 4.56% of the total assets.

As of 31 December 2016, excluding accounts payable to brokerage clients, the Group's total liabilities amounted to RMB83,696 million with a high proportion of short-term liabilities, among which the amount from financial assets sold under repurchase agreements accounted for 29.91% of the total liabilities; short-term borrowings, placements from banks and other financial institutions, short-term financing instruments payable and non-current liabilities due within one year accounted for 29.75% of the total liabilities; issued bonds accounted for 16.31% of the total liabilities; financial liabilities held for trading, financial liabilities designated as at fair value through profit or loss and derivative financial liabilities accounted for 3.72% of the total liabilities; and other liabilities in aggregate accounted for 20.31% of the total liabilities.

The gearing ratio of the Group slightly decreased. As of 31 December 2016, excluding accounts payable to brokerage clients, the gearing ratio of the Group was 66.98%, representing a YoY decrease of 5.86 percentage points.

Cash Flow Status

Excluding accounts payable to brokerage clients, the Group's net increase in cash and cash equivalents was RMB1,372 million in 2016, representing a YoY decrease of RMB3,116 million, which was mainly due to the significant increase in cash outflow from investing activities YoY and the significant decrease in cash inflow from financing activities YoY.

Net cash inflow from operating activities in 2016 was RMB20,411 million, representing a YoY increase of cash inflow of RMB31,829 million as compared to an outflow of RMB11,418 million in 2015, which was mainly attributable to the increase in net cash inflows from financial assets held for trading, margin accounts and placements from banks and other financial institutions.

Net cash outflow from investing activities in 2016 was RMB17,294 million, representing a YoY increase of cash outflow of RMB13,170 million as compared to an outflow of RMB4,124 million in 2015, which was mainly attributable to the YoY increase in net cash outflow from purchase of available-for-sale financial assets.

Net cash outflow from financing activities in 2016 was RMB1,745 million, representing a YoY decrease of cash inflow of RMB21,775 million as compared to cash inflow of RMB20,030 million in 2015, which was mainly attributable to the decrease in net cash inflow from bond issuances by the Group during the Reporting Period.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

In view of the above conditions, the net increase in cash flow from operating activities of the Group in 2016 was higher than that during the same period in 2015, and the capital strength, profitability, investment and solvency capabilities of the Group were strengthened gradually.

Access to and Ability of Financing

Currently, the Company obtains short-term funds from commercial banks and other investors primarily by way of bond repurchases, inter-bank lending, margin refinancing, issuance of short-term commercial papers, issuance of beneficiary certificates, issuance of short-term corporate bonds by securities companies etc., to investors on the Shanghai Stock Exchange, and to commercial banks through inter-bank market, inter-institutional private equity products quotation and service system and OTC market in accordance with the relevant policies and regulations.

In addition, the Company may, subject to market conditions and its own demands, finance by way of placing, rights issue, issuance of corporate bonds, subordinated bonds, perpetual subordinated bonds and private placement bonds and other financing methods as approved by the competent authorities.

To maintain a balance between liquidity and profitability, the Company held a number of fixed income products, and changes in interest rates will have direct impact on the interests received from the bank deposits held by the Company, as well as the market price of the bond investment and the investment income. Meanwhile, equity investment of the Company is also impacted, though indirectly, by changes in interest rates. In addition, the Company has subsidiaries which are incorporated outside mainland China, with the amounts invested by the Company denominated in foreign currencies. As the Group has foreign currency denominated capital and assets and has raised funds through the issuance of bonds denominated in foreign currencies by its overseas subsidiaries, changes in exchange rates and overseas market interest rate levels will have certain impacts on the Company.

To maintain the liquidity and profitability of its assets, the Company's proprietary capital is centrally managed by its treasury department. There are also a comprehensive management system and corresponding work flows in place. The Company fine tunes the structures of its different classes of assets and liabilities in a timely manner and utilizes corresponding financial tools to mitigate the risks and the impacts of the above factors.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Analysis on Income Statement

Financial Highlights

In 2016, the Group accomplished a profit before income tax of RMB7,057 million, representing a YoY decrease of 38.43%. Major financial highlights of the Group are as below:

Unit: RMB million

Items	2016	2015
Fee and commission income	10,584	14,901
Interest income	4,441	5,573
Investment gains	2,412	3,980
Other income	147	58
Total expenses	10,524	13,051
Share of profits and losses of associates	-3	-
Profit before income tax	7,057	11,461
Income tax expense	1,744	2,810
Profit attributable to equity holders of the Company	5,259	8,639

Structure of Total Revenue and Other Income

In 2016, the total revenue and other income of the Group amounted to RMB17,584 million, representing a YoY decrease of 28.26%. The structure of revenue remained relatively stable. The revenue structure of the Group in the past four years is as follows:

Items	2016	2015	2014	2013
Fee and commission income	60.19%	60.79%	57.12%	59.93%
Interest income	25.25%	22.73%	25.59%	22.14%
Investment gains	13.72%	16.24%	16.61%	17.03%
Other income	0.84%	0.24%	0.68%	0.90%
Total	100.00%	100.00%	100.00%	100.00%

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Fee and Commission Income

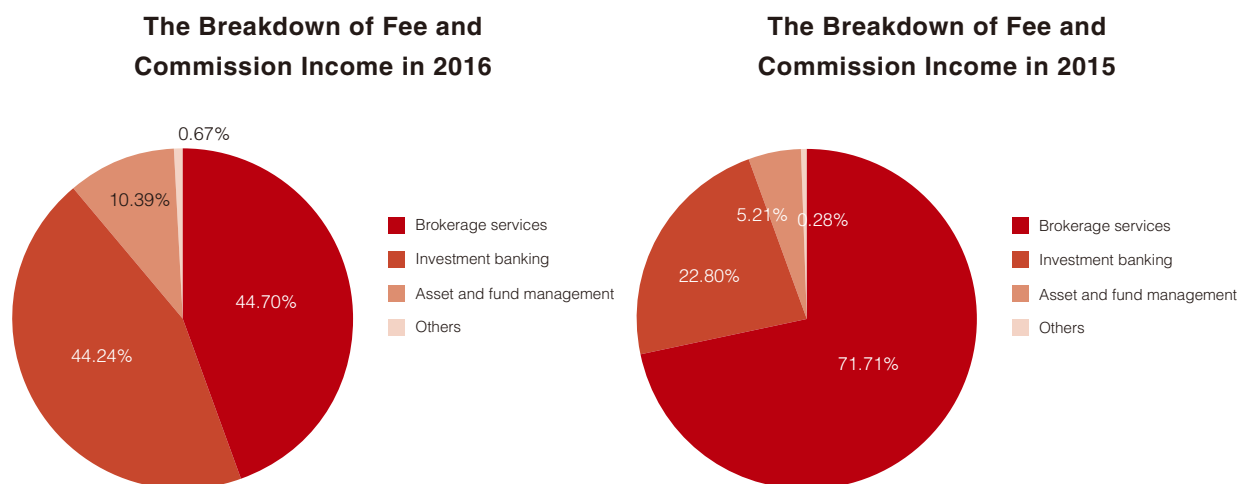
In 2016, the net fee and commission income of the Group amounted to RMB9,195 million, representing a YoY decrease of 27.39%. Such decrease was mainly due to the decrease in fee and commission income from brokerage business. The breakdown of fee and commission income of the Group during 2015 and 2016 is as follows:

Unit: RMB million

Items	2016	2015	Change	Change (%)
Fee and commission income				
Brokerage services	4,731	10,686	-5,955	-55.73%
Investment banking	4,682	3,398	1,284	37.79%
Asset and fund management	1,100	776	324	41.75%
Others	71	41	30	73.17%
Fee and commission expenses	1,389	2,237	-848	-37.91%
Net fee and commission income	9,195	12,664	-3,469	-27.39%

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The Breakdown of Fee and Commission Income in 2015 and 2016



The fee and commission income from brokerage business decreased by RMB5,955 million, or 55.73% YoY. In 2016, the trading volume of stocks and funds in A Share market in the PRC decreased by nearly 50% YoY.

The fee and commission income from investment banking business increased by RMB1,284 million, or 37.79% YoY. In 2016, the Company continued to develop its investment banking business and maintain its market ranking in forefront, with a significant increase in the fee and commission income from investment banking business.

The fee and commission income from asset and fund management business increased by RMB324 million, or 41.75% YoY. As of 31 December 2016, the AUM of entrusted assets of the Company amounted to approximately RMB811.4 billion, representing an increase of approximately RMB259.7 billion as compared to that at the end of 2015, ranking No. 5 in the industry in terms of the total AUM of entrusted assets in the asset management business (sources: the Securities Association of China, Asset Management Association of China and the Company).

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Interest Income

In 2016, the net interest income of the Group amounted to RMB1,592 million, representing a YoY decrease of RMB762 million or 32.37%. The table below sets out the major composition of the net interest income of the Group during the indicated periods:

Unit: RMB million

Items	2016	2015	Change	Change (%)
Interest Income				
– Margin financing and securities lending	2,417	3,238	-821	-25.36%
– Financial assets held under resale agreements	198	110	88	80.00%
– Bank deposits	1,790	2,217	-427	-19.26%
– Others	36	8	28	350.00%
Interest expenses				
– Accounts payable to brokerage clients	228	311	-83	-26.69%
– Financial assets sold under repurchase agreements	677	1,052	-375	-35.65%
– Placements from banks and other financial institutions	231	281	-50	-17.79%
– Borrowings	40	32	8	25.00%
– Bonds issued and short-term financing instruments payable	1,457	1,385	72	5.20%
– Others	216	158	58	36.71%
Net interest income	1,592	2,354	-762	-32.37%

Interest income on margin financing and securities lending decreased by RMB821 million, or 25.36% YoY, which was mainly due to a decrease in interest income resulting from the decline of scale in margin financing and securities lending business as a result of the weaker A Share market performance in China during 2016.

Interest income on financial assets held under resale agreements increased by RMB88 million, or 80.00% YoY, which was mainly due to an increase in interest income arising from collateralized stock business.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Interest income on bank deposits decreased by RMB427 million, or 19.26% YoY, which was mainly due to a decrease in interest income arising from capital deposits of clients.

Interest expenses decreased by RMB370 million, or 11.49% YoY, which was mainly due to a decrease in interest expenses arising from financial assets sold under repurchase agreements.

Net Investment Gains

In 2016, the net investment gains of the Group amounted to RMB2,412 million, representing a YoY decrease of 39.40%. The table below sets out the major composition of the net investment gains of the Group during the indicated periods:

Unit: RMB million

Items	2016	2015	Change	Change (%)
Net gains from available-for-sale financial assets	1,470	1,637	-167	-10.20%
Net gains from financial instruments held for trading and financial instruments designated as at fair value through profit or loss	950	2,869	-1,919	-66.89%
Others	-8	-526	518	N/A
Total	2,412	3,980	-1,568	-39.40%

Net gains from available-for-sale financial assets decreased by RMB167 million, or 10.20% YoY, attributable to a decrease of RMB356 million, or 42.56% in gains from the disposal of available-for-sale financial assets, and an increase of RMB189 million, or 23.55% in dividend income and interest income from available-for-sale financial assets held by the Group.

Net gains from financial instruments held for trading and financial instruments designated as at fair value through profit or loss decreased by RMB1,919 million, or 66.89% YoY. Investment gains arising from the holding and disposal of such instruments by the Group decreased by RMB1,758 million and the gains arising from changes in the fair value decreased by RMB161 million.

Other investment gains increased by RMB518 million YoY, which was mainly attributable to an increase of investment gains from derivative financial instruments.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Total Expenses

In 2016, the total expenses of the Group (excluding fee and commission expenses and interest expenses) amounted to RMB6,286 million, representing a YoY decrease of RMB1,309 million, or 17.24%. The table below sets out the major composition of the expenses of the Group during the indicated periods:

Unit: RMB million

Items	2016	2015	Change	Change (%)
Staff costs	4,282	4,743	-461	-9.72%
Tax and surcharges	347	1,144	-797	-69.67%
Other operating expenses and costs	1,659	1,553	106	6.83%
Impairment (reversal)/losses	-2	155	-157	-101.29%
Total	6,286	7,595	-1,309	-17.24%

Staff costs for the year recorded a decrease of RMB461 million, or 9.72% YoY, which was mainly due to the decrease in performance-based remuneration.

Tax and surcharges for the year recorded a decrease of RMB797 million, or 69.67% YoY, which was mainly due to the transformation from business tax to value-added tax in the Company and domestic subsidiaries in the PRC in May 2016.

Asset impairment losses for 2016 amounted to RMB-2 million, representing a decrease of RMB157 million YoY, which was mainly due to a decrease in asset impairment losses of margin financing and securities lending business. The table below sets out the composition of the impairment losses of the Group during the indicated periods:

Unit: RMB million

Items	2016	2015	Change	Change (%)
Available-for-sale financial assets	15	24	-9	-37.50%
Margin financing and securities lending	-38	117	-155	-132.48%
Financial assets held under resale agreements	21	2	19	950.00%
Others	-	12	-12	-100.00%
Total	-2	155	-157	-101.29%

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Analysis on Financial Position

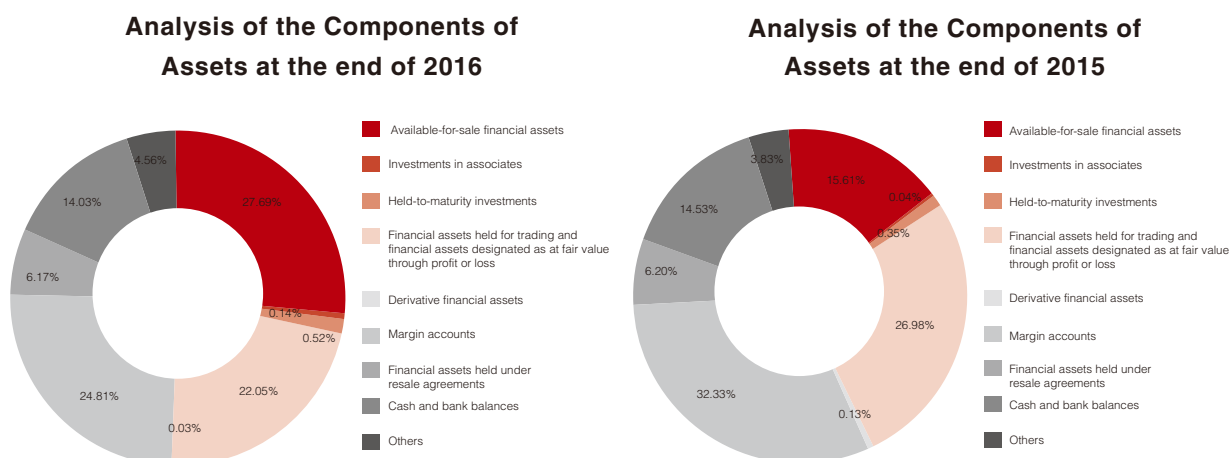
As of 31 December 2016, the total assets of the Group were RMB181,695 million, representing a YoY decrease of 0.82%. Excluding the effect of accounts payable to brokerage clients, the total assets of the Group amounted to RMB124,959 million as at 31 December 2016, representing a YoY increase of 12.43%. Major changes in the total assets of the Group were as follows:

Unit: RMB million

Items	31 December 2016	31 December 2015	Change	Change (%)
Available-for-sale financial assets	34,595	17,348	17,247	99.42%
Investments in associates	172	50	122	244.00%
Held-to-maturity investments	654	388	266	68.56%
Financial assets held for trading and financial assets designated as at fair value through profit or loss	27,553	29,990	-2,437	-8.13%
Derivative financial assets	49	142	-93	-65.49%
Margin accounts	31,007	35,931	-4,924	-13.70%
Financial assets held under resale agreements	7,705	6,896	809	11.73%
Cash and bank balances	17,526	16,154	1,372	8.49%
Others	5,698	4,244	1,454	34.26%
Total	124,959	111,143	13,816	12.43%

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The following chart sets forth the composition of the total assets of the Group as of the dates indicated:



Investments

The investment of the Group primarily comprises available-for-sale financial assets, investments in associates, financial assets held for trading and financial assets designated as at fair value through profit or loss, held-to-maturity investments, etc.

As of 31 December 2016, the total external investments of the Group were RMB63,023 million, representing a YoY increase of RMB15,105 million, or 31.52%. Its total external investments accounted for 50.43% of the total assets, representing a YoY increase of 7.32 percentage points.

The following table sets out, as of the dates indicated, the investments of the Group and its percentage to the total assets by category:

Unit: RMB million

Items	31 December 2016		31 December 2015	
	Amount	Percentage to total assets	Amount	Percentage to total assets
Available-for-sale financial assets	34,595	27.69%	17,348	15.61%
Investments in associates	172	0.14%	50	0.04%
Held-to-maturity investments	654	0.52%	388	0.35%
Financial assets held for trading and financial assets designated as at fair value through profit or loss	27,553	22.05%	29,990	26.98%
Derivative financial assets	49	0.03%	142	0.13%
Total	63,023	50.43%	47,918	43.11%

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Available-for-Sale Financial Assets

As of 31 December 2016, available-for-sale financial assets of the Group increased by RMB17,247 million, or 99.42% YoY, accounting for 27.69% of the total assets of the Group, which was mainly due to the increase in the Company's investments in debt instruments and wealth management products. The following table sets forth the available-for-sale financial assets portfolio of the Group:

Unit: RMB million

Items	31 December 2016		31 December 2015	
	Amount	Percentage to total available-for-sale financial assets	Amount	Percentage to total available-for-sale financial assets
Debt securities	20,169	58.30%	9,919	57.18%
Equity investments	1,607	4.65%	1,249	7.20%
Fund investments	423	1.22%	61	0.35%
Others	12,396	35.83%	6,119	35.27%
Total	34,595	100.00%	17,348	100.00%

Investments in Associates

Unit: RMB million

Items	31 December 2016	31 December 2015	Change	Change (%)
Investments in associates	172	50	122	244.00%

As of 31 December 2016, the Group's investments in associates increased by RMB122 million, or 244.00% YoY, which was mainly due to the increase in the number of associates during the Reporting Period.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Assets Held for Trading and Financial Assets Designated as at Fair Value through Profit or Loss

As of 31 December 2016, the Group's financial assets held for trading and financial assets designated as at fair value through profit or loss accounted for 22.05% of the total assets of the Group, and decreased by RMB2,437 million, or 8.13% YoY, which was mainly due to the significant decrease in fund investments held for trading and financial assets designated as at fair value through profit or loss.

The following table sets forth the components of the Group's financial assets held for trading and financial assets designated as at fair value through profit or loss:

Unit: RMB million

Items	31 December 2016	31 December 2015	Change	Change (%)
Debt instruments held for trading	21,513	20,983	530	2.53%
Equity investments held for trading	1,247	1,865	-618	-33.14%
Fund investments held for trading	1,210	4,372	-3,162	-72.32%
Financial assets designated as at fair value through profit or loss	325	1,504	-1,179	-78.39%
Others	3,258	1,266	1,992	157.35%
Total	<u>27,553</u>	<u>29,990</u>	<u>-2,437</u>	<u>-8.13%</u>

Cash and Bank Balances

As of 31 December 2016, cash and bank balances increased by RMB1,372 million YoY, which was mainly attributable to the issuance of new Shares by the Group during the year.

Unit: RMB million

Items	31 December 2016	31 December 2015	Change	Change (%)
Cash and bank balances	17,526	16,154	1,372	8.49%

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Liabilities

As of 31 December 2016, total liabilities of the Group amounted to RMB140,432 million, representing a YoY decrease of RMB12,573 million, or 8.22%. Excluding the effect of accounts payable to brokerage clients, total liabilities of the Group would have amounted to RMB83,696 million as at 31 December 2016, representing a YoY increase of 3.38%. The following table sets out the breakdown of the total liabilities of the Group as of the dates indicated:

Unit: RMB million

Items	31 December 2016	31 December 2015	Change	Change (%)
Accounts payable to brokerage clients	56,736	72,045	-15,309	-21.25%
Short-term borrowings, placements from banks and other financial institutions, short-term commercial papers payable and non-current liabilities falling due within one year	24,899	22,733	2,166	9.53%
Financial liabilities held for trading, financial liabilities designated as at fair value through profit or loss and derivative financial liabilities	3,115	284	2,831	996.83%
Financial assets sold under repurchase agreements	25,031	29,262	-4,231	-14.46%
Issued bonds	13,653	15,072	-1,419	-9.41%
Others	16,998	13,609	3,389	24.90%
Total	140,432	153,005	-12,573	-8.22%

During the year, the A Share market in China recorded a decrease in overall trading volume as compared to that of 2015. As of 31 December 2016, the domestic accounts payable to brokerage clients decreased significantly. Total accounts payable to brokerage clients of the Group amounted to RMB56,736 million and accounted for 40.40% of the total liabilities of the Group, representing a YoY decrease of RMB15,309 million, or 21.25%.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The following table sets out the Group's accounts payable to brokerage clients by geographical locations and types of customers as of the dates indicated:

Unit: RMB million

Items	31 December 2016	31 December 2015	Change	Change (%)
Mainland China	54,898	71,350	-16,452	-23.06%
– Individual	42,742	57,208	-14,466	-25.29%
– Corporate	12,156	14,142	-1,986	-14.04%
Outside Mainland China	1,838	695	1,143	164.46%
Total	56,736	72,045	-15,309	-21.25%

As of 31 December 2016, short-term borrowings, placements from banks and other financial institutions, short-term commercial papers payable and non-current liabilities falling due within one year amounted to RMB24,899 million in aggregate, representing an increase of 9.53% YoY, mainly attributable to the increase in refinanced funds.

As of 31 December 2016, financial liabilities held for trading, financial liabilities designated as at fair value through profit or loss and derivative financial liabilities amounted to RMB3,115 million, representing a YoY increase of 996.83%, mainly attributable to the increase in financial liabilities held for trading.

As of 31 December 2016, financial assets sold under repurchase agreements decreased by RMB4,231 million, or 14.46% YoY, which was mainly attributable to the decrease in beneficial rights over margin financing and securities lending sold under repurchase agreements.

As of 31 December 2016, the Group's total outstanding amount of bonds payable due beyond one year amounted to RMB13,653 million, representing a YoY decrease of RMB1,419 million. In 2016, the Group issued corporate bonds of RMB4,500 million.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Equity

As of 31 December 2016, the total equity of the Group amounted to RMB41,263 million, representing a YoY increase of 36.71%, mainly attributable to the initial public offering of H Shares and the increase in net profit in 2016. The following table sets out the components of the Group's total equity as at the dates indicated:

Unit: RMB million

Items	31 December 2016	31 December 2015
Share capital	7,176	6,100
Other equity instruments	5,000	5,000
Capital reserve	6,740	1,436
Surplus reserves	2,294	1,752
General reserve	6,152	5,114
Investment revaluation reserve	-188	256
Foreign currency translation reserve	102	44
Retained earnings	13,787	10,404
Non-controlling interests	200	77
Total	41,263	30,183

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Analysis of Principal Subsidiaries and Non-Controlling Companies

The Company has four subsidiaries, a summary of which is set out below:

Name	Shareholding of the Company (%)	Date of Establishment	Registered Capital	Place of Business	Registered Address	Contact Number
China Securities Futures	100%	16 March 1993	RMB700 million	11-B (Parallel to Ground Level)/11-A, 8-B4, 9-B&C (Nominal Level), Shangzhan Building, 107 Zhongshan Third Road, Yuzhong District, Chongqing (重慶市渝中區中山三路107號上站大樓平街11-B·名義層11-A·8-B4·9-B·C)	11-B (Parallel to Ground Level)/11-A, 8-B4, 9-B&C (Nominal Level), Shangzhan Building, 107 Zhongshan Third Road, Yuzhong District, Chongqing (重慶市渝中區中山三路107號上站大樓平街11-B·名義層11-A·8-B4·9-B·C)	+8623-86769699
China Securities Capital	100%	31 July 2009	RMB650 million	12/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座12層)	Room 2, East Side, 6/F, 188 Chaoyangmennei Avenue, Dongcheng District, Beijing (北京市東城區朝陽門內大街188號6層東側2間)	+8610-85130648
China Securities International	100%	12 July 2012	Share capital of HK\$1,000 million	18/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong	18/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong	+852-34655600
China Securities Funds	55%	9 September 2013	RMB300 million	17&19/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座17·19層)	Unit 1, Building No. 3, Balongqiao Yayuan, Qiaozhi Town, Huairou District, Beijing (北京市懷柔區橋梓鎮八龍橋雅苑3號樓1室)	+8610-59100211

In addition, the associate of the Company also includes:

Name	Shareholding Held by the Company (%)	Date of Establishment	Registered Capital
Zhongguancun Equity Exchange Services Group Limited	10%	28 January 2013	RMB500 million

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

General information about the subsidiaries of the Company is as follows:

- (1) China Securities Futures is a wholly owned subsidiary of the Company with registered capital of RMB700 million. As of 31 December 2016, total assets and net assets of China Securities Futures amounted to RMB6,462.11 million and RMB979.04 million, respectively. In 2016, China Securities Futures realized total revenue and other income amounting to RMB408.58 million in aggregate, profit before income tax amounting to RMB221.03 million and net profit amounting to RMB187.51 million.

The principal business of China Securities Futures includes commodities futures brokerage, financial futures brokerage, futures investment advisory, asset management and fund sale.

- (2) China Securities Capital is a wholly owned subsidiary of the Company with registered capital of RMB650 million. As of 31 December 2016, total assets and net assets of China Securities Capital amounted to RMB1,683.22 million and RMB884.38 million, respectively. In 2016, China Securities Capital realized total revenue and other income amounting to RMB93.42 million in aggregate, profit before income tax amounting to RMB37.52 million and net profit amounting to RMB12.95 million.

The principal business of China Securities Capital includes project investment, investment management, asset management and financial advisory (excluding intermediary services).

- (3) China Securities International is a wholly owned subsidiary of the Company with Share capital of HK\$1 billion. As of 31 December 2016, total assets and net assets of China Securities International amounted to RMB6,173.68 million and RMB926.55 million, respectively. In 2016, China Securities International realized total revenue and other income amounting to RMB421.15 million in aggregate, profit before income tax amounting to RMB63.67 million and net profit amounting to RMB39.08 million.

The principal business of China Securities International includes investment holding. Its subsidiaries engage in the business of securities brokerage, asset management, investment banking, pledge and financing, dealing in futures and proprietary investment.

- (4) China Securities Funds is a controlling subsidiary of the Company with registered capital of RMB300 million. As of 31 December 2016, total assets and net assets of China Securities Funds amounted to RMB467.19 million and RMB396.93 million, respectively. In 2016, China Securities Funds realized total revenue and other income amounting to RMB331.46 million in aggregate, profit before income tax amounting to RMB141.75 million and net profit amounting to RMB109.44 million.

The principal business of China Securities Funds includes fundraising, fund sale, asset management for specific clients, asset management, other business as approved by the CSRC.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

General information of an associate is as follows:

Zhongguancun Equity Exchange Services Group Limited is an associate of the Company with registered capital of RMB500 million. As of 31 December 2016, total assets and net assets of Zhongguancun Equity Exchange Services Group Limited amounted to RMB1,266.19 million and RMB1,241.82 million, respectively. In 2016, Zhongguancun Equity Exchange Services Group Limited realized total revenue and other income amounting to RMB85.28 million in aggregate, total profit amounting to RMB42.13 million and net profit amounting to RMB41.24 million (unaudited).

The principal business of Zhongguancun Equity Exchange Services Group Limited includes provision of trading venues and services for registration, custody, trading, settlement, investment and financing of Shares of non-listing joint stock companies, equity interests of limited companies, bonds and other various types of equity interests or creditor's right; provision of service for innovation and trading of financial products. (Projects subject to approval as required by laws shall be carried out in accordance with the approved scope after obtaining the approval from relevant authorities.)

Information of Branches

The general information of Branches is as follows:

No.	Branch	Registered address	Date of establishment	Contact number
1	Hubei Branch	3/F, Block A, Longyuan Building, 24 Zhongbei Road, Wuchang District, Wuhan City	6 February 2012	+8627-87890238
2	Shanghai Branch	Room 1605, 1606 and 1607, 518 Kunming Road, Yangpu District, Shanghai City	6 February 2012	+8621-55138027
3	Shenyang Branch	No. 1, 12/F, 61 Beizhan Road, Shenhe District, Shenyang City	7 February 2012	+8624-24850032
4	Jiangsu Branch	2/F, Huanghe Building, 58 Longyuan West Road, Gulou District, Nanjing City	13 February 2012	+8625-83156599
5	Hunan Branch	No. 9, Furong Middle Road Section 2, Furong District, Changsha City	1 March 2013	+86731-82221988
6	Fujian Branch	3/F, Wuyi Center, 33 East Street, Gulou District, Fuzhou City	16 April 2013	+86591-87507275
7	Zhejiang Branch	Room 604, 6/F, 225 Qing Chun Road, Shangcheng District, Hangzhou City	18 April 2013	+86571-87066526
8	Northwest Branch	56 Nanda Street, Beilin District, Xi'an City, Shaanxi Province	19 April 2013	+8629-87284370

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

No.	Branch	Registered address	Date of establishment	Contact number
9	Guangdong Branch	Room 5102 and 5105, 30 Zhujiang East Road, Tianhe District, Guangzhou City	24 April 2013	+8620-38381166
10	Chongqing Branch	2-2, Block 2, Yijing Fenghao, 195 Longshan Road, Longshan Avenue, Yubei District, Chongqing City	14 April 2014	+8623-65333789
11	Shenzhen Branch	22/F, Block B, Rongchao Business Center, 6003 Yitian Road, Futian District, Shenzhen City	21 April 2014	+86755-23953870
12	Sichuan Branch	25, South Third Section, First Ring Road, Wuhou District, Chengdu City	25 April 2014	+8628-85582171
13	Shandong Branch	11/F, Block 4, 8 Long'ao North Road, Lixia District, Jinan City	23 May 2014	+86531-86908939
14	Jiangxi Branch	Unit 5, 30/F, Block 2#, Heping International Hotel, 69 Yanjiang North Avenue, Donghu District, Nanchang City	28 May 2014	+86791-86691228
15	Henan Branch	1-2/F, Zhonghua Mansion, 3 Shangwu Outer Ring Road, Zhengdong New District, Zhengzhou City	3 June 2014	+86371-87519966
16	Shanghai Free Trade Zone Branch	Room 02B, 15/F, 2 Maji Road, China (Shanghai) Pilot Free Trade Zone	26 September 2014	+8621-68821628
17	Tianjin Branch	Room 201, International Communication Center South Building, Tianjin University of Technology, 26 Yuliang Road, Nankai District, Tianjin City	10 November 2014	+8622-23009666

Note: "Date of establishment" refers to the date of obtaining a business license of the securities institution.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Explanation of Changes in Scope of Statement Consolidation

During the Reporting Period, the number of structural entities included in the consolidated financial statements of the Company changed to six. The number of primary entities included in the consolidated financial statement of the Company changed to ten.

No Change in the Income Tax Policy of the Company during the Reporting Period

From 1 January 2008, the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) and the Regulations on the Implementation of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) became effective for the Company and other subsidiaries (except China Securities Futures and China Securities International). Income tax computation and payment are governed by the Announcement of the State Administration of Taxation on Printing and Distributing the Administrative Measures for Collection of Consolidated Payments of Enterprise Income Tax by the Enterprises with Trans-regional Operations (《國家稅務總局關於印發〈跨地區經營匯總納稅企業所得稅徵收管理辦法〉的公告》) (Public Notice of the State Administration of Taxation [2012] No. 57). The income tax rate applicable to the Company is 25%.

In accordance with Explanation on Implementation of Tax Preferential Treatments concerning Western China Development Strategy (《關於執行國家西部大開發所得稅優惠政策的說明》) issued by the local taxation bureau in Yuzhong District, Chongqing City, the applicable income tax rate for China Securities Futures was 15%.

The applicable income tax rate for China Securities International was 16.5%.

Analysis on Core Competitiveness

In 2016, the Company continued to adhere to the core value of “recognition for achievement”, as well as the concepts of “risk management as priority” and “healthy development” to strive for better service for existing customers and realize mutual growth with the enterprise. In the meantime, the Company penetrated the local market and moved towards the international to explore outstanding potential customers. The Company aimed at regarding the advantages of investment bank business as the starting point to steadily develop innovative business. By integrating the trend of the PRC and global capital market, the Company aimed at becoming a large best-in-class full-service investment bank with the base in the PRC and global vision.

Investment bank business of the Company continued to remain at a leading position in the industry. The number of equity interest financing projects ranked first in the industry, while the amount of lead underwriting ranked second, among which the amount and number of IPO lead underwriting ranked first and third, respectively. Underwriting size of bond business ranked first in the industry, among which the issued volume and underwriting size of corporate bonds both ranked the first. For merger and acquisition business, the number of substantial asset restructuring projects ranked fifth in the industry, and the number of listing on the NEEQ ranked fourth in the industry. (Source: Wind Info, National Equities Exchange Company and statistics of the Company)

Wealth management business of the Company remained at the top of the market. Agency of stock and fund trading amount was RMB7,750 billion and the market Share was 2.98%, ranking tenth in the industry. The number of mutual fund products distributed was 2,624 and the coverage of products on agency sale was 63.27%, ranking first in the industry. The balance of our domestic margin financing and securities lending amounted to RMB29.9 billion, and the market Share was 3.18%, ranking eleventh in the industry, among which the margin loans ranked No. 10. (Sources: Shanghai and Shenzhen Stock Exchanges, China Securities Depository and Clearing Corporation, The Securities Association of China and statistics of the Company)

The performance of trading and institutional customer service business of the Company remained at a leading position. For fixed income, the sales size of corporate bonds ranked first in the industry, and the bond investment return on annual basis was much higher than the major bond index. For investment research, the research team of the Company ranked first from “New Fortune” in three industries, namely, fixed income, military industry and communications.

The asset management business of the Company developed rapidly. As of the end of 2016, the AUM size of the Company was approximately RMB811.4 billion, ranking the fifth in the industry (Source: The Securities Association of China).

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Profit Distribution Policy of the Company

Formulation and Implementation of Cash Dividend Policy

With an emphasis on reasonable returns to its investors, the Company implements a consistent and solid profit distribution policy. The profit distribution policy of the Company, particularly the establishment and implementation of cash dividend policy, is in strict compliance with the relevant provisions under the Articles of Association, and is considered and approved by the Board and the general meeting of the Company. The Company has a definite and clear policy regarding cash dividends payment criteria and ratio, and a standard decision-making procedure and mechanism.

From 2014 to 2016, the dividends paid by the Company are as follows:

Unit: Yuan Currency: RMB

Year of distribution	Amount of dividend for every 10 Shares	Amount of cash dividend (tax inclusive)	Net profit attributable to equity holders of the Company as stated in the consolidated financial statements of the year of distribution	Percentage to net profit attributable to equity holders of the Company as stated in the consolidated financial statements (%)
2016 (proposed)	1.80	1,304,349,342.84	5,259,251,675.20	24.80%
2015	–	–	8,638,825,423.47	–
2014	–	–	3,407,125,478.00	–

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The 2016 Profit Distribution Plan:

The Company will adopt the cash dividend payment method for its 2016 profit distribution (i.e. 100% cash dividend), and distribute to the holders of Domestic Shares and H Shares whose names appeared on the register of members of the Company on the record date of the 2016 cash dividend, with a proposed total cash dividend of RMB1,304,349,342.84 (tax inclusive), representing 24.80% of the net profit attributable to the equity holders of the Company, which amounted to RMB5,259,251,675.20, in the consolidated financial statements for 2016, and 39.73% of the distributable profits of the Company for the year. Based on the total number of Shares of the Company up to date, i.e. 7,246,385,238 Shares, cash dividend of RMB1.80 (tax inclusive) will be distributed for every 10 Shares. In case of any changes in the total number of issued Shares of the Company on the record date as a result of placing, repurchase or other reasons, the amount of cash dividend per Share will be adjusted accordingly based on the total amount of RMB1,304,349,342.84 (tax inclusive).

Cash dividend is denominated and declared in RMB and payable in RMB to the Domestic Shareholders, and in Hong Kong dollars to the H Shareholders. The actual amounts declared in Hong Kong dollars are converted based on the average benchmark exchange rate for RMB to Hong Kong dollars as announced by the People's Bank of China for the five business days before the convening of 2016 annual general meeting of the Company.

The 2016 profit distribution plan of the Company is subject to the consideration and approval at the 2016 annual general meeting so as to come into effect. If an approval is obtained, the Company expects to distribute the cash dividends for 2016 within two months from the date of such general meeting.

Risk Management

Description of Risk Management of the Company

Overview

The Company attaches great importance to the formation of a risk management system. Adopting the risk management concept of “risk management by all, risk management as priority”, the Company regards alignment with the general operating strategic goal of the Company and maintaining risks at a tolerable level as the foundation of risk management and seeks to ensure that risks associated with various businesses of the Company are measurable, controllable and commensurate with returns. The Company continues to enhance its risk management system in accordance with the needs arising from its business development and the regulatory requirements, so as to ensure the progressive enhancement and effective operation of a comprehensive risk management mechanism.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Structure of Risk Management

The Board of Directors is the Company's ultimate decision-making body for risk management. The executive management is the executive body, while different units are responsible for directly managing the risks in their business or operational activities. The Company has three dedicated risk control departments, namely the Risk Management Department, the Legal and Compliance Department and the Internal Audit Department, which independently monitor and manage risks before the event, during the event and after the event, according to their respective roles and responsibilities.

The Board of Directors makes decisions with respect to the Company's risk management strategies and policies, internal control arrangements, as well as the resolution of significant risk events.

The Risk Management Committee under the Board of Directors is responsible for supervising the overall risk management of the Company and ensuring the risks are adequately managed so that risk management activities may be effectively carried out on risks associated with the Company's business and operating activities. The Risk Management Committee also has the following responsibilities: preparing the overall risk management policies for the Board's deliberation; determining the strategic structure and resources for risk management so that they are aligned with the internal risk management policies; setting limits for major risks; and supervising and reviewing the risk management policies and making recommendations to the Board.

The Company's Executives Committee makes decisions with respect to the prevention, control, mitigation, or acceptance of risks in the Company's business and operating activities and makes decisions on efforts to improve the internal control rules and procedures and control measures in accordance with the risk management policies adopted by the Board.

The Risk Management Committee under the Executives Committee of the Company is responsible for reviewing, determining and submitting to the Company for decision-making our risk appetite, risk tolerance level and major risk limits; approving risk limits and risk control standards specific to each business line; formulating and promoting the implementation of our risk management rules and procedures; reviewing and approving new businesses and products; reviewing and approving our risk reports; conducting research on risk control strategies and action plans for major business matters.

The Chief Risk Officer of the Company, acting as the chairman of the Risk Management Committee, is responsible for overall risk management including organising the formulation of relevant risk management rules and procedures, improving the Company's risk management practices, and leading the efforts of the Risk Management Department in the identification, evaluation, monitoring and reporting of various risks.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Each and every department and branch/subsidiary of the Company, within their respective roles and responsibilities, implement the decisions, rules and procedures, and risk control policies of the Company, and implement risk-control measures and engage in direct risk control efforts in their business activities. Every employee of the Company has the responsibility to comply with the Company's relevant rules and procedures and contribute to daily risk control efforts as part of their work.

The Risk Management Department that is responsible for risk management of the Company, the Legal and Compliance Department that is responsible for legal affairs and compliance management, and the Internal Audit Department that is responsible for the Company's internal audit activities are the three independent risk management departments that establish their own rules and procedures and operate independently to perform risk management functions of the Company. Specifically, the Risk Management Department is responsible for before- and during-the-event risk management through risk monitoring and assessment, the Legal Compliance Department is responsible for managing the overall legal and compliance risks of the Company, and the Internal Audit Department is responsible for conducting audits to identify material defects in key rules and procedures and processes, as well as internal control weakness, and supervising corrections and rectifications.

Risk Management Mechanism

The Risk Management Department works with business and management departments to identify major risks during the course of different business and management activities, issue the Risk Catalogue and Key Control List, and continue to update the same in light of business changes and monitoring findings.

The Risk Management Department formulates the risk monitoring processes and indicators for key business and management lines. In particular, risk monitoring indicators for brokerage business, proprietary business, securities financing business, and asset management business as well as risk control indicators including net capital are embedded in the monitoring system, while the risk monitoring for other business or management lines primarily relies on regular and ad hoc monitoring.

The Risk Management Department also formulates operational process for risk assessment, and determines main assessment methods and qualitative and quantitative risk rating criteria for various types of risks. It assesses and rates the risk matters on an ongoing basis, evaluates the control of major business risks on a regular basis, and conducts comprehensive year-end assessments of the risk control process, risk exposures and positions, and risk incidents of the departments, branches and subsidiaries as a key component of their performance assessment.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The Risk Management Department is responsible for building mechanisms for communicating and reporting risk information and significant risk warnings. The Company has established a risk information management system for communicating and managing risk information and providing significant risk warnings. The Risk Management Department is responsible for formulating operational procedures for communicating and reporting risk information and issuing risk warnings, and the departments and branches and subsidiaries report risk information or issue warnings on potential risks identified by themselves to the Risk Management Department. The Risk Management Department then manages the risk information, performs comprehensive analyses on various risk information to identify risk control weaknesses and loopholes and propose recommendations on improving risk control, reports significant risks to the Chief Risk Officer and executive management or a Risk Management Committee, and at the same time, communicates risk information to relevant departments, while tracking any follow-up activities. The Risk Management Department prepares risk reports and risk control recommendation reports according to the results on risk identification, monitoring and assessment, and reports the findings to involved parties and the executive management of the Company. The Risk Management Department continuously monitors risks and the risk control status by following up on the implementation of risk control recommendations by relevant parties in managing risks identified in the risk reports.

The Legal & Compliance Department manages legal and compliance risks through compliance consultation, compliance review, compliance inspection, compliance supervision, compliance reporting, complaints reporting and handling, compliance accountability, information segregation wall, anti-money laundering and a series of compliance management methods as well as contracts, litigation management and other before- and during-the-event management for business lines.

The Internal Audit Department detects material defects in key rules and procedures and processes or internal control weaknesses through audits, reports these issues to the Supervisory Committee, the Audit Committee, management, the Legal & Compliance Department and the Risk Management Department, and drives any follow-up corrections and rectifications.

Details of the Primary Risks Associated with the Operation of the Company

The risks in the daily operating activities of the Company primarily include credit risk, liquidity risk, market risk, operational risk and compliance risk. The Company has established specific policies and procedures to identify and address these risks, set out appropriate risk limits and internal control processes to manage these risks, and built a sound control mechanism and information technology systems to continuously monitor and control these risks. In particular, these mainly include the following aspects:

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Credit Risk

Credit risk arising from securities financing business primarily includes fraudulent credit information from customers, clients' failure to repay debts in full in a timely manner, clients' breach of contract with respect to the size and structures of trading positions, clients' violation of regulatory requirements in their trading actions, decline in value or liquidity of collateral provided by clients, and involvement of collateral in legal disputes. Methods for managing credit risk arising from such business primarily include client risk education, credit investigation and verification on clients, credit management, setting proper limits, daily marking to market, client risk warnings, forced close-out, and rights of recourse.

Credit risk arising from bond investments is primarily due to counterparty defaults, credit issuer defaults or decline in the creditworthiness of issuers, among others. The Company establishes ratings and credit lines for counterparties and maintains black lists to manage its counterparty credit risk, and sets a number of credit limits to control risks on credit facilities, including minimum ratings for credit products and maximum credit exposure of a single borrower.

The Company controls credit risk arising from over-the-counter derivative transactions through setting counterparty ratings and credit lines, and setting limits on the sizes of transactions and credit risk exposures before transactions take place. The Company conducts a daily check and measurement of the credit risk exposures of counterparties. The Company has also adopted mark-to-market practices to monitor the contracts of derivative transactions and for valuation of collateral, and established forced position squaring procedures to control its credit risk exposures within established limits.

In order to manage the credit risk arising from the brokerage business, securities brokerage transactions in Mainland China are all settled on a fully pledged basis, which enables settlement risks associated with brokerage business to be well under control. The Company strictly complies with relevant trading and settlement rules and procedures to eliminate non-compliant financing operations for clients. With regard to clients' credit risk, the Company has adopted safeguarding measures to prevent overdraft or negative balance of equivalent securities for repurchase financing clients, including minimum ratio of equivalent securities retained and maximum leverage ratio, and established various rules and practices to manage the credit risk of option trading clients, including margin management, position limits, and forced close-out.

Furthermore, the Company's Risk Management Department monitors the credit risk on an ongoing basis, including tracking the credit qualification status of counterparties and bond issuers, as well as using stress testing and sensitivity analysis, among others, to measure the credit risk of major business lines.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Liquidity Risk

The Company has established clear decision-making levels, along with authority delegation, specialized management and risk control rules and procedures, and has clearly defined the roles, responsibilities and authorities of the Board of Directors, as well as executive management and business departments in liquidity risk management. The Company has established strict rules and procedures for managing its proprietary funds and requires strict compliance with these rules and procedures in incurring debts, providing guarantees and making investments. The Company also sets liquidity risk limits and conducts daily position analyses and monthly liquidity position analyses to manage liquidity movements. For effective management of market liquidity risk of its securities portfolios, the Company has implemented securities centralisation management for securities investment and financing activities, and adopted bond credit rating criteria for fixed-income securities investments. The Company calculates liquidity coverage ratios and net stable funds ratios as per regulatory requirements and all indicators fall within the safety zone.

The Company established the Treasury Operations Department to manage the liquidity of its proprietary funds, including developing mid- and long-term stable funding channels, improving asset allocation among business lines, and steadily optimising its assets and liabilities structure. The Company continues to improve its daily practices for liquidity risk management with the assistance of classified liquidity reserves, liquidity contingency planning, and stress testing. In addition to strengthening liquidity management practices and systems, the Company aims to further expand the use of information technology and the level of automation in process management, fund allocation, and position monitoring.

Since 2016, the Company has commenced the trial run of an internal funds transfer pricing (FTP) system, which controls the liquidity risk of the Company by promoting reasonable asset-liability planning in every business line through an internal market-oriented mechanism.

Market Risk

For market risks, the Company has established a sound risk management organizational structure and built risk management processes that enable coverage of activities before, during and after making investments, with an overall risk limits application. The Company annually reviews and approves risk limits for the entire Company as well as each proprietary business line, including: exposure limits, stop-loss limits, value-at-risk ("VaR") limits and stress testing limits, with the Risk Management Department monitoring and supervising their implementation and compliance. The Company has adopted daily mark-to-market practices, and implemented stop-loss procedures commensurate with its trading strategies. On a regular basis, the Company assesses the risk tolerance of its proprietary business lines and the effectiveness of risk control, and includes the assessment results in the performance evaluation of these business lines. The Company makes ongoing efforts to improve its proprietary business management system, to steadily realize automated controls over relevant limit indicators.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The Company utilizes VaR as a tool to measure the market risk of its entire securities investment portfolio comprising different types of financial instruments. VaR is a method that estimates the maximum possible loss on the portfolio due to fluctuations in market interest rates or securities prices over a specified time period and within a given confidence interval. VaR model relies on relevant information of historical data, and accordingly, it has certain inherent limitations so that it may not accurately predict the future changes of risk factors and in particular, cannot effectively reflect the risk under extreme market conditions. Therefore, the Company uses stress testing as a supplementary tool for assessing the market risk.

The Company primarily uses sensitivity analysis to monitor its interest rate risk. Sensitivity analysis measures the impact of fair value changes to financial instruments held at the year end on the Company's total income and Shareholders' equity when reasonable and possible changes occur to interest rates, assuming all other variables remain the same. Sensitivity analysis assumes that market interest rates shift in a parallel manner and does not consider any risk management actions that the management may take to reduce interest rate risk.

With regard to foreign exchange rate risk management, as the proportion of assets denominated in foreign currencies held by our Company is insignificant, and represents a small portion of the income structure, the Company is of the view that the impact of foreign exchange rate risk on the Company's current operation has increased, but remains insignificant in general. The Company manages its foreign exchange rate risk by limiting the size of assets and liabilities denominated in foreign currencies, assigning stop-loss limits for investments in overseas companies and risk hedging with foreign exchange derivatives.

Operational Risk

Concerning the potential operational risks in each business and management activity of the Company, the Company carries out the segregation of various businesses with three lines of defense comprising a system of checks and balances between its front, middle and back offices. A business authority delegation and accountability system, as well as a management system, procedures and risk control measures for each business has been established and reinforced. Within the scope of authority of the Company, operational risks are transferred or mitigated by personnel and operation outsourcing and, where necessary, insurance is purchased to the extent authorized. Mechanisms for information exchange, reporting of major events and information feedback have also been set up.

SECTION 5 MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The independent Risk Management Department of the Company monitors and assesses the operational risks of various businesses including the brokerage business, and also implements regular risk control evaluation. It examines the key risks of various business and management lines, and establishes and implements key control measures in practical business procedures. The business departments are organized to conduct self-evaluation of risk and control to identify new material risks and take appropriate risk control measures. Statistical analysis on various types of operational risk events is performed at least on an annual basis to calculate the frequency of their occurrence and the level of losses, as well as to assess the changing trend of risk and risk allocations.

Compliance Risk

The Company has designated the Legal and Compliance Department as the department responsible for compliance management under the guidance of the Chief Compliance Officer to carry out independent compliance management of the Company. The main responsibilities of compliance management of the Legal and Compliance Department are: to examine and assess compliance risk during the business operation of the Company, to formulate a basic system of compliance management and commence compliance reviews, and provide compliance consultation, compliance supervision, compliance inspection, compliance training and other compliance management issues, so as to extensively define the rules of reporting on violation of laws and regulations and compliance accountability. Specific or part-time compliance management officers are engaged in all functional departments, business lines and securities branches of the Company, and are responsible for daily compliance issues in their own departments. The compliance management of the Company has permeated all divisions of the Company, such as decision-making, implementation, supervision and feedback, which have been included in the whole process of executive management of the Company. The Company proactively cultivates a culture of compliance and improves the self-restraint mechanisms in order to ensure compliant operations and standardized development.

SECTION 6 REPORT OF DIRECTORS

Business Review

Review of Business

The principal businesses of our Group are investment banking, wealth management, trading and institutional client services and investment management.

In 2016, the domestic economy faced increasing downward pressure due to the slowdown in growth of the global economy. The total revenue of the securities industry in the PRC was RMB327.994 billion, representing a YoY decrease of 42.97%; the net profit was RMB123.445 billion, representing a YoY decrease of 49.57%. At the end of 2016, total assets of the industry was RMB5,790 billion, representing a YoY decrease of 9.81%; net assets were RMB1,640 billion, representing a YoY growth of 13.10% (source: Securities Association of China). Please refer to the “Strategy and Operating Model” section of this annual report for an overview of the industry where the Group operates and the development strategy of the Group.

In 2016, the total revenue and other income of the Group achieved RMB17,584 million in the aggregate, realizing net profit attributable to equity holders of the Company of RMB5,259 million, and a return on weighted average equity of 18.10%, reaching record highs since the establishment of the Company. The Group consecutively ranked among the best of all major domestic securities companies and retained its leading position in the industry for investment banking business.

During the Reporting Period, the operating operation of the Group was set out in the “Business Overview” section of this annual report.

Major Risks and Uncertainties

The major risks the Company is exposed to include: market risks, credit risks, liquidity risks and operating risks. For the risk management objectives and policies of the Company, please refer to the description on risk management of the Company set out in this annual report. Please refer to the “Details of the primary risks associated with the operation of the Company” section of this annual report for the major risks and uncertainties the Company faces in 2017.

SECTION 6 REPORT OF DIRECTORS (Continued)

Relevant Laws and Regulations of Significant Influence

Adhering to the philosophy of operating according to laws and regulations, the Company complies with the national laws, administrative regulations and various rules and normative documents promulgated by regulatory authorities.

In order to control operating risks, the Company established a sound and systematic mechanism by setting up a basic system at company level, under which each business line, department and branch shall establish a highly controllable management system, operational process and standardized regulations. The system covers all businesses and processes of the Company. In 2016, the Company formulated, amended and reviewed over 400 policies on internal management to enhance internal control capabilities according to regulatory requirements and the needs for business management of the Company; the Legal and Compliance Department of the Company is the department for the management of policies of the Company and shall be responsible for: reviewing and approving the policies of the Company, requiring the business and management departments of the Company implement all requirements of the regulatory authorities and self-regulatory organizations in all businesses systems of the Company in a timely manner, ensuring that each policy is implemented in accordance with the laws and regulations and guaranteeing the coordination and uniformity among policies.

Profit Distribution and Proposed Dividend

The formulation and implementation of the cash dividend policy and the 2016 profit distribution plan of the Company are set out in the “Profit Distribution Policy of the Company” section of this annual report.

Tax Relief

Pursuant to the Notice of the PRC State Administration of Taxation on Issues Concerning Individual Income Tax Collection and Management after the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)), the dividends received by overseas resident individual Shareholders from the Shares issued by domestic non-foreign invested enterprises in Hong Kong are subject to the payment of individual income tax according to the items of “interests, dividend and bonus income,” which shall be withheld by the withholding agents in accordance with the relevant laws. Overseas resident individual Shareholders who hold Shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries where they are residents and China, or the tax arrangements between the Mainland and Hong Kong (Macau). The relevant dividend tax rate under the relevant tax agreements and tax arrangements is generally 10%, and for the purpose of simplifying tax administration, domestic non-foreign invested enterprises issuing Shares in Hong Kong may, when distributing dividends,

SECTION 6 REPORT OF DIRECTORS (Continued)

generally withhold individual income tax at the rate of 10%, and are not obligated to file an application. In circumstances where the tax rate for dividends is not equal to 10%, the following provisions shall apply: (1) for citizens from countries falling under agreements subject to tax rates lower than 10%, the withholding agents will file applications on their behalf to seek entitlement to the relevant agreed-upon preferential treatments, and upon approval by the tax authorities, excessive withheld tax amounts will be refunded. (2) for citizens from countries falling under agreements subject to tax rates higher than 10% but lower than 20%, the withholding agents shall withhold individual income tax at the agreed-upon effective tax rate upon distribution of dividends (bonus), and are not obligated to file an application; (3) for citizens from countries without tax agreements or under other circumstances, the withholding agents shall withhold individual income tax at a tax rate of 20% upon distribution of dividends.

Pursuant to the Notice of the State Administration of Taxation on Issues Concerning Withholding the Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to Holders of H Shares who are Overseas Non-resident Enterprises (Guo Shui Han [2008] No.897) (《關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》(國稅函[2008]897號)), a PRC resident enterprise, when distributing dividends for 2008 and for the years afterwards to holders of H Shares who are overseas non-resident enterprises, shall withhold the enterprise income tax at a flat rate of 10%.

Pursuant to the “Notice of the Ministry of Finance, the State Administration of Taxation, and the China Securities Regulatory Commission on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets” (Cai Shui [2016] No. 127) (《財政部國家稅務總局證監會關於深港通股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)), for dividends derived by Mainland individual investors from investing in H-Shares listed on the Hong Kong Stock Exchange through Shenzhen Hong Kong Stock Connect, H-Share companies shall withhold individual income tax at a tax rate of 20% for the investors. For Mainland securities investment funds investing in Shares listed on Hong Kong Stock Exchange through Shenzhen Hong Kong Stock Connect, the above rules also apply and individual income tax shall be levied on dividends derived therefrom. Dividends derived by Mainland enterprise investors from investing in Shares listed on Hong Kong Stock Exchange through Shenzhen Hong Kong Stock Connect shall be included in their total revenue, and the enterprise income tax thereon may be levied according to the tax law. For dividends derived by Mainland resident enterprises where the relevant H Shares have been continuously held for more than 12 months, the enterprise income tax thereon may be exempt according to the tax law.

Shareholders of the Company are taxed and/or entitled to enjoy tax relief in accordance with the aforementioned regulations.

SECTION 6 REPORT OF DIRECTORS (Continued)

Reasons and Impact of Changes in Accounting Policies, Accounting Estimates or Rectification on Significant Accounting Errors

During the Reporting Period, the Company did not undergo any material changes in accounting policies and accounting estimates, nor any rectification of significant accounting errors.

Use of Proceeds

Issue of Shares

Pursuant to the Capital Verification Report (PricewaterhouseCoopers Zhong Tian Beijing Yan Zi (2017) No. 037) (《驗資報告》(普華永道中天北京驗字(2017)第037號)) issued by PricewaterhouseCoopers Zhong Tian LLP, the proceeds under the public issuance of H Shares of the Company in 2016 was HK\$7,330.76 million, equivalent to approximately RMB6,518.73 million. As of 31 December 2016, the uses of proceeds were as follows: HK\$2,328.26 million (equivalent to approximately RMB2,082.65 million) was used for domestic settlement of foreign exchange, of which RMB1,263.57 million was used for the expansion of investment scale of FICC, and RMB777.50 million was used for expansion of capital-based intermediary businesses such as margin financing and securities lending.

Issue of Bonds

During the Reporting Period, the Company issued two tranches of RMB-denominated corporate bonds with scale of issuance of a total of RMB4.5 billion, all of which was used for replenishing working capital of the Company. The Company issued tranche one of securities company short-term corporate bonds with an issuance amount of RMB3.0 billion, tranche one of securities company short-term commercial papers for securities firms with an issuance amount of RMB3.0 billion and structured notes (tranche 88) with a total issuance of approximately RMB8.8 billion, all of which was used to replenish liquidity of the Company.

As of 31 December 2016, the balance of outstanding corporate bonds of the Company amounted to RMB12.3 billion, with subordinated bonds, perpetual subordinated bonds, US Dollar bonds, short-term corporate bonds for securities firms and the balance of each type of bonds of the Company amounting to RMB6.0 billion, RMB5.0 billion, USD0.2 billion (equivalent to approximately RMB1.4 billion), RMB3.0 billion and approximately RMB27.7 billion, respectively. In addition, at the end of the Reporting Period, the balance of structured notes issued by the Company was approximately RMB4.8 billion. The above utilization of proceeds was in line with the disclosures provided in the prospectus/offering documents. In 2017, the Company will continue to utilize the proceeds in accordance with the Company's operation and development strategies with reference to capital market conditions.

In 2017, the Company will consider issuing corporate bonds in accordance with the Company's funding needs with reference to the market conditions.

SECTION 6 REPORT OF DIRECTORS (Continued)

Purchase, Sale or Redemption of Securities of the Company

For the period ended 31 December 2016, apart from the global offering of H Shares and partial exercise of the over-allotment option as detailed in the announcement dated 3 January 2017 in relation to the partial exercise of the over-allotment option, stabilization actions and end of stabilization period, there was no purchase, sale or redemption of securities of the Company made by the Company or any of its subsidiaries.

Brief Biographical Particulars of the Directors, Supervisors and Senior Management

The brief biographical particulars of Directors, Supervisors and Senior Management are set out in the “Major work experience of the current Directors, Supervisors and Senior Management” section of this annual report.

Service Contracts and Appointment Letters of Directors and Supervisors

The Company entered into service contracts or appointment letters with Directors of the current session of the Board with their term of office starting from the date of the approval of election and the obtaining of relevant qualification at the Shareholders’ general meeting, until the expiry date of the term of the Board.

In addition, the Company or its subsidiaries did not enter into any service contract which will be terminated in one year without any compensation (other than statutory compensation) with the Directors and Supervisors of the Company.

Permitted Indemnity Provisions

The Company has purchased insurance for the Directors against legal liabilities arising from performance of their duties; the applicable law governing the relevant insurance policies was PRC law. The Company reviews the coverage of such insurance each year. During the year, there were no claims for compensation against the Directors or Senior Management.

Management Contracts

During the year, apart from employment contracts of employees, no management and administrative contracts were entered into or subsisting in respect of the whole or a substantial part of any business of the Company.

SECTION 6 REPORT OF DIRECTORS (Continued)

Remuneration Policies

The details of remuneration policies of the Company's Directors, Supervisors and Senior Management are set out in the "Performance of Duties and Remuneration of Directors, Supervisors and Senior Management" section of this annual report.

Details of the Company's employee remuneration policies and employee compensation are set out in "Employee Compensation" and Notes to the Financial Statements of this annual report.

Directors' and Supervisors' Interests in Material Contracts

During the Reporting Period, the Company or its subsidiaries did not enter into any transaction, arrangement or contract of significance in which the Directors or Supervisors or their respective connected entities had a material interest, whether directly or indirectly.

Directors' Interests in Businesses Competing with the Company

During the Reporting Period, none of the Directors had interests in any business which competes with businesses of the Company.

Interests and Short Positions of Directors, Supervisors and Senior Management in Shares, Underlying Shares and Debentures of the Company

To the best knowledge of all Directors, as of 31 December 2016, no Directors, Supervisors or Senior Management of the Company had interests or short positions in the Shares, underlying Shares and debentures of the Company or any of the Company's associated corporations (as defined in Part XV of the Securities and Futures Ordinance), which were required, pursuant to Section 352 of the Securities and Futures Ordinance, to be entered into the register referred to therein, or required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 to the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange.

As of 31 December 2016, no Directors and Supervisors or any of their spouses or children under 18 years of age had been granted the rights to purchase Shares or bonds of the Company for the benefit or exercise any aforesaid rights by themselves, nor have any Directors and Supervisors or any of their spouses or children under 18 years of age been granted the aforesaid rights from any other corporate body due to the arrangement made by the Company or any its subsidiaries.

SECTION 6 REPORT OF DIRECTORS (Continued)

Interests and Short Positions to be Disclosed by the Shareholders Pursuant to the Securities and Futures Ordinance

Details of interests and short positions to be disclosed by the Shareholders pursuant to the Securities and Futures Ordinance are set out in the “Substantial Shareholders’ Interests and Short Positions in Shares and Underlying Shares of the Company” section of this annual report.

Pre-emptive Rights

The Company was established in accordance with the PRC laws with no arrangement regarding pre-emptive rights.

Reserves and Distributable Reserves

Please refer to the “Consolidated Statement of Changes in Equity” and Notes to the consolidated financial statements of this annual report for details of changes in the reserves and the reserves of distributable profits of the Company.

Property, Plant and Equipment

As of 31 December 2016, please refer to Note 18 to the consolidated financial statements of this annual report for the property, plant and equipment of the Group.

Major Clients and Suppliers

The Company has a high-quality and diversified client base (primarily consisting of industry-leading corporations, institutional investors and high-net-worth individuals). The Company develops and maintains long-term relationships with clients and is dedicated to providing them with a comprehensive suite of products and services. The Company has won its clients’ trust through deep engagement and thorough knowledge and understanding of their businesses.

In 2016, the total revenue and other income of the Company from the top five clients in the aggregate did not exceed 10%, of our total revenue and other income in the aggregate.

By virtue of the nature of our business, the Company has no major suppliers.

SECTION 6 REPORT OF DIRECTORS (Continued)

Relationship with Employees, Clients, Suppliers and Persons Who are Materially Related

Employees' remuneration consists of fixed salary, performance-based bonuses, insurance and other benefits. The Company continues to promote and implement staff training programs featuring comprehensive planning, implementation by levels and clear purposes. For details about the remuneration and training plans for employees of the Company, please refer to the "Employee Compensation" and "Training Program" of this annual report.

For information on the relationship between the Company and securities brokers, please refer to the "Information on Brokers" section of this annual report. For information on the relationship between the Company and major clients and suppliers, please refer to the "Major Clients and Suppliers" section of this annual report.

Sufficient Public Float

Upon listing of the H Shares, the Hong Kong Stock Exchange granted a waiver to the Company, approving that the minimum public float for the H Shares shall be the highest of (1) 15% of the total issued Share capital of the Company; (2) such percentage of H Shares to be held by the public immediately after the completion of the Global Offering (assuming that the Over-allotment Option is not exercised); and (3) such percentage of H Shares to be held by the public immediately after the completion of the Global Offering (as increased by the H Shares to be issued upon any exercise of the Over-allotment Option). Upon the completion of the global offering (including the partial exercise of over-allotment option) and based on the minimum public float granted by the Hong Kong Stock Exchange, the minimum public float for the H Shares of the Company is no lower than 17.40%.

As of the date of this annual report, based on the information available to the public and the knowledge of the Directors, the Directors believe that the public float is in compliance with Rule 8.08 of the Hong Kong Listing Rules and the requirements for minimum public float as set out in the waiver granted by the Hong Kong Stock Exchange upon the listing of H Shares.

Corporate Governance

The details of corporate governance are set out in the "Corporate Governance Report" section of this annual report.

Performance of Social Responsibilities

The Company actively fulfills its social responsibility. To achieve its objectives of establishing a better platform for employees, providing better services for clients and making a greater contribution to society, the Company strictly implements industry policies and environmentally friendly policies announced by the government. The Company, as a financial institution, fulfills its economic responsibility, social responsibility and environmental responsibility pursuant to regulatory requirements, facilitating the harmonic and sustainable development of the relationship between the Company and the society and the environment. The Company assigns different roles for different tasks and has established a long-lasting working mechanism for the implementation of social responsibility.

The Company conducts its businesses in a lawful manner and strives to increase the market Share of its businesses and operating results, achieving the highest rank within the industry in terms of revenue and profit in 2016. The Company continuously improves its corporate governance structure, placing efforts on enhancing the scientific standard of decision-making and operational efficiency, and increasing the standard of information disclosure. In addition, the Company continues to strengthen internal controls and improve the capability of its compliance management and risk management. The Company is gradually forming a client-oriented integrated operation model and keeps upgrading its client services and clients satisfaction. Moreover, it actively participates in the establishment of multi-level capital markets, including the NEEQ and regional equity trading markets, and whole-heartedly provides services in investment, financing and financial advisory for the development of small- and medium-sized enterprises. Upholding the principle of “people-oriented”, the Company optimizes its remuneration and benefits policy, encourages the training of and communication among employees, improve the working environment, safeguards the legal rights of employees, and provides platforms and opportunities for talents. The Company cares about the physical and mental health of employees and organizes different types of activities to enrich the leisure time and cultural life of employees by holding healthy walk campaigns and photography exhibitions, and setting up various leisure clubs. In addition to maintaining its daily operations, with a strong sense of social responsibility, the Company actively participates in charity events and activities, demonstrating its mission to reward and contribute to the society.

In 2016, the Group made external donations to a total of 18 external organizations in aggregate, with a total donation amount of RMB3.44 million, which were mainly allocated to poverty alleviation, donations to schools, resources protection and other charitable projects. Among which, the Company donated RMB1 million for the Renovation Project of Dangerous Buildings of Anjiazao Primary School (安家皂小學危房改造項目) of China Children and Teenagers’ Fund and established the Anyuan Education and Poverty Alleviation Fund (安遠教育扶貧基金) with initial capital of RMB1 million, which has provided great support to local education and poverty alleviation works.

SECTION 6 REPORT OF DIRECTORS (Continued)

In 2016, the Company did not have any material environmental protection or other significant social security issues.

Auditors

Please refer to the “Appointment or Termination of Accounting Firms” section of this annual report for details of the engagement or dismissal of the Company’s accounting firms.

Environmental Policy and Performance

The Group strictly abides by the laws and regulations of the State and relevant regulatory authorities regarding environment and relevant policies, and continues to pay attention to and support the sustainable development of the environment and ecology. The Group advocates the concept of low-carbon environmental protection and green operation. Through the renewal of energy-saving and environmentally friendly office equipment, the use of water-saving flushing devices, the implementation of online video conferencing and conference calls and other paperless working approaches, the Group saves energy and resources and contributes positive efforts to environment protection and support of sustainable development.

Future Development/Forward-looking

Please refer to the “Development Strategy” and “Business Plan for 2017” section of this annual report for the Company’s future development.

By order of the Board
WANG Changqing
Chairman

Beijing, the PRC, 20 April 2017

SECTION 7 OTHER SIGNIFICANT EVENTS

Appointment or Termination of Accounting Firms

Items	Content
Name of the PRC accounting firm	PricewaterhouseCoopers Zhong Tian LLP
Remuneration for the PRC accounting firm	RMB860,000
Term of service of the PRC accounting firm	Two years
Name of the overseas accounting firm	PricewaterhouseCoopers
Remuneration for the overseas accounting firm	RMB690,000
Term of service of the overseas accounting firm	Two years

Note: The above is the audit fee of the Company, which does not include the audit fees for subsidiaries of the Company.

Explanation of Appointment or Termination of Accounting Firms

Since 2007, Shareholders of the Company have engaged Ernst & Young Hua Ming LLP, formerly known as Ernst & Young Hua Ming Certified Public Accountants, as the auditor of the annual financial report of the Company.

Pursuant to the Measures for Administration of Accounting Firm Selection by Financial Enterprises through Bidding (for trial implementation) issued by the Ministry of Finance, there is a limitation on the number of years that a financial institution can continue to engage the same accounting firm (including relevant members of such accounting firm), and the Company was required to change its accounting firms from 2015.

At the 2015 fifth extraordinary general meeting, it was approved that PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers be appointed as the external auditors of the Company for the year 2015 to provide relevant audit services for the Company and primary controlled subsidiaries under the China Accounting Standards for Business Enterprises and International Financial Reporting Standards.

At the 2017 first extraordinary general meeting, it was considered and approved that PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers be re-appointed as the external auditors of the Company for 2016. They shall be responsible for the provision of the relevant audit services in accordance with the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards, respectively.

The member of the PricewaterhouseCoopers global network in Hong Kong is PricewaterhouseCoopers which provides the relevant audit services to the Company in accordance with International Financial Reporting Standards.

SECTION 7 OTHER SIGNIFICANT EVENTS (Continued)

Material Litigation and Arbitration

During the Reporting Period, material litigation and arbitration cases of the Company and its branches were as follows:

- (I) From the listing date to 31 December 2016, the Company did not have additional material litigation and arbitration.
- (II) Others
 - 1. On 22 August 2016, the NEEQ issued the “Decision on the Issuance of Warning Letter against CSC Financial Co., Ltd. and Imposition of Corrective Measures” (Gu Zhuan Xi Tong Fa [2016] No. 233). The reasons were that the Company made an improper decision during the determination of investor suitability by wrongly judging the market value of client-held assets at the time such client was given the access to the NEEQ system at counters and had opened accounts for 3,328 clients that were not eligible to trade on the NEEQ, which caused the failure in reporting such ineligible accounts and investors’ transactions conducted beyond permitted authority for the Xi’ning securities branch of the Company. To resolve the issue of investor suitability, the Company had rectified such ineligible accounts and submitted a written rectification report. Meanwhile, the Company further enhanced its management system of investor suitability and streamlined the workflow thereof, and upgraded its post-checking and monitoring mechanism and implemented internal disciplinary actions against the accountable personnel, which had increased awareness of compliance and the management level of investor suitability among all employees.
 - 2. On 10 October 2016, The People’s Bank of China Luzhou Branch issued to the Luzhou Branch of the Company, the Decision of Administrative Punishment by The People’s Bank of China Luzhou City Center Branch (Lu Yin) Fa Zi [2016] No.4, which stated the failure of Luzhou Securities Branch in recognition of the identity of clients as required by the “Administrative Measures on Client Identity Identification and Storage of client Identity Information and Transaction Record of Financial Institutions” and violation against the requirements of four aspects, namely, the initial recognition of identity of clients, continuous identification, re-identification and rating of risks on money laundering of clients. On 7 November 2016, Luzhou Securities Branch reported to the PBOC Luzhou Branch the “Rectification Report on Anti-money Laundering” and summarized and reported the rectification measures and relevant steps as well as the working plan on anti-money laundering in terms of anti-money laundering organizations, establishment of internal control system, identification of client’s identity, and risk management of money laundering by clients, etc. On 8 November 2016, the PBOC Luzhou Branch issued the “Feedback on the Rectification Status on Inspection of Anti-money Laundering Conducted by Luzhou Yinghui Road Securities Branch of CSC Financial Co., Ltd.” to Luzhou Securities Branch, stating its opinion that the Company’s securities branch in Luzhou has placed high importance on the process of inspection and rectification, paid great efforts in formulating rectification measures, brought such rectification measures into practice and addressed all rectification requirements raised.

SECTION 7 OTHER SIGNIFICANT EVENTS (Continued)

3. On 14 November 2016, the NEEQ issued the Decision on Self-Regulatory Measures on CSC Financial Co., Ltd. (Gu Zhuan Xi Tong Fa [2016] No.360). As the chief agency broker and the independent financial advisor of Sanmenxia Suda Traffic Energy-saving Technology Co., Ltd. (三門峽速達交通節能科技股份有限公司) (“Suda Technology”) in relation to material asset restructuring, the Company failed to identify the misjudgment of Suda Technology on reorganization before the preliminary review and approval process of information disclosure, and also failed to supervise the Company in the standardization and performance of relevant procedures under the circumstance that it was informed that the transaction conducted by the Company constituted a material asset reorganization. In view of the project of Suda Technology, the Company had submitted the written undertaking and rectification report on time and offered training to Suda Technology which required Suda Technology to commence reorganization and information disclosure pursuant to the requirements of laws and regulations. The Company clearly stated the regular communication mechanism for the person in charge of the project, the person in charge of internal audit, ongoing supervision and guidance specialist and the reorganized enterprise. The Company has formulated more detailed “Guidelines on M&A and Reorganization on NEEQ”, conducted specialized inspection for all types of reorganization and provided special training to relevant staff.

4. On 13 December 2016, the NEEQ issued the Decision on Self-Regulatory Measures on CSC Financial Co., Ltd. (Gu Zhuan Xi Tong Fa [2016] No.388). The Company, as the chief agency broker recommended by Zhuhai Yisijia Technology Co., Ltd. (“Zhuhai Yisijia”) (珠海伊斯佳科技股份有限公司) for listing, failed to disclose the dividend distribution of Zhuhai Yisijia in the sections of corporate governance and financial information in the public transfer prospectus and had not fully checked the completeness of same. In light of the Yisijia project, the Company submitted written undertakings, reinforced the communication with and control over the listed enterprise, streamlined relevant standards for due diligence conducted on NEEQ and further optimized system requirements. Besides, the Company reinforced the training of project contractors, enhanced the internal control of businesses conducted through NEEQ, and performed compliance accountability of the relevant accountable persons.

During the Reporting Period and up to the date of this annual report, the Company had complied with the laws and regulations and regulatory requirements of the places where the Company operates in all material respects. From the listing date of the Company (i.e. 9 December 2016) and up to the date of this annual report, none of the Company and the Directors, Supervisors and Senior Management of the Company were subject to any investigation initiated or administrative penalties imposed by the CSRC, banned from entering the market, identified as inappropriate candidates, publicly criticized by stock exchanges, subjected to mandatory measures, transferred to judicial authorities or held criminally responsible.

SECTION 7 OTHER SIGNIFICANT EVENTS (Continued)

Material Contracts and Execution

During the Reporting Period, the Group did not have significant custody, contracting or lease arrangements, nor were there such arrangements carried forward to the Reporting Period from the previous period.

Related Party Transaction/Connected Transaction

The Group conducts connected transactions in strict compliance with the Listing Rules, and “Policy on Management of Connected Transactions of CSC Financial Co., Ltd.” (中信建投証券股份有限公司關連交易管理制度). The Group’s connected transactions were conducted based on the principles of openness and fairness, and the connected transaction agreements were entered into based on the principles of equality, voluntariness, fairness and compensation.

During the Reporting Period, the Company was in compliance with the requirements of connected transactions set out in Chapter 14A under the Hong Kong Listing Rules. During the Reporting Period, the Company did not have any connected transaction which would be required to be disclosed under such rules. Details on related party transactions under the relevant accounting standards can be found in Note 51 in the appended consolidated financial statements. Pursuant to Rule Chapter 14A.10 of the Hong Kong Listing Rules, Hong Kong Stock Exchange will not normally treat a PRC government bodies as a connected person. As such, the transactions between the Group and BSCOMC or Central Huijin and its associates do not constitute connected transactions.

Material Acquisitions and Disposal During the Reporting Period

During the Reporting Period, the Group did not have any material acquisitions, disposals, swaps or asset reorganizations of subsidiaries, associates, joint operations or joint ventures.

Rating Classification of the Company by Securities Regulators

In 2016, under the classification base on securities firms by the CSRC, the Company was rated “Class A Grade AA” for seven consecutive years. The Company is one of only three PRC securities firms in the industry which received such a rating for seven consecutive years during 2010 and 2016 with such a rating being the highest rank granted by the CSRC. In addition, the CSRC upgraded the ranking of China Securities Futures, the Company’s wholly-owned subsidiary, from “Class A Grade A” in 2015 to “Class A Grade AA” under the classification base on futures firms announced in 2016, which is the highest rank granted by the CSRC. The Company is one of the only ten futures firms which received such rating in 2016.

SECTION 7 OTHER SIGNIFICANT EVENTS (Continued)

Other Significant Events and Subsequent Events

Partial Exercise of the Over-allotment Option

On 30 December 2016, the over-allotment option described in the prospectus of the Company's H Share global offering was partially exercised by the joint representatives, on behalf of the international underwriters, in respect of an aggregate of 73,411,000 H Shares (including 69,915,238 H Shares newly issued by the Company and 3,495,762 H Shares converted from Domestic Shares and offered for sale by the selling Shareholders). Listing of and dealings in such over-allotment Shares commenced on the Main Board of the Hong Kong Stock Exchange on 5 January 2017.

After the partial exercise of the over-allotment option, the total Shares of the Company were 7,246,385,238. The additional net proceeds of approximately HK\$464.2 million received by the Company from the issue, allotment and sale of the over-allotment Shares will be used by the Company for the purposes as set out in the Prospectus.

The Issuance of Corporate Bonds

In January 2017, the Company has non-publicly issued a short-term corporate bond with a nominal value of RMB3,000 million ("17 Xintou D1"), with a term of 183 days. The bond shall bear interest at a fixed coupon rate of 4.00%. The bond will be redeemed in full as it falls due at the end of the term. The bond is non-guaranteed.

In February 2017, the Company has non-publicly issued a short-term corporate bond with a nominal value of RMB3,000 million ("17 Xintou D2"), with a term of 179 days. The bond shall bear interest at a fixed coupon rate of 4.53%. The bond will be redeemed in full as it falls due at the end of the term. The bond is non-guaranteed.

In March 2017, the Company has non-publicly issued a short-term corporate bond with a nominal value of RMB3,000 million ("17 Xintou D3"), with a term of one year. The bond shall bear interest at a fixed coupon rate of 4.80%. The bond will be redeemed in full as it falls due at the end of the term. The bond is non-guaranteed.

Legal Proceedings

Reference is made to the Dispute with YU Xiaofeng over Margin Financing and Securities Lending Business disclosed in the "Business – Legal Proceedings" section of the Company's prospectus in relation to H Share global offering. On 9 February 2017, Ms. YU Xiaofeng indicated to the Third Intermediate People's Court of Beijing (the "Court of Second Instance") that she would follow the judgment made by the People's Court of Chaoyang District of Beijing (the "Court of First Instance"), and apply for withdrawal of the appeal. On the same day, the Court of Second Instance issued a civil ruling with the consent on the withdrawal of appeal of Ms. YU Xiaofeng. The judgment of the Court of First Instance in relation to dismissal of Ms. Yu's claims came into effect.

SECTION 7 OTHER SIGNIFICANT EVENTS (Continued)

Change in Directors

On 17 March 2017, Mr. QIU Jianyang has resigned from his position as a non-executive Director, a member of the Development Strategy Committee and a member of the Risk Management Committee of the Company due to personal work arrangements. On the same date, Mr. XU Gang was nominated by the Board as a candidate for a non-executive director of the Company. Mr. Xu will officially assume the office from the date on which the proposal on his appointment is considered and approved at the general meeting of the Company and his directorship qualification is approved by China securities regulatory institutions, his term of office shall end on the date on which the term of the first session of the Board expires.

For details, please refer to the announcement published by the Company on 17 March 2017.

SECTION 8 CHANGES IN SHARES AND INFORMATION ON SUBSTANTIAL SHAREHOLDERS

As of 31 December 2016, the Share capital structure of the Company is as follows:

Name of Shareholders	Type of Shares	Number of Shares	Percentage in the total number of Shares
BSCOMC	Domestic Shares	2,688,010,412	37.46%
Central Huijin	Domestic Shares	2,389,342,588	33.29%
HKSCC Nominees Limited (<i>note</i>)	H Shares		
Glasslake Holdings (<i>note</i>)		351,647,000	4.90%
CSRF (<i>note</i>)		112,740,500	1.57%
Other holders of H Shares held under the name of HKSCC Nominee Limited		719,345,000	10.02%
CITIC Securities	Domestic Shares	427,000,000	5.95%
Shannan Jinyuan	Domestic Shares	300,000,000	4.18%
Shanghai Shangyan	Domestic Shares	150,624,815	2.10%
Century Jinyuan	Domestic Shares	37,375,185	0.52%
Other public holders of H Shares	H Shares	384,500	0.01%
 Total		 7,176,470,000	 100.00%

Note: As of 31 December 2016, the Company noted from the Shareholders' interests disclosed on the Hong Kong Stock Exchange that Glasslake Holdings held 351,647,000 H Shares of the Company, representing 4.90% of the total Share capital of the Company and CSRF held 112,740,500 H Shares of the Company, representing 1.57% of the total Share capital of the Company. The total number of H Shares of the Company held by HKSCC Nominees Limited acting as the nominee for all institutional and individual investors that maintain an account with it was 1,183,732,500 H Shares as of 31 December 2016. Save for 351,647,000 Shares and 112,740,500 H Shares of the Company held by Glasslake Holdings and CSRF respectively, to the knowledge of the Company, all of which were under the name of HKSCC Nominees Limited, the number of remaining H Shares of the Company held under the name of HKSCC Nominees Limited was 719,345,000 H Shares.

SECTION 8 CHANGES IN SHARES AND INFORMATION ON SUBSTANTIAL SHAREHOLDERS (Continued)

As of 5 January 2017, the Share capital structure of the Company is as follows:

Name of Shareholders	Type of Shares	Number of Shares	Percentage in the total number of Shares
BSCOMC	Domestic Shares	2,684,309,017	37.04%
Central Huijin	Domestic Shares	2,386,052,459	32.93%
HKSCC Nominees Limited (<i>note</i>)	H Shares		
Glasslake Holdings (<i>note</i>)		351,647,000	4.85%
CSRF (<i>note</i>)		112,740,500	1.56%
Other holders of H Shares held under the name of HKSCC Nominee Limited		796,251,762	10.99%
CITIC Securities	Domestic Shares	427,000,000	5.89%
Shannan Jinyuan	Domestic Shares	300,000,000	4.14%
Shanghai Shangyan	Domestic Shares	150,624,815	2.08%
Century Jinyuan	Domestic Shares	37,375,185	0.52%
Other public holders of H Shares	H Shares	384,500	0.01%
Total		<u>7,246,385,238</u>	<u>100.00%</u>

Note: On 5 January 2017, the H Shares issued by the Company upon the partial exercise of the over-allotment options of the Company commenced to list and trade on the Main Board of the Hong Kong Stock Exchange. As of 5 January 2017, the Company noted from the Shareholders' interests disclosed on the Hong Kong Stock Exchange that Glasslake Holdings held 351,647,000 H Shares of the Company, representing 4.85% of the total Share capital of the Company and CSRF held 112,740,500 H Shares of the Company, representing 1.56% of the total Share capital of the Company. The total number of H Shares of the Company held by HKSCC Nominees Limited acting as the nominee for all institutional and individual investors that maintain an account with it was 1,260,639,262 H Shares as of the aforesaid date. Save for the 351,647,000 H Shares and 112,740,500 H Shares of the Company held by Glasslake Holdings and CSRF respectively, to the knowledge of the Company, all of which were under the name of HKSCC Nominees Limited, the number of remaining H Shares of the Company held under the name of HKSCC Nominees Limited was 796,251,762 H Shares.

SECTION 8 CHANGES IN SHARES AND INFORMATION ON SUBSTANTIAL SHAREHOLDERS (Continued)

Description of Changes in Shares

On 23 November 2016, the 2016 fifth extraordinary general meeting considered and approved the Resolution on the Public Issuance of H Shares by the Company and Listing on the Hong Kong Stock Exchange. Upon approval by the CSRC and the Hong Kong Stock Exchange, the Company completed the issuance of 1,076,470,000 H Shares on 9 December 2016, and such Shares were listed on the Hong Kong Stock Exchange on the same date. Upon completion of the issuance, the total number of the Shares of the Company increased from 6,100,000,000 Shares to 7,176,470,000 Shares, among which the number of Domestic Shares decreased from 6,100,000,000 Shares to 5,992,353,000 Shares due to the decrease in Shareholding and transfer of state-owned Shares. The number of H Shares consists of newly issued Shares and H Shares converted from Domestic Shares, amounting to 1,184,117,000 Shares in total.

On 30 December 2016, the over-allotment option described in the prospectus of the Company's H Share global offering was partially exercised by the joint representatives, on behalf of the international underwriters, in respect of an aggregate of 73,411,000 H Shares. Listing of and dealings in such over-allotment Shares commenced on the Main Board of the Hong Kong Stock Exchange on 5 January 2017. After the partial exercise of the over-allotment option, the total Shares of the Company amounted to 7,246,385,238.

Shareholders

As of 31 December 2016, the total number of Shareholders as shown on the register of members of the Company was 114 Shareholders, six of which were Domestic Shareholders and 108 were H Share registered Shareholders. The H Share registered Shareholders include HKSCC Nominees Limited, which held H Shares of the Company as the nominee for all institutional and individual investors that maintain an account with it as of 31 December 2016.

Information on Substantial Shareholders of the Company

As of 31 December 2016, BSCOMC, the largest Shareholder of the Company, and Central Huijin, the second largest Shareholder of the Company, held 37.46% and 33.29% of the Shares of the Company, respectively.

As of the date of this annual report, BSCOMC and Central Huijin held 37.04% and 32.93% of the Shares of the Company, respectively.

SECTION 8 CHANGES IN SHARES AND INFORMATION ON SUBSTANTIAL SHAREHOLDERS (Continued)

BSCOMC is a wholly people-owned enterprise approved by Beijing Municipal Government and established with its entire capital contributed by Beijing State-owned Assets Supervision and Administration Commission. It was incorporated on 30 December 2008 with a registered capital of RMB35 billion. BSCOMC is an investment and financing entity focusing on the operation of state-owned capital and the management of state-owned equities with the objective of achieving the securitization of state-owned capital and maximizing its value. BSCOMC primarily acts as the industry investment entity for achieving the strategic goals of Beijing Municipality Committee and Beijing Municipal Government, the financing entity for capital operation in a market-oriented manner, the industry consolidation entity for promoting the reform and reorganization of state-owned enterprises and realizing an orderly advance and retreat of state-owned capital, the venture investment entity for promoting pioneering industry development and technological innovation of enterprises, the equity management entity holding the equity of enterprises which are listed as a whole or whose main businesses are listed, and the service entity for debt restructuring of enterprises and solving the historical problems. BSCOMC constitutes a PRC Government Body under the Listing Rules.

Central Huijin, is a state-owned investment company established in accordance with the PRC Company Law. Central Huijin, which is headquartered in Beijing, was established in December 2003 and mandated to exercise the rights and the obligations as an investor in major state-owned financial enterprises, on behalf of the PRC Government. In September 2007, the Ministry of Finance issued special treasury bonds and acquired all the Shares of Central Huijin from the PBOC. The acquired Shares were injected into China Investment Corporation (“CIC”) as part of its initial capital contribution. However, Central Huijin’s principal Shareholder rights are exercised by the State Council. The members of the Board of Directors and Supervisory Committee of Central Huijin are appointed by, and are accountable to, the State Council. In accordance with authorization by the State Council, Central Huijin makes equity investments in major state-owned financial enterprises, and shall, to the extent of its capital contribution, exercise the rights and perform the obligations as an investor on behalf of the PRC Government in accordance with applicable laws, to achieve the goal of preserving and enhancing the value of state-owned financial assets. Central Huijin does not conduct any other business or commercial activities. In view of the fact that Central Huijin was established by the PRC Government as a state-owned investment company engaging in investments in the financial industry, its other affiliated enterprises are also engaged in or participate in securities business. Such business activities are all carried out under the principle of fair market competition, and Central Huijin does not intervene in the day-to-day business operations of the enterprises in which it invests.

SECTION 8 CHANGES IN SHARES AND INFORMATION ON SUBSTANTIAL SHAREHOLDERS (Continued)

Disclosure of Interests

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company

To the knowledge of the Directors, as of 31 December 2016, the following Shareholders (except Directors, Supervisors and senior management) had interests or short positions in any Shares and underlying Shares of the Company required to be recorded in the register to be kept by the Company under Section 336 of the SFO:

Name	Capacity	Number of Shares Directly or Indirectly Held	Class of Shares	Nature of Interest	Approximate Percentage of Shareholding in the Total Issued Ordinary Share Capital ⁽¹⁾	Approximate Percentage of Shareholding in the Relevant Class of Shares
1. BSCOMC	Beneficial owner	2,688,010,412	Domestic Shares	Long positions	37.46%	44.86%
2. Central Huijin	Beneficial owner	2,389,342,588	Domestic Shares	Long positions	33.29%	39.87%
3. CITIC Securities (Note 1)	Beneficial owner	427,000,000	Domestic Shares	Long positions	5.95%	7.13%
	Interest of Controlled Corporation	150,624,815	Domestic Shares	Long positions	2.10%	2.51%
		577,624,815	Domestic Shares	Long positions	8.05%	9.64%
4. Shannan Jinyuan (Note 2)	Beneficial owner	300,000,000	Domestic Shares	Long positions	4.18%	5.01%
5. Xizang Jingyuan Investment Management Limited (Note 2)	Interest of Controlled Corporation	300,000,000	Domestic Shares	Long positions	4.18%	5.01%
6. HUANG Tao (Note 2)	Interest of Controlled Corporation	300,000,000	Domestic Shares	Long positions	4.18%	5.01%

SECTION 8 CHANGES IN SHARES AND INFORMATION ON SUBSTANTIAL SHAREHOLDERS (Continued)

Name	Capacity	Number of Shares Directly or Indirectly Held	Class of Shares	Nature of Interest	Approximate Percentage of Shareholding in the Total Issued Ordinary Share Capital ⁽¹⁾	Approximate Percentage of Shareholding in the Relevant Class of Shares
7. HUANG Shiyong (Note 2)	Interest of Controlled Corporation	300,000,000	Domestic Shares	Long positions	4.18%	5.01%
8. Glasslake Holdings (Note 3)	Beneficial owner	351,647,000	H Shares	Long positions	4.90%	29.70%
9. Affluent East Investments Limited (Note 3)	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.90%	29.70%
10. CITIC Limited (Note 3)	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.90%	29.70%
11. CITIC Group (Note 3)	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.90%	29.70%
12. CSRF (Note 4)	Beneficial owner	112,740,500	H Shares	Long positions	1.57%	9.52%
13. Jianxin (Beijing) Investment Fund Management Co., Ltd. (Note 4)	Interest of Controlled Corporation	112,740,500	H Shares	Long positions	1.57%	9.52%
14. China Securities (International) Corporate Finance Co., Ltd. (Note 5)	Interest jointly held with another person	169,543,500	H Shares	Long positions	2.36%	14.32%
		169,543,500	H Shares	Short positions	2.36%	14.32%
15. China Securities International (Note 5)	Interest of Controlled Corporation	169,543,500	H Shares	Long positions	2.36%	14.32%
		169,543,500	H Shares	Short positions	2.36%	14.32%
16. CSC (Note 5)	Interest of Controlled Corporation	169,543,500	H Shares	Long positions	2.36%	14.32%
		169,543,500	H Shares	Short positions	2.36%	14.32%
17. BSCOMC (Note 5)	Interest of Controlled Corporation	169,543,500	H Shares	Long positions	2.36%	14.32%
		169,543,500	H Shares	Short positions	2.36%	14.32%
18. UBS Group AG	Person having security interest in the Shares	49,311,000	H Shares	Long positions	0.69%	4.16%
	Interest of Controlled Corporation	23,491,632	H Shares	Long positions	0.33%	1.98%
		72,802,632	H Shares	Long positions	1.02%	6.14%

SECTION 8 CHANGES IN SHARES AND INFORMATION ON SUBSTANTIAL SHAREHOLDERS (Continued)

Notes:

- (1) Shanghai Panxin Equity Investment Management Co., Ltd. (上海磐信股權投資管理有限公司) ("Panxin") is the general partner of Shanghai Shangyan. Panxin is wholly-owned by CITIC Private Equity Funds Management Co., Ltd. (中信產業投資基金管理有限公司) ("CITIC PE"), which is owned by CITIC Securities as to 35%. Therefore, each of Panxin, CITIC PE and CITIC Securities is deemed to be interested in the Domestic Shares held by Shanghai Shangyan under the SFO.
- (2) Shannan Jinyuan is a wholly-owned subsidiary of Xizhang Jingyuan Investment Management Ltd. (西藏景源投資管理有限公司), which is in turn owned by Mr. HUANG Tao and Mr. HUANG Shiyong, as to approximately 60% and 40% Shares respectively. Therefore, each of Xizhang Jingyuan Investment Management Ltd. (西藏景源投資管理有限公司), Mr. HUANG Tao and Mr. HUANG Shiyong is deemed to be interested in the Domestic Shares held by Shannan Jinyuan under the SFO.
- (3) Glasslake Holdings is a wholly-owned subsidiary of Affluent East Investments Limited (東滿投資有限公司) ("Affluent East"), which is in turn wholly-owned by CITIC Limited. CITIC Group indirectly holds a majority of equity interest in CITIC Limited. Therefore, each of Affluent East, CITIC Limited and CITIC Group is deemed to be interested in the H Shares held by Glasslake Holdings under the SFO.
- (4) CSRF is held as to 38.2% by CCB (Beijing) Principal Asset Management Co., Ltd. (建信(北京)投資基金管理有限責任公司) ("CCB"), which is in turn held as to 38.2% by China Investment Corporation (中國投資有限責任公司) ("CIC"). Therefore, each of CCB and CIC is deemed to be interested in the H Shares held by CSRF under the SFO.
- (5) China Securities (International) Corporate Finance Company Limited was the stabilizing manager in the global offering of the Company's H Shares. China Securities International held 100% equity interests in China Securities (International) Corporate Finance Company Limited. CSC Financial Co., Ltd. held 100% of equity interests of China Securities International. BSCOMC held 37.46% of the equity of CSC Financial Co., Ltd. Therefore, BSCOMC, CSC Financial Co., Ltd. and China Securities International are deemed to be interested in H Shares of China Securities (International) Corporate Finance Company Limited under the SFO.

Save as disclosed above, as of 31 December 2016, to the knowledge of the Directors, no other person (except Directors, Supervisors and senior management) had interests or short positions in the Shares and underlying Shares of the Company required to be recorded in the register to be kept by the Company under Section 336 of the SFO.

Apart from the positions of Directors, Supervisors and senior management as disclosed in the biographical details, as of 31 December 2016, Directors did not hold any positions as directors or employees in companies which had interests or short positions in the Company that needed to be notified to the Company under division 2 and 3 of Part XV of the SFO.

SECTION 8 CHANGES IN SHARES AND INFORMATION ON SUBSTANTIAL SHAREHOLDERS (Continued)

Issuance of Shares or Changes in Registered Capital of the Company or its Subsidiaries

During the Reporting Period, apart from 1,076,470,000 H Shares publicly issued by the Company, the Company has not issued any additional Shares. The increases in registered capital of the subsidiaries is as follows:

1. China Securities Futures transferred RMB310 million undistributed profit as of the end of 2015 to registered capital. The registered capital of China Securities Futures amounted to RMB700 million upon completion of the capital increase.
2. The Company contributed RMB82.50 million to China Securities Funds and jointly contributed RMB150 million with other minority Shareholders. The register capital of China Securities Funds increased to RMB300 million upon completion of the capital contribution.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES

Basic Information on the Directors, Supervisors and Senior Management

Name	Position	Gender	Age	Appointment Date	Total remuneration before tax received from the Company during the Reporting Period (RMB ten thousand)
WANG Changqing	Chairman of the Board and Executive Director	Male	53	February 2007	325.73
YU Zhongfu	Vice Chairman of the Board and Non-executive Director	Male	46	March 2011	0
HU Donghui	Vice Chairman of the Board and Non-executive Director	Female	53	August 2016	0
QI Liang	Executive Director, General Manager	Male	47	March 2012	411.81
WANG Chenyang	Non-executive Director	Male	47	April 2015	0
WANG Shouye	Non-executive Director	Male	46	August 2016	0
LIU Dingping	Non-executive Director	Male	54	March 2011	0
WANG Shumin	Non-executive Director	Female	61	March 2011	0
FENG Genfu	Independent Non-executive Director	Male	59	April 2015	12.00
ZHU Shengqin	Independent Non-executive Director	Female	40	April 2015	12.00
DAI Deming	Independent Non-executive Director	Male	54	August 2016	3.00
BAI Jianjun	Independent Non-executive Director	Male	61	August 2016	3.00
LIU Qiao	Independent Non-executive Director	Male	46	August 2016	3.00
LI Shihua	Chairman of the Supervisory Committee	Male	57	April 2014	441.69
WANG Jing	Supervisor	Female	46	August 2016	0
AI Bo	Supervisor	Female	46	August 2016	0
LIU Hui	Supervisor	Male	44	March 2011	0
LU Ya	Employee representative Supervisor	Female	51	March 2011	428.81

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Name	Position	Gender	Age	Appointment Date	Total remuneration before tax received from the Company during the Reporting Period (RMB ten thousand)
WU Lili	Employee representative Supervisor	Male	46	March 2011	124.53
ZHOU Zhigang	Member of the Executive Committee, Chief Compliance Officer and Chief Risk Officer	Male	52	November 2005	454.88
YUAN Jianmin	Member of the Executive Committee	Male	55	November 2005	464.38
JIANG Yueqin	Member of the Executive Committee	Male	50	May 2009	450.05
ZHOU Xiaoyu	Member of the Executive Committee	Male	52	January 2016	502.69
PENG Heng	Member of the Executive Committee and Chief Financial Officer	Male	44	January 2009	561.69
LI Tiesheng	Member of the Executive Committee	Male	45	June 2013	349.42
WANG Guangxue	Member of the Executive Committee and Secretary of the Board	Male	44	January 2014	585.12
ZHANG Xinfan	Member of the Executive Committee	Male	48	January 2014	546.60
LIU Naisheng	Member of the Executive Committee	Male	45	January 2014	663.69
HUANG Ling	Member of the Executive Committee	Male	40	January 2014	611.69
HU Bin	Member of the Executive Committee	Male	35	January 2016	577.12
YIN Rongyan	Former Vice Chairman of the Board and Non-executive Director	Male	51	March 2011	0
LI Huaqiang	Former Vice Chairman of the Board and Non-executive Director	Male	58	November 2012	0
QIU Jianyang	Former Non-executive Director	Male	54	March 2011	0
GUO Li	Former Independent Non-executive Director	Male	41	April 2015	7
SONG Chang	Former Independent Non-executive Director	Male	51	April 2015	7

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Name	Position	Gender	Age	Appointment Date	Total remuneration before tax received from the Company during the Reporting Period (RMB ten thousand)
FAN Yong	Former Supervisor	Male	55	March 2011	0
Song Yongyi	Former Member of the Executive Committee	Male	49	March 2012	532.56
Zou Yingguang	Former Member of the Executive Committee	Male	46	January 2014	623.69

Note 1: Unless otherwise stated, the dates of appointment of Directors, Supervisors and senior management of the Company so disclosed are dates of appointment by the relevant corporate governance bodies of the Company, which are subject to the fulfillment of the qualification requirements under the relevant PRC laws and regulations for the respective positions by the Directors, Supervisors and senior management.

Note 2: During the Reporting Period, total deferred remuneration before tax to the following individuals for 2011, 2012 and 2013 was set out as follows: RMB6.12 million to WANG Changqing; RMB2.79 million to LI Shihua; RMB2.816 million to ZHOU Zhigang; RMB2.816 million to YUAN Jianmin; RMB2.816 million to JIANG Yueqin; RMB2.764 million to PENG Heng; RMB2.712 million to ZHOU Xiaoyu; and RMB2.79 million to Song Yongyi. During the Reporting Period, total deferred remuneration before tax to the following individual for 2012 and 2013 was set out as follows: RMB3.52 million to Qi Liang. During the Reporting Period, total deferred remuneration to the following individuals for 2011 and 2012 was set out as follows: RMB2.20 million to WANG Guangxue; RMB2.20 million to ZHANG Xinfan; RMB2.20 million to LIU Naisheng; RMB3.00 million to HUANG Ling; and RMB2.00 million to Zou Yingguang. During the Reporting Period, total deferred remuneration before tax to the following individual for 2012 was set out as follows: RMB0.90 million to Lu Ya.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Changes in Directors, Supervisors and Senior Management

Save for the following changes, there has been no change in Directors, Supervisors and Senior Management of the Company during the Reporting Period.

Name	Position	Change
YIN Rongyan	Vice Chairman of the Board and Non-executive Director	Ceased to serve as a Director of the Company and perform related duties as a Director in August 2016
LI Huaqiang	Vice Chairman of the Board and Non-executive Director	Ceased to serve as a Director of the Company and perform related duties as a Director in August 2016
GUO Li	Independent non-executive Director	Ceased to serve as a Director of the Company and perform related duties as a Director in July 2016
SONG Chang	Independent non-executive Director	Ceased to serve as a Director of the Company and perform related duties as a Director in July 2016
YU Zhongfu	Vice Chairman of the Board	Appointed by the Board in August 2016
HU Donghui	Non-executive Director and Vice Chairman of the Board	Appointed by the general meeting and the Board in August 2016
WANG Shouye	Non-executive Director	Appointed by the general meeting in August 2016
DAI Deming	Independent Non-executive Director	Appointed by the general meeting in August 2016
BAI Jianjun	Independent Non-executive Director	Appointed by the general meeting in August 2016
LIU Qiao	Independent Non-executive Director	Appointed by the general meeting in August 2016
WANG Shouye	Supervisor	Ceased to serve as a Supervisor of the Company in August 2016
Fan Yong	Supervisor	Ceased to serve as a Supervisor of the Company in August 2016
WANG Jing	Supervisor	Appointed by the general meeting in August 2016
AI Bo	Supervisor	Appointed by the general meeting in August 2016
SONG Yongyi	Member of the Executive Committee	Ceased to act as a member of the Executive Committee of the Company in January 2016
ZHOU Xiaoyu	Member of the Executive Committee	Appointed by the Board in January 2016
HU Bin	Member of the Executive Committee	Appointed by the Board in January 2016
ZHOU Zhigang	Chief Compliance Officer Chief Risk Officer	Appointed by the Board in April 2016 Appointed by the Board in April 2016

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Positions Held by Directors and Supervisors in the Shareholders

Name	Shareholder	Major Position	Appointment Date	Termination Date of Term of Office
YU Zhongfu	BSCOMC	Deputy General Manager	May 2009	Until expiry
HU Donghui	Central Huijin	Deputy Director of the Securities Institution Management Department/the Insurance Institution Management Department	February 2012 and July 2014	Until expiry
WANG Chenyang	BSCOMC	Deputy General Manager	November 2014	Until expiry
WANG Shouye	BSCOMC	Chief Financial Officer	June 2010	Until expiry
LIU Dingping	Central Huijin	Designated Director	November 2010	Until expiry
WANG Shumin	Central Huijin	Designated Director	September 2004	Until expiry
QIU Jianyang	Century Jinyuan	General Manager of the Investment Department	November 2007	Until expiry
WANG Jing	BSCOMC	Deputy General Manager	January 2014	Until expiry
AI Bo	China Investment Corporation ^{Note}	Senior Manager of the Department of Discipline Inspection and Supervision	February 2012	Until expiry
LIU Hui	Central Huijin	Senior Manager of the Management Department I of the Banking Institution	November 2011	Until expiry

Note: Central Huijin is a wholly-owned subsidiary of China Investment Corporation.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Positions by Directors and Supervisors in Other Entities

Name	Entity	Major Position	Appointment Date	Termination Date of Term of Office
FENG Genfu	Xi'an Jiaotong University	Professor and Doctoral Supervisor	May 2000	Until expiry
ZHU Shengqin	China Huiyuan Juice Group Limited	Executive Director	August 2014	Until expiry
DAI Deming	Renmin University of China	Professor and Doctoral Supervisor	July 1996 and January 1997	Until expiry
BAI Jianjun	Peking University	Professor and Doctoral Supervisor	July 1987	Until expiry
LIU Qiao	Peking University	Dean and Professor	December 2010	Until expiry

Major Work Experience of Directors, Supervisors and Senior Management

Directors

Mr. WANG Changqing (王常青), aged 53, is the Chairman of the Board, an Executive Director and the Chairman of the Executive Committee. Mr. Wang joined the Company in November 2005, and has been serving as an executive Director since February 2007, the Chairman of the Board and Chairman of the Executive Committee since September 2011, and the Party Committee Secretary since September 2011. Mr. Wang has been serving as a director of China Securities International since July 2012. Mr. Wang is currently the vice chairman of the investment banking committee of the SAC, the executive vice president of the Securities Association of Beijing, a member of the second session of the supervisory committee of the Shanghai Stock Exchange and a member of the strategic planning committee of the council of the Shenzhen Stock Exchange.

Mr. Wang served as the deputy plant manager of the Copper Powder Plant in Beijing Smelting Factory from August 1984 to September 1986, the deputy director of production planning department in the Beijing Non-Ferrous Metal Industry Corporation from October 1986 to November 1992; the director and deputy general manager of Beijing Kaibao Travel and Food Company from November 1992 to October 1993; the head of the equity underwriting department of the Beijing representative office of Daiwa Securities Group from October 1993 to September 1999; the general manager of the investment banking department of the Shanghai branch, the deputy general manager of the investment banking department, the administrative head and managing director of the investment banking business and vice-chairman of the corporate finance committee in CITIC Securities from October 1999 to November 2005; and the deputy general manager, general manager and member of the Executive Committee of the Company from November 2005 to September 2011.

Mr. Wang obtained a Bachelor of Engineering degree from Northeastern Institute of Technology (currently known as Northeastern University) in the PRC in July 1984 and a Master's degree in Economics from Renmin University of China in January 2002.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Mr. YU Zhongfu (于仲福), aged 46, is the Vice Chairman of the Board and a non-executive Director. Mr. Yu has been serving as a Director of the Company since March 2011, the Vice Chairman of the Board since August 2016, the deputy general manager of BSCOMC since May 2009. Mr. Yu has been serving as a director of Beijing Rural Commercial Bank Co., Ltd. since May 2010, a director of Wangfujing Group Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600859) since June 2011, and a non-executive Director of Beijing Jingneng Clean Energy Co., Limited (a company listed on the Hong Kong Stock Exchange, stock code: 00579) since December 2011.

Mr. Yu served as a staff of Shijingshan District Political Consultative Conference, staff and deputy chief of industry section of Planned Economy Committee of Shijingshan District, Beijing from July 1992 to September 1996; a senior staff, principal staff, subsequently deputy director of department of small and medium enterprises of Beijing Municipality Commission of Economy from September 1996 to July 2003; the deputy director (in charge) of the division of enterprise reform of Beijing Municipality Commission of Economy from July 2003 to November 2003; the deputy director of division of reform and development (general office), deputy director then director of division of enterprise reform of SASAC of Beijing Municipality from November 2003 to May 2009; and a director of Beiqi Foton Motor Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600166) from July 2013 to November 2015.

Mr. Yu obtained a Bachelor of Engineering degree from North China University of Technology in the PRC in July 1992. He completed a post-graduate program in finance at Central University of Finance and Economics in the PRC and obtained a certificate of completion in July 2002. He also obtained a Master of Public Administration (MPA) degree from a joint program organized by Peking University and the National Institute of Administration in the PRC in July 2011.

Ms. HU Donghui (胡冬辉), aged 53, is the Vice Chairman of the Board and a non-executive Director. Ms. Hu has been serving as a Director and the Vice Chairman of the Board of the Company since August 2016, and the deputy director and managing director of the securities institution management department and the insurance institution management department of Central Huijin since February 2012 and July 2014, respectively.

Ms. Hu served as the director of the finance department of Hunan Mechanical Construction Factory from July 1983 to April 1995; the manager of the audit department of China Huajian Audit Firm from April 1995 to April 1998; the manager of the finance department of China Huaxing Group Company from April 1998 to August 2003; the chief accountant of China Lucky Film Corporation from August 2003 to September 2009; the designated director (designated to work for People's Insurance Company Group of China) appointed by Central Huijin (non-banking department) and the deputy director of non-banking department of Central Huijin from September 2009 to February 2012.

Ms. Hu obtained a Master's degree in Accounting from Renmin University of China in January 2007, and obtained a certificate of senior accountant in December 2001.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Mr. Qi Liang (齊亮), aged 47, is an executive Director, the General Manager and a member of the Executive Committee. Mr. Qi joined our Company and has been serving as an executive Director, the General Manager and a member of the Executive Committee since March 2012, and the Deputy Secretary of the Party Committee since July 2013. Mr. Qi has been serving as the Chairman of the Board of China Securities International since January 2013 and the director of Zhongguancun Equity Exchange Services Group Limited since January 2013. Mr. Qi is also the vice chairman of the brokerage committee of the SAC, a member of the bond market committee of the NAFMII, a council member of the green finance committee of the China Society for Finance and a standing committee member of the National Financial System Youth Federation.

Mr. Qi served as a staff of the Beijing branch of Industrial and Commercial Bank of China from August 1992 to June 1993; the deputy business manager of the trading department, the assistant general manager of the Beijing Dongsu branch, the deputy general manager of the Hunan branch, the deputy general manager of the Harbin branch, the deputy general manager of the clients asset management center, the deputy general manager then the general manager of the research and development department, the director of the research institute and the assistant to president of Huaxia Securities from June 1993 to November 2005; the deputy manager of the Company from September 2005 to August 2007; and the vice president of China Galaxy Securities Co., Ltd from September 2007 to February 2012.

Mr. Qi obtained a Bachelor's degree in Economics from China Institute of Finance in June 1992, a Master's degree in Economics from the Central University of Finance and Economics in the PRC in June 1999 and an Executive Master of Business Administration ("EMBA") degree from Peking University in the PRC in April 2001.

Mr. WANG Chenyang (王晨陽), aged 47, is a non-executive Director. Mr. Wang has been serving as a Director of the Company since April 2015; the deputy general manager of BSCOMC since November 2014; a director of AVIC Aviation High-Technology Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600862) since January 2016; and a non-executive director of China Resources Pharmaceutical Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 03320) since June 2015.

Mr. Wang served as a staff member, the deputy section chief and the section chief of the component department of the Beijing Municipal Government from August 1992 to April 2000; the principal staff member and the assistant consultant for management of officials of publicity, education, and political-legal affairs of the organization department of Beijing Municipal Committee of the Party of China from April 2000 to August 2007; the division-level cadre of the general office of the Beijing Municipal Committee of the Party of China from August 2007 to November 2012; and the deputy bureau-level cadre of the general office of the Beijing Municipal Government from November 2012 to November 2014.

Mr. Wang obtained a Bachelor of Arts degree from University of International Relations in the PRC in August 1992 and a Master of Arts degree from Renmin University of China in July 2003. He has also obtained a certificate of senior political officer.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Mr. WANG Shouye (王守業), aged 46, is a non-executive Director. Mr. Wang has been serving as a Director of the Company since August 2016; and the chief financial officer of BSCOMC since June 2010.

Mr. Wang served as a staff of labor and human resources division, a staff and deputy director of financial planning division and deputy manager of labor and human resources department of the 4th Factory of Beijing Coal Corporation from July 1992 to April 2001; the director of finance and audit department of Beijing Coal Corporation from April 2001 to January 2002; the director of finance and audit department, director of finance and price department and director of finance department of Beijing Jintai Hengye Co., Ltd. from January 2002 to March 2009; the assistant to chairman (temporary post) of the Beijing Municipal State-owned Enterprises Supervisory Board from March 2009 to August 2009; the director of audit department (temporary post) of SASAC of Beijing from August 2009 to June 2010; and a supervisor of the Company from March 2011 to August 2016.

Mr. Wang graduated from the School of Continuing Education of Renmin University of China in July 1997, obtained a Master's degree in Economics from Liaoning Technical University in the PRC in June 2006, and obtained a certificate of senior accountant in January 2006 and the title of senior statistician in September 2016.

Mr. LIU Dingping (劉丁平), aged 54, is a non-executive Director. Mr. Liu has been serving as a Director of the Company since March 2011. He served as a designated director appointed by Central Huijin since November 2010.

Mr. Liu served as a cadre of Anhui provincial branch of China Construction Bank from July 1984 to February 1992; a cadre and deputy general manager of Hainan Trust Investment Company of China Construction Bank from February 1992 to July 1998; an assistant to general manager and the general manager of Shenzhen head office of Hong Yuan Trust and Investment Company Limited from July 1998 to June 2000; an executive director and the general manager of Hong Yuan Securities Company Limited from June 2000 to January 2005; and the deputy general manager of the securities department of China Cinda Asset Management Corporation and the head of clearance division of Han Tang Securities Co., Ltd. respectively from January 2005 to June 2007.

Mr. Liu obtained a Bachelor's degree in Economics from the School of Infrastructure and Economics of the Liaoning Institute of Finance and Economics in the PRC in July 1984, a Master of Business Administration ("MBA") degree from the School of Economics and Management in Tsinghua University in the PRC in July 2006 and obtained a certificate of senior economist in December 1997.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Ms. WANG Shumin (王淑敏), aged 61, is a non-executive Director. Ms. Wang has been serving as a Director of the Company since March 2011. She served as a designated director appointed by Central Huijin since September 2004.

Ms. Wang served as the deputy director and director of the regulation and law department of the MOF from January 1982 to October 1991, the director and deputy department chief of the policy and law department, deputy department chief of balance of payments department and administration and inspection department of the SAFE, as well as the inspector and press secretary of the SAFE from November 1991 to September 2004; a director of China Construction Bank Corporation (a company listed on the Hong Kong Stock Exchange, stock code: 00939 and on the Shanghai Stock Exchange, stock code: 601939) from September 2004 to June 2011; a director of China Everbright Bank Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 06818 and the Shanghai Stock Exchange, stock code: 601818) from February 2012 to June 2016; and a director of China Everbright Group Ltd. from December 2014 to June 2016.

Ms. Wang obtained a Bachelor's degree in Law from Hubei School of Finance and Economics (currently known as Zhongnan University of Economics and Law) in the PRC in 1982. Ms. Wang was qualified as a PRC lawyer in January 1987 and obtained a certificate of senior economist in June 1993. Ms. Wang is currently an arbitrator of China International Economic and Trade Arbitration Commission.

Mr. QIU Jianyang (邱劍陽), aged 54, former non-executive Director. Mr. Qiu has been serving as a Director of the Company from March 2011 to March 2017; the general manager of the investment department of Century Jinyuan since November 2007; and a non-executive Director of China Innovative Finance Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 00412) since September 2015.

Mr. Qiu worked for the planning bureau of Chinese Academy of Sciences from August 1985 to October 1991. He served as the head of the finance department of China Everbright Foreign Trade Corporation from November 1991 to December 1995; the manager of finance department of branch I of China United Network Communications Group Co., Ltd from January 1996 to April 2000; and the deputy general manager of CITIC Information Technology Investment Co., Ltd from May 2000 to October 2007.

Mr. Qiu graduated from the undergraduate school of Hunan College of Finance and Economics (currently known as Hunan University) in the PRC in July 1985, and was qualified as the Chinese Certified Public Accountant in December 2000.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Mr. FENG Genfu (馮根福), aged 59, is an independent non-executive Director. Mr. Feng has been serving as an independent Director of the Company since April 2015; a professor and doctoral supervisor of the School of Finance and Economics of Xi'an Jiaotong University since May 2000; an independent non-executive director of Datang International Power Generation Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 00991 and the Shanghai Stock Exchange, stock code: 601991) since August 2014; an independent director of Hubei Biocause Pharmaceutical Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000627) since May 2016; and an independent director of Changchai Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000570) since October 2016.

Mr. Feng served as the director and chief editor of the editorial department of university journal as well as the dean of the Business School and the doctoral supervisor of Shaanxi Institute of Finance and Economics from July 1982 to April 2000; the dean of the School of Finance and Economics of Xi'an Jiaotong University from May 2000 to February 2016; an independent director of China Kejian Corporation Limited (a company listed on the Shenzhen Stock Exchange, stock code: 000035) from May 2002 to May 2004; an independent director of Shaanxi Jinye Science Technology and Education Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000812) from April 2002 to April 2006; an independent director of Shaanxi Fenghuo Electronics Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000561) from March 2010 to June 2015; an independent director of AVIC Aircraft Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000768) from April 2008 to April 2014; an independent director of China Non-ferrous Metal Industry's Foreign Engineering and Construction Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000758) from April 2008 to May 2014; an independent director of Shaanxi Broadcast & TV Network Intermediary Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600831) from May 2008 to December 2014; an independent director of Shaanxi Aerospace Power Hi-Tech. Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600343) from March 2007 to September 2014; and an independent director of Bode Energy Equipment Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300023) from August 2015 to March 2017.

Mr. Feng obtained a Bachelor's degree in Economics from Shaanxi Institute of Finance and Economics in the PRC in July 1982, a Master's degree from Shaanxi Institute of Finance and Economics in July 1988, a Doctor's degree from Shaanxi Institute of Finance and Economics in July 1997, and has been enjoying special governmental allowance from the State Council since 1993.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Ms. ZHU Shengqin (朱聖琴), aged 40, is an independent non-executive Director. Ms. Zhu has been serving as an independent Director of the Company since April 2015; the Chairman of the Board of Beijing HuiYuan UCF Capital Holding Co., Ltd. since July 2013; an executive director of China Huiyuan Juice Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1886) since August 2014; the Chairman of the Board of Sunrise Financial Leasing Company Limited since August 2015; and the vice chairman of Beijing Huiyuan Holdings Limited since August 2016.

Ms. Zhu joined China Huiyuan Juice Group Limited in 1996. She has held various positions, including marketing manager, deputy general manager of the investment division, director of the office of the board, officer of operation teams, and a vice president of the group.

Ms. Zhu obtained an MBA degree from Cheung Kong Graduate School of Business in the PRC in September 2007 and an EMBA degree from PBC School of Finance, Tsinghua University in the PRC in January 2016.

Mr. DAI Deming (戴德明), aged 54, is an independent non-executive Director. Mr. Dai has been serving as an independent Director of the Company since August 2016; a professor and doctoral supervisor of the department of accounting of Renmin University of China since July 1996 and January 1997, respectively; an independent director of China Zheshang Bank Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 02016) since February 2015; a director of Qingdao Haier Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600690) since June 2015; an independent director of Beijing Capital Development Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600376) since September 2015; and an independent director of BOC Aviation Limited (a company listed on the Hong Kong Stock Exchange, stock code: 02588) since May 2016. He is also the vice chairman of the Accounting Society of China.

Mr. Dai served as an external supervisor of China Construction Bank Corporation (a company listed on the Hong Kong Stock Exchange, stock code: 00939, and the Shanghai Stock Exchange, stock code: 601939) from June 2007 to June 2013; and an independent director of CSR Corporation Limited (a company listed on the Shanghai Stock Exchange, stock code: 601766, and the Hong Kong Stock Exchange, stock code: 01766, which merged with China CNR Corporation Limited and subsequently renamed CRRC Corporation Limited in 2015) from December 2007 to June 2014; an independent director of Shanxi Taigang Stainless Steel Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000825) from May 2011 to October 2016; an independent director of Beijing Xinwei Telecom Technology Group Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600485) from September 2014 to August 2016; and served as an independent director of Tus – Guhan Group Corp., Ltd. (formerly known as Unisplendour Guhan Group Corporation Limited) (a company listed on the Shenzhen Stock Exchange, stock code: 000590) from May 2002 to April 2007.

Mr. Dai obtained a Bachelor's degree in Economics, majoring in Industry Finance and Accounting from Hunan College of Finance and Economics (currently known as Hunan University) in the PRC in July 1983, a Master's degree in Economics, majoring in Professional Accounting from Zhongnan University of Economics in the PRC in October 1986, and a Doctor's degree in Economics from Renmin University of China in June 1991.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Mr. BAI Jianjun (白建軍), aged 61, is an independent non-executive Director. Mr. Bai has been serving as an independent Director of the Company since August 2016; an external supervisor of China Construction Bank Corporation since June 2013, an independent director of Sichuan Xinwang Bank Co., Ltd. (四川新網銀行股份有限公司) since December 2016; Mr. Bai has been teaching in Peking University since July 1987 and serves as a professor and doctoral supervisor at the Law School, director of the Research Institute of Empirical Legal Affairs and deputy director of the Financial Law Research Center.

Mr. Bai pursued his visiting research at New York University in United States from September 1991 to October 1992 and had been a visiting professor at Niigata University in Japan from October 1996 to October 1997. He served as an independent director of Boyayingjie Science Technology Co., Ltd. (a company listed on the NEEQ, stock code: 430082) from November 2010 to February 2017.

Mr. Bai obtained a Master's degree in Law from Peking University in the PRC in July 1987 and the Juris Doctor degree from Peking University in the PRC in June 2003.

Mr. LIU Qiao (劉俏), aged 46, is an independent non-executive Director. Mr. Liu has been serving as an independent Director of the Company since August 2016; a member of the expert panel of the Shenzhen Stock Exchange since March 2006; a supervisor of the post-doctoral station of Shenzhen Stock Exchange since September 2007; the professor of finance and economics, doctoral supervisor, associate dean and director of EMBA Center at the Guanghua School of Management of Peking University since December 2010; a supervisor of the post-doctoral station of CSRC since September 2011; a supervisor of the post-doctoral station of China Minsheng Bank Corp., Ltd since September 2011; a supervisor of the post-doctoral station of China Financial Futures Exchange since September 2012; an independent director of Hexie Health Insurance Co., Ltd. since October 2014; and an independent director of ZH International Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 00185) since July 2015.

Mr. Liu served as an assistant professor at School of Economics and Finance of the University of Hong Kong from September 2000 to November 2001; a consultant of the Asia-Pacific Corporate Finance & Strategy Practice of McKinsey & Company from December 2001 to July 2003; and an assistant professor and associate professor (with tenure) at the Faculty of Business and Economics of the University of Hong Kong from August 2003 to December 2010.

Mr. Liu obtained a Bachelor of Science degree in Economics and Mathematics from Renmin University of China in July 1991, a Master's degree in International Finance and Economics from the Institute of Finance of PBOC (currently known as PBC School of Finance, Tsinghua University) in April 1994 and a Ph.D. in Economics from University of California, Los Angeles in the United States in June 2000. Mr. Liu was granted the Outstanding Youth Award of National Natural Science Foundation of China (國家自然科學基金傑出青年獎) in December 2013 and awarded the title of distinguished professor (特聘教授) of Changjiang Scholars Program by Ministry of Education in December 2014.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Supervisors

Mr. LI Shihua (李士華), aged 57, is the Chairman of the Supervisory Committee. Mr. Li joined our Company in November 2005 and has been serving as the Chairman of the Supervisory Committee since April 2014; and the Deputy Secretary of the Party Committee since June 2014. Mr. Li has been serving as the chairman of the supervisory committee of China Securities Futures since May 2011.

Mr. Li served as the deputy director and director (section level) of the business department of Hengshui branch and deputy chief of technology reform division of Hebei provincial branch of Industrial and Commercial Bank of China from December 1985 to September 1997; the director of the board office and general manager of the administration department of Huaxia Securities from September 1997 to November 2005; the general manager of the Administration Department, the administrative head of the President's Office, the member of Executive Committee, the secretary of the Board and the secretary of the Disciplinary Committee of the Company from November 2005 to April 2014.

Mr. Li graduated from the undergraduate school of Hebei Institute of Education in the PRC in June 1995 and from the post graduate school of Chinese Academy of Social Sciences in April 1998.

Ms. WANG Jing (王京), aged 46, is a Supervisor. Ms. Wang has been serving as a Supervisor of the Company since August 2016; the deputy general manager of BSCOMC since January 2014; a director of BAIC Motor Corporation Limited (a company listed on the Hong Kong Stock Exchange, stock code: 01958) since April 2014; a director of BOE Technology Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000725) since May 2014; and a non-executive director of China Resources Pharmaceutical Group Limited (a company listed on the Hong Kong Stock Exchange, stock code: 03320) since June 2016.

Ms. Wang served as a staff of the corporate securities department of Beijing Lightbus Corporation Limited from June 1992 to March 1993; an officer of the general office of Beijing Municipal Commission of Economic Restructuring from March 1993 to March 1998; an assistant to the manager and deputy manager of the financing department of the Hong Kong head office of Beijing Enterprises Holdings Limited from March 1998 to February 2003; the manager of the corporate management department in Beijing Enterprises Holdings Investment Management Co. Ltd. from February 2003 to January 2004; the deputy general manager, manager of the corporate management department and the assistant to general manager of Beijing Holdings Investment Management Center as well as the chairman of the board of directors and the general manager of Beijing Inland Port International Logistics Co., Ltd., both of which are under Beijing Holdings Limited, from January 2004 to May 2009; and the general manager of the investment management department of BSCOMC from May 2009 to January 2014.

Ms. Wang obtained a Bachelor's degree in Economics from Beijing Institute of Finance and Trade (currently known as Capital University of Economics and Business) in the PRC in July 1992. She also obtained a Master's degree in Law from Renmin University of China in July 1999, and an MBA degree from Murdoch University in Australia in March 2000. Ms. Wang obtained a certificate of senior economist in September 2005, and a certificate of corporate legal advisor in October 2008.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Ms. Ai Bo (艾波), aged 46, is a Supervisor. Ms. Ai has been serving as a Supervisor of the Company since August 2016; and the senior manager of the department of discipline inspection and supervision of China Investment Corporation February 2012.

Ms. Ai worked for the secretariat for confidential matters of the general office of the Ministry of Supervision, the general supervision office of supervision department under the Central Commission for Discipline Inspection and the second discipline inspection office under the Central Commission for Discipline Inspection from July 1991 to May 2008, and served as the deputy director of the second discipline inspection office under the Central Commission for Discipline Inspection from September 2005 to May 2008. Ms. Ai also served as the designated supervisor of Central Huijin (designated to work for New China Life Insurance Company Ltd.) from January 2010 to February 2012.

Ms. Ai obtained a Master's degree in Management from Kunming University of Science and Technology in the PRC in June 2015 and obtained a certificate of certified enterprise risk manager in June 2014.

Mr. LIU Hui (劉輝), aged 44, is a Supervisor. Mr. Liu has been serving as a Supervisor of the Company since March 2011. Mr. Liu has been working for Central Huijin since March 2007 and currently serves as the senior manager of the management department I of the banking institution.

Mr. Liu served as the senior staff of Agricultural Development Bank of China from July 1995 to September 1999; the head of the strategic research department and the head of the market research department of Beijing life insurance branch of Ping An Insurance (Group) Company of China, Ltd. from November 2001 to September 2002; and the consultant of finance and private enterprises development department of Beijing representative office of The World Bank from June 2006 to February 2007.

Mr. Liu obtained a Bachelor's degree in Economics from China Institute of Finance in July 1995, a Graduate Diploma in economics from University of Cambridge in United Kingdom in September 2000 and a Doctor's degree in Business and Management Economics from University of Cambridge in United Kingdom in March 2006.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Ms. LU Ya (陸亞), aged 51, is an employee representative Supervisor and Administrative Head of the Risk Management Department. Ms. Lu joined our Company in November 2005, and has been serving as an Administrative Head of the Risk Management Department since January 2008, an employee representative Supervisor since March 2011, and a supervisor of China Securities Capital since August 2009. Ms. Lu has been serving as a member of the financial accounting and risk control committee of the SAC since August 2011.

Ms. Lu worked in Renmin University of China from August 1988 to August 1990. Ms. Lu served as the accounting head of the securities department of Beijing Real Estate Trust and Investment Company from July 1993 to December 1993; the analyst of the research and development department of China Securities Market Research and Design Centre from January 1994 to June 1994; the Certified Public Accountant of Beijing Jing Du Certified Public Accountants from July 1994 to August 1995; the senior auditor of the audit department, the head of the securities investment department and the assistant general manager of the risk management department of Huaxia Securities from September 1995 to November 2005; and the assistant to general manager of the Risk Management Department of the Company from November 2005 to December 2007.

Ms. Lu obtained a Bachelor's degree in Economics from the School of Accounting of Renmin University of China in July 1988 and a Master's degree in Economics from the School of Accounting of Renmin University of China in June 1993. She was qualified as a Certified Public Accountant in 1993 and obtained a certificate of senior accountant in 1999.

Mr. WU Lili (吳立力), aged 46, is an employee representative Supervisor and deputy general manager of the securities branch located at Danling Street in Beijing. Mr. Wu joined our Company in November 2005 and has been serving as the deputy general manager of the securities branch located at Danling Street in Beijing since January 2008. He has been serving as an employee representative Supervisor since March 2011.

Mr. Wu served as a tour guide in Beijing Teachers' Travel Agency from 1989 to 1996; the department manager and deputy general manager of the securities branch located at Haidian South Road in Beijing of Huaxia Securities from March 1996 to November 2005.

Mr. Wu graduated from Beijing Institute of Business in the PRC majoring in Monetary Banking in July 1999 and graduated from the undergraduate school of University of International Business & Economics in the PRC majoring in International Trade and Economics in July 2005.

Senior Management

Mr. QI Liang (齊亮), is an executive Director, the General Manager and a member of the Executive Committee. For the biography of Mr. Qi, please see “– Directors” of this section.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Mr. ZHOU Zhigang (周志綱), aged 52, is a member of the Executive Committee, the Chief Compliance Officer and Chief Risk Officer. Mr. Zhou joined our Company in November 2005. He has been serving as a member of the Executive Committee since February 2009, the Chief Compliance Officer and Chief Risk Officer since April 2016, and a member of Party Committee since December 2005. Mr. Zhou has been serving as a director of China Securities Futures since August 2006.

Mr. Zhou served as the assistant director of the application software chamber of Institute of Computer Technology of East China from September 1988 to May 1992; the deputy director of computer center, deputy director and director of the research and development center of Shanghai Wanguo Holdings Ltd. from May 1992 to May 1996; the chief engineer and the general manager of the E-commerce department of Huaxia Securities from May 1996 to November 2005; and deputy general manager and chairman of Brokerage Business Management Committee of the Company from November 2005 to April 2014.

Mr. Zhou obtained a Bachelor of Science degree from Fudan University in the PRC in July 1985 and obtained a Master of Science degree from Fudan University in the PRC in July 1988. He obtained a certificate of senior engineer in September 1999.

Mr. YUAN Jianmin (袁建民), aged 55, is a member of the Executive Committee. Mr. Yuan joined our Company in November 2005 and has been serving as a member of the Executive Committee since February 2009 and a member of Party Committee since February 2007. Mr. Yuan has been serving as a director of China Securities Futures since August 2006. Mr. Yuan also serves as a member of the margin financing and securities lending committee of the SAC.

Mr. Yuan served as the deputy director of the real estate credit department under the construction and economy department of the head office, the deputy director of computer management department of the computing center, a director of the planning and finance division of science department, the senior manager of the finance and business department of Beijing development center of information technology department of China Construction Bank from August 1982 to January 2005; the deputy general manager of Jianyin Science Development Center of China Jianyin from February 2005 to October 2005; and the deputy general manager, administrative head of the Treasury Operation Department and administrative head of the Securities and Financing Department of our Company from November 2005 to January 2016.

Mr. Yuan obtained a Bachelor's degree in Economics from Liaoning Institute of Finance and Economics in the PRC in August 1982 and a Master's degree in Economics from Dongbei University of Finance and Economics in the PRC in November 1999. He obtained a certificate of senior economist in December 1993.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Mr. JIANG Yueqin (蔣月勤), aged 50, a member of the Executive Committee. Mr. Jiang joined our Company in January 2007 and has been serving as a member of the Executive Committee since May 2009 and a member of Party Committee since December 2007. He has been serving as the chairman of the board of directors of China Securities Funds since September 2013. Currently, Mr. Jiang also serves as a vice chairman of the AMAC.

Mr. Jiang served as a programmer of Shenzhen Shekou Xinxin Software Company from May 1992 to March 1993; the deputy general manager of Shenzhen branch, general manager of trading department and chief dealer of CITIC Securities from March 1993 to December 2001; the general manager of Changsheng Fund Management Co., Ltd. from 2001 to 2006; the assistant to general manager, administrative head of Institutional Business Department and administrative head of Asset Management Department of our Company from January 2007 to January 2016.

Mr. Jiang obtained a Bachelor of Engineering degree from University of Electronic Science and Technology in the PRC in July 1989 and a Master of Engineering degree from University of Electronic Science and Technology in the PRC in March 1992.

Mr. ZHOU Xiaoyu (周笑予), aged 52, is a member of the Executive Committee and the administrative head of the Human Resources Department. Mr. Zhou joined our Company in November 2005 and has been serving as the Administrative Head of the Human Resources Department since November 2011, a member of the Executive Committee since January 2016, and a member of Party Committee since July 2013. Mr. Zhou has been a director of China Securities Futures since August 2012.

Mr. Zhou served as an assistant engineer and engineer in Guangzhou Design Institute of Ministry of Light Industry from August 1985 to August 1988 and from August 1991 to February 1993, respectively; the executive deputy general manager in Shenzhen branch, the general manager of the business department in Dalian branch, the general manager of Shenyang Branch and the general manager of the brokerage business management of Huaxia Securities from February 1993 to November 2005; and the general manager of the Brokerage Business Management Department, the administrative head of the Treasury Operation Department and the administrative head of the Margin Financing and Securities Lending Department of our Company from November 2005 to November 2011.

Mr. Zhou obtained a Bachelor of Engineering degree from Tianjin Institute of Light Industry in the PRC in July 1985 and Master of Engineering degree from South China University of Technology in the PRC in July 1991.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Mr. PENG Heng (彭恒), aged 44, is a member of the Executive Committee, the Chief Financial Officer, the Administrative Head of the Financial Planning Department and the Administrative Head of the Treasury Operation Department. Mr. Peng joined our Company in November 2005 and has been serving as the Administrative Head of the Financial Planning Department since January 2008, a member of the Executive Committee and Chief Financial Officer since January 2009, and the Administrative Head of the Treasury Operation Department since November 2012. Mr. Peng has been a supervisor of China Securities Futures since November 2008 and a director of China Securities Capital since March 2013.

Mr. Peng served as a senior staff member in the travel agency and hotel management department of the China National Tourism Administration from August 1996 to January 1998; the business manager of the asset management department, the executive manager of the financial planning department, the assistant to general manager and the deputy general manager of Huaxia Securities from February 1998 to November 2005; and the deputy general manager of the Financial Planning Department of our Company from November 2005 to December 2007.

Mr. Peng obtained a Bachelor's degree in Economics from Renmin University of China in July 1993 and a Master's degree in Economics from Renmin University of China in July 1996. He was also qualified as a Chinese Certified Public Accountant in April 2000.

Mr. LI Tiesheng (李鐵生), aged 45, is a member of the Executive Committee. Mr. Li joined our Company in June 2013 and has been serving as a member of the Executive Committee since June 2013.

Mr. Li served as the business manager of the securities department and the futures department as well as the deputy general manager and general manager of Shenzhen Zhongbaoxin Financial Consultant Co. Ltd in China People's Insurance Trust and Investment Company from August 1993 to March 2000; the deputy manager of Hong Kong Jiangnan Finance Company Limited, deputy director of Great Wall Securities Co., Ltd., general manager of New Jiangnan Investment Company Limited, a member of party committee and the vice-president of Beijing Branch of China Merchants Bank Co., Ltd. from March 2000 to July 2013.

Mr. Li obtained a Bachelor of Engineering degree from Beijing Institute of Technology in the PRC in July 1993 and completed the postgraduate course in Renmin University of China in October 1997.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Mr. WANG Guangxue (王廣學), aged 44, is a member of the Executive Committee, the Secretary of the Board and the Administrative Head of the Executive Office of our Company. Mr. Wang joined our Company in November 2005 and has been serving as the Administrative Head of the Executive Office of our Company since November 2011. He has been serving as a member of the Executive Committee and the Secretary of the Board since January 2014. Currently, Mr. Wang also serves as a member of the self-discipline inspection committee of the SAC.

Mr. Wang served as a staff of the foreign economic relations department of planning committee of Liyang City, Jiangsu Province (now known as the development and reform commission of Liyang City) from August 1992 to September 1995; the business manager, senior business director and assistant to general manager of the investment banking department of Huaxia Securities from July 1998 to November 2005; and the assistant to general manager and deputy general manager of the Investment Banking Department of our Company from November 2005 to November 2011.

Mr. Wang obtained a Bachelor of Science degree from Qingdao Ocean University (currently known as Ocean University of China) in the PRC in July 1992 and a Master's degree in Economics from Fudan University in the PRC in June 1998. He also obtained a Ph.D. in Economics (in-service study) from Fudan University in the PRC in July 2002. He obtained a certificate of sponsor representative of A Shares in April 2004.

Mr. ZHANG Xinfan (張昕帆), aged 48, is a member of the Executive Committee and the Chairman of the Brokerage Business Management Committee. Mr. Zhang joined our Company in November 2005 and has been serving as a member of the Executive Committee since January 2014 and the Chairman of the Brokerage Business Management Committee since April 2014. Mr. Zhang has been serving as a director of China Securities International since June 2014.

Mr. Zhang served as a loan officer, the director of the securities branch of Dalian branch of Industrial and Commercial Bank of China from August 1991 to October 1994; the manager of Dalian securities branch, the deputy general manager of Shenyang branch and the deputy general manager of the corporate brokerage business management head office of Huaxia Securities from November 1994 to November 2005; and the deputy general manager of the Brokerage Business Management Department, the manager of the securities branch of Beijing Dongzhimen South Street, administrative head of the Wealth Management Department of the Brokerage Business Management committee and the vice-chairman of the Brokerage Business Management Committee of our Company from November 2005 to September 2016.

Mr. Zhang obtained a Bachelor's degree in Economics from Dongbei University of Finance and Economics in the PRC in July 1991 and an EMBA degree from Guanghua School of Management Peking University in the PRC in April 2001. He obtained a certificate of senior economist in August 1999.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Mr. LIU Naisheng (劉乃生), aged 45, is a member of the Executive Committee, the Administrative Head of the Investment Banking Department. Mr. Liu joined our Company in March 2006 and has been serving as the Administrative Head of the Investment Banking Department since April 2011. He has been serving as a member of the Executive Committee since January 2014. Mr. Liu is currently a member of the sixth session of the audit committee for mergers and acquisitions of the CSRC.

Mr. Liu worked in China Xinxing Corporation (Group) from July 1995 to October 1997. He worked in China Science and Technology International Trust and Investment Co., Ltd. from October 1997 to October 2002. He was engaged in investment banking business in China Science and Technology Securities Co., Ltd. from October 2002 to March 2006. He served as the deputy general manager of the Investment Banking Department of our Company from March 2006 to April 2011.

Mr. Liu obtained a Bachelor of Engineering degree from the Beijing Institute of Machinery (currently known as Beijing Information Science & Technology University) in the PRC in July 1995 and an MBA degree (in-service study) from School of Economics and Management, Tsinghua University in the PRC in July 2007. He obtained a certificate of sponsor representative of A Shares in February 2005. He was awarded as the “Best Investment Banker of the Year 2012” by Securities Times in May 2013, and the “Best Investment Banker of the Year 2014” by New Fortune in March 2015.

Mr. HUANG Ling (黃凌), aged 40, is a member of the Executive Committee, the Administrative Head of the Debt Underwriting Department. Mr. Huang joined our Company in November 2005 and has been serving as the Administrative Head of the Debt Underwriting Department since May 2008. He has been serving as a member of the Executive Committee from January 2014.

Mr. Huang served as a senior business director of the administration department of Huaxia Securities from July 2000 to November 2005; and the senior business director and the assistant to general manager of the debt business department of our Company from November 2005 to May 2008.

Mr. Huang obtained a Bachelor’s degree in Economics, majoring in International Finance, from China Institute of Finance in June 1998 and a Master’s degree in Economics, majoring in Finance from the Graduate School of the PBOC in October 2000. He obtained a Ph.D. in Economics majoring in Finance from Hunan University in the PRC in June 2005. He obtained a certificate of senior economist in November 2007.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Mr. ZOU Yingguang (鄒迎光), aged 46, is a former member of the Executive Committee and the Administrative Head of the Fixed Income Department. Mr. Zou joined our Company in November 2005 and had served as the Administrative Head of the Fixed Income Department during March 2007 and January 2017. He had served as a member of the Executive Committee from January 2014 to February 2017.

Mr. Zou served as a physician in Beijing Xuanwu Hospital from August 1994 to October 1996; a staff in Hainan Huayin International Trust Company from January 1997 to August 1998; manager of the institutional client division of securities branch located at Beijing Haidian South Road and senior business director of corporate bond business department of Huaxia Securities from July 1998 to November 2005; and a senior business director of the Securities Sales Department and assistant to general manager of our Company from November 2005 to March 2007.

Mr. Zou obtained a Bachelor's degree in Clinical Medicine from Capital Medical University in the PRC in July 1994 and a Master's degree in Economics from Central University of Finance and Economics in the PRC in June 2000. He also obtained an MBA degree from China Europe International Business School in September 2012.

Mr. HU Bin (胡斌), aged 35, is a member of the Executive Committee, the Administrative Head of the International Business Department. Mr. Hu joined our Company in June 2014 and has been serving as a member of the Executive Committee and the Administrative Head of the International Business Department since January 2016, and an executive director and the general manager of China Securities International since January 2016.

Mr. Hu served as a trader in the treasury operation department of Huaxia Bank Co., Ltd. from September 2004 to November 2006; the vice president of the capital markets department of CITIC Securities from November 2006 to January 2010; secretary of the general office of China CITIC Group Limited from January 2010 to June 2014; and the secretary of the disciplinary committee of the Company from June 2014 to January 2016.

Mr. Hu obtained a Bachelor's degree in Economics majoring in Business Management and Economics, and Finance from the Business School of Edinburgh Napier University in United Kingdom and Shandong University of Finance and Economics in the PRC in July 2003, respectively. He obtained a Master's degree in Investment from Business School, University of Birmingham in December 2004. He obtained a Ph.D. in Finance from School of Finance, Renmin University of China in June 2012. He completed the postdoctoral research in Applied Economics in Tehua Investment Holding Co., Ltd. in February 2015. Mr. Hu obtained a certificate of associate research fellow of finance in November 2015.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Due to personal work arrangements, on 17 March 2017, Mr. QIU Jianyang has resigned from his position as a non-executive Director, a member of the Development Strategy Committee and a member of the Risk Management Committee of the Company. Please refer to the announcement of the Company dated 17 March 2017 for details.

Due to personal work arrangements, in February 2017, Mr. ZOU Yingguang has resigned from his position as a member of the Executive Committee of the Company.

Relationships between Directors, Supervisors and Senior Management

There is no relationship between the Directors, Supervisors or senior management including relationships in terms of finance, business, family or other significant relationship.

Performance of Duties and Remuneration of Directors, Supervisors and Senior Management

Performance of Duties of Directors and Supervisors

In 2016, the Directors of the Company strictly complied with domestic and overseas laws, regulations, regulatory requirements and the Articles of Association and diligently and faithfully performed their responsibilities and obligations in reviewing the issues of the Board and Board Committees, providing valuable opinions and recommendations on strategic and development planning, management structure and corporate governance, business development, risk management and compliance management and other aspects, safeguarding the interests of Shareholders and promoting sustainable and healthy development of the Company. In particular, during the listing of H Shares of the Company, all Directors actively participated in and effectively boosted the listing progress, which played an important role in achieving the aim of completion of listing with high efficiency.

During 2016, the executive Directors earnestly performed their dual duties in decision-making and execution, actively implemented the resolutions of Shareholders' general meetings and Board meetings, and conducted in-depth study of the development and operating strategies of the Company to boost its outstanding operating results. The non-executive Directors attended the meetings of the Board and Board Committees pursuant to the requirements and made scientific and prudent decisions on the basis of keeping abreast of the Company's operational status by considering meeting documents, receiving special reports, conducting research and analysis, and reviewing reports on the Company's operation. The independent non-executive Directors consistently expressed their personal opinions in an independent and objective manner, offered advice and recommendations based on their professional strengths, and faithfully performed their duties so as to safeguard the interests of the Company and its Shareholders, especially the legitimate interests of minority Shareholders.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

In 2016, the Supervisors of the Company strictly complied with the requirements of the Company Law and the Company's Articles of Association, earnestly performed their irduties of supervision, participated in the approval of significant decisions of the Company, regularly investigated the operating status of the Company and its business operations, and effectively supervised the performance of duties by the Directors and the executive management of the Company, so as to actively safeguard the interests of Shareholders.

Details of the performance of duties of Directors and Supervisors have been set forth in the "Board of Directors and Executive Management" and "Supervisors and The Supervisory Committee" section of this annual report.

Performance of Duties of Senior Management

In 2016, the executive management of the Company comprehensively implemented all resolutions and requirements of the Board. In accordance with industry trends and the change in operating environment, combined with the implementation of the "three major strategies," the executive management proposed a strategy of balanced development of light and heavy asset businesses, online and offline businesses, domestic and overseas businesses, as well as conventional and innovative businesses to further strengthen the business layout, They proactively made suggestions for improvement and optimization in relation to certain major issues affecting the development of the Company, eventually achieving positive results.

Given a complicated and dynamic market environment, the executive management of the Company has continuously optimized its internal control system and risk management mechanism to raise the compliance level of risk control, while ensuring the seizing of opportunities and promoting innovation in compliance with laws and regulations. The Company was rated "Class A Grade AA" for seven consecutive years.

The executive management of the Company played an important role in achieving satisfactory operating results despite a severe market environment and intense competition in the industry, and accomplished the mission of operation and management assigned to it by the Board.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Remuneration of Directors, Supervisors and Senior Management for the Year

The Board of the Company establishes the Remuneration and Nomination Committee, which is responsible for formulating and reviewing the remuneration policies and plans for Directors and senior management of the Company. The Remuneration and Nomination Committee considers and conducts resolutions and decision-making in accordance with the “Articles of Association of CSC Financial Co., Ltd.” and the “Rules of Procedures of Remuneration and Nomination Committee of the Board of CSC Financial Co., Ltd.”. In addition, the Company also formulated the “Management Measures of Remuneration in the Headquarter of CSC Financial Co., Ltd.” (《中信建投證券股份有限公司總部薪酬管理辦法》) and the “Incentive Measures of Remuneration of Staff in Brokerage Business System of CSC Financial Co., Ltd.” (《中信建投證券股份有限公司經紀業務系統員工薪酬激勵辦法》) to be the basic remuneration policy of the Company so as to regulate procedures such as decision-making of remuneration. Currently, independent non-executive Directors of the Company receive remuneration from the Company with reference to industry practice, while other non-executive Directors do not receive remuneration from the Company; the remuneration of executive Directors, Supervisors and senior management of the Company is determined according to the remuneration appraisal system of the Company.

Please refer to the “Basic Information on the Directors, Supervisors and Senior Management” section of this annual report for further details of the remuneration of the current Directors, Supervisors and senior management for the year.

The Company will continue to improve its performance and compensation management system based on the relevant regulatory requirements and the Company’s condition.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Employees

Number of Employees and Composition

As of 31 December 2016, the Group had 9,611 employees in total (excluding brokers and dispatched employees), among which the Company had 8,819 employees (excluding brokers and dispatched employees). The composition is as follows:

Item	The Group		Company	
	Number of employees	Percentage (%)	Number of employees	Percentage (%)
Professional structure				
Brokerage business	6,966	72.48%	6723	76.23%
Investment banking	819	8.52%	767	8.70%
Information technology	443	4.61%	384	4.35%
Financial planning	327	3.40%	283	3.21%
Administration	51	0.53%	18	0.20%
Research	163	1.70%	133	1.51%
Fixed income business	132	1.37%	120	1.36%
Asset management business	193	2.01%	94	1.07%
Margin financing and securities lending businesses	37	0.38%	35	0.40%
Security investment	70	0.73%	53	0.60%
Settlement	98	1.02%	75	0.85%
Legal compliance/audit	81	0.84%	60	0.68%
Risk management	45	0.47%	28	0.32%
Others	186	1.94%	46	0.52%
Total	<u>9,611</u>	<u>100.00%</u>	<u>8,819</u>	<u>100.00%</u>

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Item	The Group		Company		
	Number of employees	Percentage (%)	Number of employees	Percentage (%)	
Educational level	Doctorate degree	65	0.68%	54	0.61%
	Master's degree	2,855	29.70%	2,586	29.32%
	Bachelor's degree	5,785	60.19%	5,354	60.72%
	College or below	906	9.43%	825	9.35%
Total	9,611	100.00%	8,819	100.00%	

We believe that excellent and active talented teams are the basis of sustainable development. We have devoted enormous resources to the development of human resources. We engaged and nurtured leading professionals through a series of human resources management techniques or practices such as: stringent hiring and selection processes, a competitive remuneration structure, effective performance assessment systems and long-term employee development plans.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Relevant Information of Securities Brokers

Operation of and Improvement to the Management System, Internal Control System and Information System of Securities Brokers

Management System

In 2016, the Company concluded its review of the inadequacies which existed in the management of securities brokers in accordance with the latest requirements of the regulatory department. The Company further optimized such systems as training, compliance and customer service of securities brokers, formulated a series of work flows and standards, revised and optimized the management measures of securities brokers of the Company based on the existing various securities brokers management systems to ensure that such systems and measures were in compliance with the latest regulatory requirements and could be effectively implemented.

Internal System

Based on the “Risk Management Measures of Securities Brokers in CSC Financial Co., Ltd.”, the Company further improved the risk management structure governing its securities brokers, the flows of risk control of securities brokers, risk control of customer solicitation and service, risk monitoring and reporting, supervision and checking. The Company also enhanced its coordination and monitoring of different departments based on the relevant system, forming a stricter risk management mechanism for securities brokers.

Meanwhile, the risk management department of the Company further strengthened the daily monitoring of securities brokers. In 2016, the Company frequently carried out special assessments, of unusual trading by securities brokers, and performed monitoring and clearance of potential risks arising from the management of securities brokers from time to time, to eliminate the occurrence of wealth management agency and illegal operation. The Company also enhanced the management of professional qualifications, improved training requirements, and stringently leveraged the effectiveness of professional qualifications of securities brokers.

Information System

In 2016, the Company further optimized the management system and operation procedures of brokers, and further optimized the management procedures of the qualifications of securities brokers and other functions, leading to more comprehensive, clear and accurate management system.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Relevant Information of Securities Brokers

As of the end of 2016, a total of 171 securities branches of the Company implemented the system of securities brokers. There were a total of 2,594 brokers who obtained professional brokerage qualifications as reviewed and approved by the Securities Association of China, of which 461 received new qualification as securities brokers in 2016.

Implementation of Entrustment Contract by Securities Brokers, and Remuneration Payment and Protection of Legitimate Interests of Securities Brokers

During 2016, the Company entered into securities agency entrustment contracts with brokers who obtained qualifications as securities brokers, and paid service fees for this part of securities brokers in accordance with the payment terms in the contracts.

Meanwhile, the Company safeguarded the legitimate interests of its clients while protecting those of its securities brokers by strictly complying with the rules and requirements of regulatory departments and relevant Company requirements, thereby ensuring the healthy and effective operation of its securities brokers.

Employee Remuneration

The Company established a sound human resources management system in compliance with the requirements of the PRC's laws in relation to labor contracts and labor protections, formulated various regulations and policies in relation to remuneration, position and grade, performance assessments, benefits and holidays, etc., and stringently implemented such policies. The Company effectively protected the staff's interest in various aspects such as labor protection, working environment, payment of wages, social insurance, healthcare and vacation. The Company carried through the principle of marketization to determine the remuneration standard. Remuneration for employees includes fixed salary, performance-related bonuses and insurance benefits. Fixed salary is determined according to the position and grade, and the standard of position and grade integrates the factors of experience, capability, professional knowledge and experience, while performance-related bonuses are associated with the completion of results and assessment results in the corresponding year. The total amount of annual bonuses is withdrawn from total amount of profit in accordance with the ratio determined by the Board. The Company established a comprehensive benefit protection system, and the statutory benefits are paid in accordance with the contents and standards as stipulated by the PRC government. Benefits of the Company covered various aspects, including replenishment of medical insurance, enterprise annuity, paid leave and medical examination.

SECTION 9 DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (Continued)

Training Program

The Company continues to promote and implement staff training programs with comprehensive layout, overall planning, implementation by levels and clear purposes and constantly strengthens the development of a team with talents. The Company proactively improves its multi-level training system which focuses on the “ladder of training for the growth of employees” against different career development paths of employees of its headquarters and branches. Utilizing e-learning systems and mobile learning APP as carriers for learning resources and face-to-face teaching as the major training medium, the Company creates room for learning and growth for employees and comprehensively improves the professional skills and professionalism of the employees through multi-channel, multi-way and multi-means training which broadens the scope and depth of training.

1. The Company enhanced the training of senior employees on leadership and management skills, broadened its innovative idea and international view, improved its reform management capability, strategic analysis capability, executive management capability, business synergy capability, risk prevention capability and integrated humanity quality, and nurtured quality leaders for enterprise operation and management.
2. The Company strengthened the training of mid-level staff on implementation, competence and professional skills, and strived to improve its professional knowledge, project implementation capability, business development and innovation capability as well as team management capability.
3. The Company popularized vocational training and common skills training for employees at the basic level, strengthened the education of its corporate culture, professional compliance, business operation, workflow, regulations and system, and enhanced their communication and presentation capability, customer service capability, team coordination capability and office operation capability.
4. The Company attached high importance to recruitment at university campuses, and commenced a series of enrollment and trainee cultivation program to recruit outstanding graduates and students with working and placement opportunities. In 2016, the headquarters of the Company provided 1,289 placement positions for students on campus, and hired 219 new graduates. In 2016, the headquarters of the Company produced a 44-hour online induction lectures for new staff members, and organized closed-end and concentrated training for new entrants.

Relationship with Employees

During the Reporting Period and up to the Latest Practicable Date, we have not experienced any strike actions by staff members or other material labor disputes affecting our operation. We have maintained good relationship with employees.

SECTION 10 CORPORATE GOVERNANCE REPORT

Overview of Corporate Governance

As a leading, large full-service investment bank with superior value creation capabilities, and a company listed in Hong Kong and incorporated in Mainland China, the Company has operated its business in strict compliance with the requirements of the laws, regulations and regulatory documents issued by authorities in Hong Kong and Mainland China. The Company recognizes the importance of good corporate governance and has established an open and transparent governance structure with checks and balances. The Company is of the view that upholding and attaining high standards of corporate governance distinguishes it from other companies and fosters well-built relationships with all stakeholders. The Company endeavors to maximize its Shareholders' value and ensures all decisions of the Board are made based on the principles of trust and fairness so as to protect the interests of all Shareholders. The Shareholders' general meetings, Board meetings and meetings of the Supervisory Committee of the Company are convened in accordance with the Articles of Association and the relevant rules of procedures.

During the Reporting Period, the Company strictly complied with the Corporate Governance Code, followed all code provisions and met the requirements of part of the recommended best practices set out in the Corporate Governance Code.

Dealing in Securities by Directors and Supervisors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Hong Kong Listing Rules (the "Model Code") in respect of the securities transactions entered into by its Directors and Supervisors. The Company has made specific inquiries to all Directors and Supervisors on any incompliance with the Model Code. All the Directors and Supervisors have confirmed that they have completely complied with the provisions and standards of the Model Code during the period from the listing date up to the date of this annual report.

Shareholders and General Meetings

Rights of Shareholders' General Meetings and Shareholders

The Shareholders' general meeting is the body exercising the authority of the Company and shall exercise the duties and powers in accordance with the law, the Articles of Association and the Rules of Procedures for Shareholders' General Meeting of the Company. The Company convened the Shareholders' general meetings in strict compliance with the relevant rules and procedures such that all Shareholders are treated equally and can fully exercise their rights. During the Reporting Period, the Company convened six Shareholders' general meetings to engage in dialogue with the Shareholders so as to understand their concerns, suggestions and opinions regarding the Company's development.

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

Overview of Shareholders' General Meetings

During the Reporting Period, the Company convened six Shareholders' general meetings, the details and resolutions of which are as follows:

- (1) On 23 January 2016, the 2016 First Extraordinary General Meeting of the Company was convened and the Resolution on the Adjustment of the Issuance Plan for Short-term Corporate Bonds was considered and approved.
- (2) On 26 April 2016, the 2015 Annual General Meeting of the Company was convened and the following were considered and approved: the 2015 Operations Report of the Company and Working Report of the Board, the 2015 Working Report of the Supervisory Committee of the Company, the Resolution in relation to the 2015 Final Accounts of the Company, the Resolution in relation to the 2015 Profit Distribution Plan of the Company, the Resolution in relation to the 2015 Annual Report of CSC Financial Co., Ltd. and other resolutions.
- (3) On 26 July 2016, the 2016 Second Extraordinary General Meeting of the Company was convened and the following were considered and approved: the Resolution on the Plan for Initial Public Offering of Shares and its Listing, the Resolution on the Distribution Plan of Accumulated Undistributed Profits before the Issuance of the Company, the Resolution on the Conversion of the Company into a Joint Stock Company with Limited Liability and Overseas Listed Shares, the Resolution on the Granting of Full Authorization to the Board and Such Persons as Authorised by the Board to Deal with All Issues relevant to the Initial Public Offering of Shares and its Listing, the Resolution on the Amendments to the Articles and Association, and the Resolution on the Applicable Articles and Association and its Annexes thereto after the Issuance of H Shares.
- (4) On 20 August 2016, the 2016 Third Extraordinary General Meeting of the Company was convened and the following were considered and approved: the Resolution on the Adjustment of Supervisors of the Company, the Resolution on the Election of Independent Directors of the Company, the Resolution on the Adjustment of Non-independent Directors of the Company, the Resolution on the Purchase of Liability Insurance in connection with Directors, Supervisors and Senior Management and the Prospectus of the Company, and other resolutions.
- (5) On 8 September 2016, the 2016 Fourth Extraordinary General Meeting of the Company was convened and the Resolution on the Amendments to the Articles of Association was considered and approved.

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

- (6) On 23 November 2016, the 2016 Fifth Extraordinary General Meeting of the Company was convened and the following were considered and approved: the Resolution on the Matters relevant to the Adjustment of Authorization in connection with the Initial Public Offering of Shares and its Listing, and the Resolution on the Application for Authorization to Continue Issuing Medium and Long-term Debt Financing Instruments.

The attendance of Shareholders' general meetings by Directors of the Company are set out as follows:

Name of Director	Actual attendance/ On-site Shareholders' general meetings held during the term of office
WANG Changqing	4/4
YU Zhongfu	3/4
HU Donghui	1/1
QI Liang	3/4
WANG Chenyang	4/4
Wang Shouye	1/1
LIU Dingping	4/4
WANG Shumin	4/4
QIU Jianyang	4/4
FENG Genfu	4/4
ZHU Shengqin	2/4
DAI Deming	1/1
BAI Jianjun	1/1
LIU Qiao	1/1

Note: In 2016, the Company convened six Shareholders general meetings, four of which were on-site meetings and two of which were off-site meetings.

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

Board of Directors and Operations Management

Power and Duties of the Board of Directors

The Board exercises the powers and duties set out in the Articles of Association, and shall be accountable to the Shareholders' general meeting. The duties of the Board include but are not limited to responsible for convening the Shareholders' general meetings and reporting its work thereto; implementing resolutions adopted at the Shareholders' general meetings; deciding the business plans and investment programs of the Company; formulating the annual financial budget plan and final accounting plan of the Company; formulating profit distribution and loss recovery plans; formulating plans for increasing or reducing the registered capital of the Company, corporate bond issuance or other securities, and public offering; formulating plans for the Company's material acquisitions or buy-back of its Shares; deciding on the appointment or dismissal of the Company's general manager, chief compliance officer, chief risk officer, secretary of the Board according to the chairman's nomination, and deciding their remuneration, award and punishment; appointing or dismissing the person in charge of finance, the members of the executive committee and other senior management according to the chairman's or the general manager's nomination, and deciding their remuneration, award and punishment; deciding the composition of the Company's internal management bodies; formulating the basic management system of the Company; and other functions and powers prescribed by the relevant laws, regulations, securities regulatory rules or the Articles of Association and authorized by Shareholders' general meeting. The management of the Company is responsible for carrying out the resolutions or decisions of the Board and other duties specified in the Articles of Association.

Composition of the Board of Directors

The Company strictly complies with the requirements under the Articles of Association and relevant rules in respect of the appointment of the Directors. The Board meetings were convened in accordance with the Articles of Association and the Rules of Procedures for the Board of Directors of the Company.

The Board of the Company is currently comprised of thirteen Directors, two of which are executive Directors (Mr. WANG Changqing and Mr. QI Liang), six are non-executive Directors (Mr. YU Zhongfu, Ms. HU Donghui, Mr. WANG Chenyang, Mr. WANG Shouye, Mr. LIU Dingping and Ms. WANG Shumin) and five are independent non-executive Directors (Mr. FENG Genfu, Ms. ZHU Shengqin, Mr. DAI Deming, Mr. BAI Jianjun, Mr. LIU Qiao). Mr. WANG Changqing is the Chairman of the Board and Mr. QI Liang is the general manager. None of the Directors, Supervisors and members of the senior management is related to other Directors, Supervisors and members of the senior management of the Company.

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

Directors are appointed at the Shareholders' general meeting to serve a term of three years and are eligible for re-election upon the expiration of their term. Independent non-executive Directors shall not hold office for more than six consecutive years. The Company confirms that the Company has received the annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Therefore, the Company believes that each independent, non-executive Director is independent as specified in the Listing Rules. Independent non-executive Directors are able to exercise independent and objective judgments and protect the interests of minority Shareholders.

The biographies of all Directors are set out in "Directors, Supervisors, Senior Management and Employees" in this annual report.

Meetings of the Board of Directors

During the Reporting Period, the Board of Directors convened 14 meetings, the details and resolutions passed are as follows:

- (1) On 23 January 2016, the 47th meeting of the first session of the Board of the Company was convened and the following were considered and approved: the Resolution on the Adjustment of the Issuance Plan for Short-term Corporate Bonds, the Resolution on the Special Fund for the Use of Poverty Alleviation by Donating Securities, the Resolution on the Charity Fund for Education Purposes Donated to Wushi County, Hunan Province, the Resolution on the Resignation of Mr. Song Yongyi as a Member of the Executive Committee of the Company, the Resolution on the Supplement of Mr. Zhou Xiaoyu as a Member of the Executive Committee of the Company and the Resolution on the Supplement of Mr. Hu Bin as a Member of the Executive Committee of the Company.
- (2) On 6 April 2016, the 48th meeting of the first session of the Board of the Company was convened and the following were considered and approved: the Resolution on the Appointment of Chief Compliance Officer and Chief Risk Officer of the Company, the Resolution on the Application for Renewal of Business License in connection with Telecommunication and Information Service Business, the Resolution on the Proposal for Capital Raising for China Securities Funds Management Limited, and the Resolution on the Proposal on the Conversion of Partial Undistributed Profit of China Futures Co., Ltd. into Registered Capital.

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

- (3) On 26 April 2016, the 49th meeting of the first session of the Board of the Company was convened and the following were considered and approved: the 2015 Operation Report of the Company and Working Report of the Board, the Resolution in relation to the 2015 Final Accounts of the Company, the Resolution on Net Capital and Other Risk Control Indicators for 2015 of the Company, the Resolution in relation to the 2015 Profit Distribution Plan of the Company, the Resolution in relation to the 2015 Compliance Report of CSC Financial Co., Ltd., the Resolution in relation to the 2015 Self-assessment Report on Internal Control of CSC Financial Co., Ltd., the Resolution in relation to the 2015 Annual Report of CSC Financial Co., Ltd., the Resolution in relation to the “Thirteenth Five-year” Development Plan (2016–2020) of CSC Financial Co., Ltd, the Resolution in relation to the Establishment of Securities Branches, and the Resolution in relation to the Authorization of Approval on External Donations.
- (4) On 23 June 2016, the 50th meeting of the first session of the Board of the Company was convened and the following were considered and approved: the Resolution on the Commencement of the Preparation for Overseas Listing of the Company, and the Resolution on the Listing Process and Organizational Structure of the Company.
- (5) On 26 July 2016, the 51st meeting of the first session of the Board of the Company was convened and the following were considered and approved: the Resolution on the Plan for Initial Public Offering of Shares and its Listing, the Resolution on the Distribution Plan of Accumulated Undistributed Profits before the Issuance of the Company, the Resolution on the Conversion of the Company into a Joint Stock Company with Limited Liability and Overseas Listed Shares, the Resolution on the Granting of Full Authorization to the Board and Such Persons as Authorised by the Board to Deal with All Issues relevant to the Initial Public Offering of Shares and its Listing, the Resolution on Determining the Persons as Authorised by the Board, the Resolution on the Amendments to the Articles and Association, and the Resolution on the Applicable Articles and Association and its Annexes thereto after the Issuance of H Shares.
- (6) On 20 August 2016, the 52nd meeting of the first session of the Board of the Company was convened and the following were considered and approved: the Resolution on the Election of Independent Directors of the Company, the Resolution on the Adjustment of Non-independent Directors of the Company, the Resolution on the Election of Vice Chairman of the Company, the Resolution on the Purchase of Liability Insurance for Directors, Supervisors and Senior Management and the Liability Insurance of the Prospectus of the Company and the Resolution in relation to the 2016 Interim Compliance Report of CSC Financial Co., Ltd.

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

- (7) On 20 August 2016, the 53rd meeting of the first session of the Board of the Company was convened and the Resolution on the Election of Vice Chairman of the Company was considered and approved.
- (8) On 8 September 2016, the 54th meeting of the first session of the Board of the Company was convened and the Resolution on the Amendments to the Articles of Association was considered and approved.
- (9) On 22 September 2016, the 55th meeting of the first session of the Board of the Company was convened and the following were considered and approved: the Resolution on the Adjustment of the members of Board Committees under the Board of the Company, the Resolution on the Applicable Rules of Procedures of the Board Committees under the Board after the Issuance of H Shares, the Resolution on the Applicable Basic Management System of the Company after the Issuance of H Shares, the Resolution on Submitting the Listing Application to The Stock Exchange of Hong Kong Limited, the Resolution on the Registration in Hong Kong as a Non-Hong Kong Company, the Resolution on the Appointment of Authorised Representative, the Resolution on the Appointment of Joint Company Secretaries, the Resolution on the Appointment of Compliance Advisor, the Resolution on the Appointment of H Share Registrar, the Resolution on the Amendment of the Significant Accounting Policies and Estimates of the Company, and the Resolution on the Adjustment of Internal Structure of Brokerage Business Management Committee.
- (10) On 30 September 2016, the 56th meeting of the first session of the Board of the Company was convened and the Resolution on the Change in the Name of the Company Registered as a Non-Hong Kong Company was considered and approved.
- (11) On 15 October 2016, the 57th meeting of the first session of the Board of the Company was convened and the Resolution in relation to the Financial Report in connection with the Public Issuance of Overseas Listed Foreign Shares (H Shares) of the Company was considered and approved.

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

- (12) On 23 November 2016, the 58th meeting of the first session of the Board of the Company was convened and the following were considered and approved: the Resolution on the Global Offering of H Shares (Including Hong Kong Public Offering and International Offering) and the Listing of Shares on the Hong Kong Stock Exchange, the Resolution on the Matters relevant to the Adjustment of Authorization in connection with the Initial Public offering of Shares and its Listing, the Report in relation to Net Capital and Other Risk Control Indicators for the first half of 2016 of the Company, and the Resolution on the Application for Authorization to Continue Issuing Medium and Long-term Debt Financing Instruments.
- (13) On 23 December 2016, the 59th meeting of the first session of the Board of the Company was convened and the Resolution on the Re-appointment of Accounting Firms was considered and approved.
- (14) On 25 December 2016, the 60th meeting of the first session of the Board of the Company was convened and the Resolution on the Donation and Establishment of “CSC Financial (An Yuan) Poverty Alleviation Fund for Education Purposes” was considered and approved.

The attendance of Board meetings by Directors of the Company are set out as follows:

Name of Director	Scheduled attendance at Board meetings held during the year	Attendance in person	Attendance by proxy	Absence
WANG Changqing	14	14	0	0
YU Zhongfu	14	11	3	0
HU Donghui	7	7	0	0
QI Liang	14	11	3	0
WANG Chenyang	14	13	1	0
WANG Shouye	8	8	0	0
LIU Dingping	14	14	0	0
WANG Shumin	14	13	1	0
QIU Jianyang	14	14	0	0
FENG Genfu	14	13	1	0
ZHU Shengqin	14	11	3	0
DAI Deming	7	7	0	0
BAI Jianjun	7	7	0	0
LIU Qiao	7	7	0	0

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

Training of Directors

The Company recognizes the importance of training and continuous professional development of the Directors to ensure that the Directors are kept abreast of the latest developments of the Company and their responsibilities under the relevant laws and regulations, as well as the Company's business and governance policies, so as to assist them in performing their duties as Directors of the Company. In 2016, the Company arranged a training conducted by its external professional advisers on the applicable laws and regulations relating to the duties and responsibilities as a director of a company listed in Hong Kong. The training covered a broad range of topics including: directors' duties under the Hong Kong laws, Listing Rules and other relevant laws and regulations, the statutory regime for disclosure of inside information, rules on connected transactions and notifiable transactions. All Directors attended the trainings organized by the Company.

Board Committees under the Board

In accordance with the relevant PRC laws and regulations, the Articles of Association and the corporate governance practices prescribed in the Listing Rules, the Company has established four Board committees, namely: the Development Strategy Committee, the Risk Management Committee, the Audit Committee and the Remuneration and Nomination Committee, to which certain responsibilities are delegated, so as to assist the Board to perform its duties in various aspects. The composition of each Board Committee is listed as follows:

Name of Committee	Members of Committee
Development Strategy Committee	WANG Changqing (Chairman), YU Zhongfu, HU Donghui, QI Liang, WANG Shouye, WANG Shumin, QIU Jianyang ⁽¹⁾ , FENG Genfu
Risk Management Committee	HU Donghui (Chairwoman), QI Liang, WANG Chenyang, LIU Dingping, QIU Jianyang ⁽¹⁾ , BAI Jianjun, LIU Qiao
Audit Committee	DAI Deming (Chairman), WANG Chenyang, WANG Shumin, FENG Genfu, ZHU Shengqin
Remuneration and Nomination Committee	BAI Jianjun (Chairman), WANG Changqing, YU Zhongfu, LIU Dingping, ZHU Shengqin, DAI Deming, LIU Qiao

Note: Mr. QIU Jianyang has resigned as a member of the Development Strategy Committee and the Risk Management Committee on 17 March 2017.

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

Development Strategy Committee

Duties of the Committee

The primary duties of the Development Strategy Committee include, but are not limited to, the following: (i) understanding and mastering the overall operations of the Company; (ii) understanding, analyzing and mastering the current conditions of international and domestic markets; (iii) understanding and mastering relevant policies of the State; (iv) studying the short, medium and long-term development strategies of the Company or the relevant issues; (v) providing consultancy advice on the Company's long-term development strategy and major decisions on major investments, reform etc.; (vi) reviewing and approving research reports on development strategies; (vii) issuing routine research reports regularly or from time to time; and (viii) performing such other duties determined by the Board and required by the listing rules or regulatory requirement of the place where the Shares of the Company are listed. For details, please refer to the Terms of Reference of the Development Strategy Committee of the Board of the Company which is available on the websites of the Company and the Hong Kong Stock Exchange.

Work Summaries and Meetings of the Committee

During the Reporting Period, the Development Strategy Committee has convened one meeting. Details of the meeting of the Development Strategy Committee are set out below:

Date of meeting	Resolutions Passed
19 April 2016	Considered the Resolution in relation to the "Thirteenth Five-year" Development Plan (2016–2020) of CSC Financial Co., Ltd.

The attendance of the Development Strategy Committee is set out as follows:

Name of Committee Member	Position	Actual attendance/ Scheduled attendance
WANG Changqing	Chairman and Executive Director	1/1
YU Zhongfu	Vice Chairman and Non-executive Director	1/1
HU Donghui	Vice Chairman and Non-executive Director	0/0
QI Liang	Executive Director	1/1
WANG Shouye	Non-executive Director	0/0
WANG Shumin	Non-executive Director	1/1
QIU Jianyang	Non-executive Director	1/1
FENG Genfu	Independent Non-executive Director	1/1

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

Risk Management Committee

Duties of the Committee

The primary duties of the Risk Management Committee include, but are not limited to, the following: (i) reviewing and making recommendations on the general objectives and basic policies of compliance management and risk management; (ii) reviewing and making recommendations to the institutional design and duties in relation to compliance management and risk management, and ensuring the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions; (iii) evaluating and advising on risks relating to major decisions to be considered and approved at the Board and the solutions to such major risks; (iv) reviewing and advising on compliance reports and risk evaluation reports to be reviewed by the Board; and (v) performing such other duties determined by the Board and required by the listing rules or regulatory requirements of the place where the Shares of the Company are listed. For details, please refer to the Terms of Reference of the Risk Management Committee of the Board of the Company which is available on the websites of the Company and the Hong Kong Stock Exchange.

Work Summaries and Meetings of the Committee

During the Reporting Period, the Risk Management Committee convened two meetings. Details of the meetings of the Risk Management Committee are set out below:

Date of meeting	Resolutions Passed
19 April 2016	Considered the resolution on net capital and other risk control indicators for 2015 of the Company, the Resolution in relation to the 2015 Risk Report of the Company, the Resolution in relation to the 2015 Compliance Report of the Company, the Resolution in relation to the 2015 Self-assessment Report on Internal Control of the Company, and the Resolution in relation to the 2016 Risk Management Policy of the Company
23 November 2016	Considered the report in relation to net capital and other risk control indicators for the first half of 2016 of the Company

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

The attendance of meetings of the Risk Management Committee is set out as follows:

Name of Committee Member	Position	Actual attendance/ Scheduled attendance
HU Donghui	Vice Chairman and Non-executive Director	1/1
QI Liang	Executive Director	2/2
WANG Chenyang	Non-executive Director	2/2
LIU Dingping	Non-executive Director	2/2
QIU Jianyang	Non-executive Director	2/2
BAI Jianjun	Independent Non-executive Director	1/1
LIU Qiao	Independent Non-executive Director	1/1

Audit Committee

Duties of the Committee

The primary duties of the Audit Committee include, but are not limited to, the following: (i) monitoring annual audit work and making judgment on the truthfulness, accuracy and completeness of the audited information contained in the financial reports before submitting the reports to the Board; (ii) supervising the internal audit system of the Company and its implementation; (iii) reviewing and approving the financial information of the Company and its disclosure; and (iv) performing such other duties determined by the Board and required by the listing rules or regulatory requirements of the place where the Shares of the Company are listed. For details, please refer to the Terms of Reference of the Audit Committee of the Board of the Company which is available on the websites of the Company and the Hong Kong Stock Exchange.

Work Summaries and Meetings of the Committee

In 2016, the major tasks accomplished by the Audit Committee included:

- considering and approving regular financial reports
- considering and approving the 2016 audit work plan
- considering and approving the audit fees and appointment of external auditors for 2016

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

In 2016, the Audit Committee convened two meetings. Details of the meetings of the Audit Committee are set out below:

Date of meeting	Resolutions Passed
26 April 2016	Considered the 2015 Internal Audit Working Report and 2016 Auditing Plan of the Company, and the 2015 External Audit Working Report
23 December 2016	Considered the Resolution on the Re-appointment of Accounting Firms

The attendance of meetings of the Audit Committee is set out as follows:

Name of Committee Member	Position	Actual attendance/ Scheduled attendance
DAI Deming	Independent Non-executive Director	1/1
WANG Chenyang	Non-executive Director	2/2
WANG Shumin	Non-executive Director	2/2
FENG Genfu	Independent Non-executive Director	2/2
ZHU Shengqin	Independent Non-executive Director	2/2

Remuneration and Nomination Committee

Duties of the Committee

The primary duties of the Remuneration and Nomination Committee include, but are not limited to, the following: (i) reviewing the performance of duties of the directors and senior management, and appraising their annual performance; (ii) reviewing and advising on the appraisal and remuneration management system of the Company for the directors and senior management; and (iii) performing other duties determined by the Board and required by the listing rules or regulatory requirements of the place where Shares of the Company are listed. For details, please refer to the Terms of Reference of the Remuneration and Nomination Committee of the Board of the Company which is available on the websites of the Company and the Hong Kong Stock Exchange.

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

Work Summaries and Meetings of the Committee

In 2016, the major tasks accomplished by the Remuneration and Nomination Committee included:

- nominating ZHOU Xiaoyu and HU Bin as members of the Executive Committee
- nominating ZHOU Zhigang as the Chief Compliance Officer and Chief Risk Officer of the Company
- considering and approving the principle of distribution of performance-related incentives for 2015 and determining the approval procedure on performance-related incentives for executive management of the Company

The Remuneration and Nomination Committee convened three meetings. Details of the meetings of the Remuneration Committee are set out below:

Date of meeting	Resolutions Passed
23 January 2016	Considered the Resolution on the Supplement of Mr. ZHOU Xiaoyu as a Member of the Executive Committee of the Company and the Resolution on the Supplement of Mr. HU Bin as a Member of the Executive Committee of the Company
6 April 2016	Considered the Resolution on the Appointment of Chief Compliance Officer and Chief Risk Officer of the Company
26 April 2016	Considered the Resolution in relation to the 2015 Performance-related Awards Distribution Principle and Determining the Approval Procedures of Performance-related Awards for the Executive Management of the Company

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

The attendance of meetings of the Remuneration and Nomination Committee is set out as follows:

Name of Committee Member	Position	Actual attendance/ Scheduled attendance
BAI Jianjun	Independent Non-executive Director	0/0
WANG Changqing	Chairman and Executive Director	3/3
YU Zhongfu	Vice Chairman and Non-executive Director	3/3
LIU Dingping	Non-executive Director	3/3
ZHU Shengqin	Independent Non-executive Director	3/3
DAI Deming	Independent Non-executive Director	0/0
LIU Qiao	Independent Non-executive Director	0/0

Supervisors and the Supervisory Committee

Powers and Duties of the Supervisory Committee

The Supervisory Committee is the supervisory body of the Company and is accountable to the Shareholders' general meeting. The powers and duties of the Supervisory Committee include but are not limited to: examining the financial affairs of the Company; supervising the Directors and senior management in their performance of duties and to propose the removal of Directors and senior management who have contravened any law, administrative regulations, the Articles of Association or Shareholders' resolutions; demanding any Director and senior management who acts in a manner which is detrimental to the interests of the Company to rectify such behavior, and report to the Shareholders' general meeting or relevant competent authorities of the State when necessary; proposing resolutions at a Shareholders' general meeting; presenting at the Board meeting and raise enquires or provide advice in respect of matters to be considered at the Board meeting; inspecting financial information, such as financial reports, business reports and profit distribution plans, proposed to submit by the Board to the Shareholders' general meeting and, in case of any doubt, professionals such as registered accountants and certified auditors may be hired to provide assistance in the name of the Company; and other functions and authorities as required by laws, administrative regulations, departmental rules, statutory documents, the listing rules of the place where the Shares of the Company are listed and the Articles of Association.

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

The Supervisory Committee strictly complied with the relevant laws and regulations and the Articles of Association, lawfully and diligently performed its duties, observed the relevant procedures, attended all on-site Board meetings and Shareholders' general meetings of the Company held during the Reporting Period.

Composition of the Supervisory Committee

The Company strictly complied with the Articles of Association and the relevant rules in respect of the appointment of Supervisors. The Company's Supervisory Committee currently comprises of six Supervisors, including two employee representative Supervisors (Ms. LU Ya and Mr. WU Lili) and the remaining four Shareholder representative Supervisors (Mr. LI Shihua, Ms. WANG Jing, Ms. AI Bo and Mr. LIU Hui).

Biographies of all the Supervisors are set out in the "Directors, Supervisors, Senior Management and Employees" section of this annual report.

Meeting of the Supervisory Committee

During the Reporting Period, the Supervisory Committee convened three meetings, the details of which are as follows:

- (1) On 26 April 2016, the 11th meeting of the first session of the Supervisory Committee of the Company was convened and the following were considered and approved: the 2015 Work Report of the Supervisory Committee of the Company, the 2015 Internal Audit Working Report and 2016 Auditing Plan of the Company, and the Resolution in relation to the 2015 Annual Report of CSC Financial Co., Ltd.
- (2) On 26 July 2016, the 12th meeting of the first session of the Supervisory Committee of the Company was convened and the Resolution on the Applicable Rules of Procedures of the Supervisory Committee after the Issuance of H Shares was considered and approved.
- (3) On 20 August 2016, the 13th meeting of the first session of the Company was convened and the Resolution in relation to the change in Supervisors of the Company was considered and approved.

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

The attendance of meetings of the Supervisory Committee by Supervisors is set out as follows:

Name of Supervisor	Scheduled attendance	Attendance in person	Attendance by proxy	Absence
LI Shihua	3	3	0	0
WANG Jing	0	0	0	0
AI Bo	0	0	0	0
LIU Hui	3	2	1	0
LU Ya	3	3	0	0
WU Lili	3	3	0	0

Notes: Ms. WANG Jing and Ms. AI Bo were appointed as Supervisors of the Company at the Shareholders' general meeting in August 2016, and they officially performed their duty upon obtaining the qualification approval from Chinese securities regulatory authorities in September 2016.

Appointment of Auditors

Please refer to the "Appointment or Termination of Accounting Firms" section of this annual report for information about the appointment of auditors.

The Directors are responsible for the preparation of the accounts and the auditors are responsible for the issuance of audit opinions on the financial statements based on their audit work.

Non-audit Work

During the Reporting Period, the Company did not engage either PricewaterhouseCoopers Zhong Tian LLP or PricewaterhouseCoopers to conduct any non-audit work.

Responsibilities of Directors for the Financial Statements

The following responsibility statement of Directors regarding the financial statements shall be read in conjunction with the responsibility statement of the certified public accountants included in the audited report of this annual report. Each responsibility statement shall be interpreted separately.

All Directors of the Company acknowledge and confirm their responsibilities in preparing the financial statements which truly reflects the business and operating results of the Company for each financial year. To the best knowledge of all Directors, there are no events or situations which may cause material adverse impacts on the ongoing operations of the Company.

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

Company Secretaries

Mr. WANG Guangxue, the secretary of the Board and a joint company secretary of the Company, is responsible for making recommendations and proposals to the Board on issues related to corporate governance, and ensuring that Board policies and procedures as well as applicable laws, rules and regulations are strictly followed.

In order to maintain sound corporate governance and to ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also appointed Ms. WONG Wai Ling of SW Corporate Services Group Limited, as the Company's joint company secretary, to assist Mr. WANG Guangxue in discharging the duties of a company secretary. Mr. WANG Guangxue has attended trainings on, among other things, directors' duties under the common law, Listing Rules and other relevant laws and regulations, statutory regime for disclosure of inside information, rules on connected transactions, notifiable transactions, directors' and supervisors' securities dealings, disclosure of interests, market misconduct and the implementation of relevant internal policies.

Both Mr. WANG Guangxue and Ms. WONG Wai Ling have confirmed that they received not less than 15 hours of relevant professional training during the year ended 31 December 2016.

Investor Relations

The Company emphasizes the importance of protecting the interest of investors and endeavors to provide comprehensive and effective investor relations services. After the successful listing of the Company, the Company has actively performed the duties of a listed company. The Company established an investor relations service and management system, formed an investor relations service team led by the Secretary of the Board, set up a hotline and mail box for investor relations services and created an investor relations sector on the official website of the Company, to ensure the true, effective and timely communication of corporate information to investors, endeavoring to safeguard the interest of Shareholders and ensure their rights to information.

The Company was visited by domestic and overseas institutional investors and analysts, and remains in close communication with investors to address their concerns through various channels including teleconferences, video conferences and e-mails, to help investors better understand the latest developments in the market, securities industry as well as the strategies and operations of the Company, subject to the relevant regulatory requirements for information disclosure.

Amendments to the Articles of Association

During the Reporting Period, the Articles of Association was amended three times. The Company has completed the filing formalities of the Articles of Association at Hong Kong Companies Registry.

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

Board Diversity Policy

The Remuneration and Nomination Committee has adopted a Board Diversity Policy concerning the diversity of Board members pursuant to paragraph A.5.6 of the Corporate Governance Code. The Company regards the increasing of diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development. In designing the composition of the Board, diversity has been considered from a number of aspects, including but not limited to: gender, age, cultural, educational background, professional experience and other factors. All appointments of the Board will be based on merits, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, the ultimate decision will be based on merit and contribution that the selected candidates can bring to the Board. The composition of the Board will be disclosed in the Corporate Governance Report annually.

The Remuneration and Nomination Committee will report annually in the Corporate Governance Report on the composition of the Board of Directors under diversified perspectives, and monitor the implementation of the Board Diversity Policy and will review it, as appropriate, to ensure its effectiveness. The Remuneration and Nomination Committee will discuss any changes that may be required, and recommend any such changes to the Board for consideration and approval.

Risk Management and Internal Control

Risk Management

For the objectives and policies of risk management of the Company, please refer to the “Management Discussion and Analysis – Risk Management” section of this annual report.

Internal Control

Establishment of Compliance Management System

The Company has established a four-tier compliance management structure comprised of the Board, Chief Compliance Officer, Legal and Compliance Department, and the persons in charge of compliance management across all departments and branches. The compliance management system-with the Chief Compliance Officer as the core-is independent from the operations management system of the Company, and has the right to independently issue compliance reports.

The Board and the executive management of the Company shall be ultimately responsible for the compliance of the operations and management of the Company, whilst the heads of each of the Company’s departments and business lines shall be primarily responsible for the compliance of the operations and management of the relevant departments and business lines.

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

The Chief Compliance Officer, a senior management member of the Company, is in charge of the Company's compliance management, accountable to the Board and is responsible for reviewing, supervising and examining the compliance of the operations, management and business activities carried out by the Company and its employees.

The Company has established the Legal and Compliance Department as a dedicated department of compliance management under the leadership of the Chief Compliance Officer, to independently carry out the compliance management work of the Company. The main responsibilities of the Legal and Compliance Department are: to review and assess the compliance risks arising from the business operations of the Company, provide compliance advice and compliance consultation, supervise rectification of compliance risk, conduct training in compliance and establish the concept of compliance.

The Company has appointed compliance specialists in all securities branches. The compliance specialists are responsible for the day-to-day monitoring, inspection, management and training in relation to compliance in the branches. The compliance specialists are under the dual leadership of the branches and the Legal and Compliance Department.

Internal Auditing

During the Reporting Period, the Audit Department has broadened the scope of audits and increased the frequency of auditing with a focus on the efficiency of auditing, and independently performed the duties of audit supervision in accordance with the requirements of the Supervisory Committee of the Company.

During the Reporting Period, the Audit Department implemented a total of 120 audit projects. Among these projects, 16 were projects for headquarters, two were audit projects for subsidiaries and 102 were audit projects for branches, the details of which are as follows:

Departments involved in 16 audits for headquarters included: Investment Banking Department, Debt Underwriting Department, Capital Market Department, Fixed Income Department, Derivatives Trading Department, International Business Department, Custodian Department, Brokerage Business Management Committee, IT Department, Legal and Compliance Department and other departments; and the evaluation of compliance effectiveness involved all business and functional departments of the Company;

Two audits for subsidiaries included China Securities International and China Securities Capital;

102 audits for branches included compulsory audits on resignation of general managers of branch offices and securities branches as well as anti-money laundering special audits.

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

Through the abovementioned audits, the Audit Department of the Company examined and evaluated the integrity and effectiveness of the internal control of the audited units, and revealed the existing major risks, which played a proactive role in promoting the improvement of awareness of risk prevention in all departments, subsidiaries and branches, as well as improvement of risk management of the Company and other aspects.

Procedures for Processing and Releasing Inside Information

With approval from the Board, and pursuant to the requirements of domestic and overseas laws and regulations, Listing Rules and Articles of Association, as well as the actual conditions of the Company, the “Policy on Information Disclosure Management of CSC Financial Co., Ltd.” has been formulated by the Company to determine the division of duties and responsibilities on information disclosure, the procedures for processing and releasing inside information and other information required to be disclosed. Pursuant to this policy, the Company must, as soon as reasonably practicable after any inside information has come to its knowledge or a false market may be formed, disclose such information to the public.

During the Reporting Period, the Company has truthfully, accurately, legally and timely disclosed information strictly in compliance with the requirements of domestic and overseas laws and regulations, Listing Rules, Articles of Association and the Policy on Information Disclosure Management of the Company without any false statements, misleading statements or material omissions, to ensure investors will be able to receive the disclosed information in a fair, timely and effective manner.

Self-evaluation of Risk Management and Internal Control

The internal control evaluation of the Company was carried out according to or with reference to the Guidance for the Internal Control of Securities Firms of CSRC, the Guidance for the Internal Control of Companies Listed on Shanghai Stock Exchange and the Guidance for the Internal Control of Companies Listed on Shenzhen Stock Exchange and other rules and regulations. The internal control requirements for specific business were implemented based on various systems, measures, procedures and rules formulated by the Company. The appraisal also referred to the Basic Norms of Internal Control for Enterprises and 18 ancillary guidelines on application and appraisal jointly issued by the Ministry of Finance, the CSRC, the Audit Commission, the CBRC and the CIRC.

The Board and the management of the Company are jointly responsible for the establishment, effective implementation and improvement of a sound risk management and internal control system. The objectives of risk management and internal control of the Company are: ensuring the legality of operations of the Company and the execution of internal regulatory system, protecting against operational risk and moral risk, securing the safety and completeness of the assets of the clients and the Company, ensuring the reliability, completeness and timeliness of the business records, financial information and other information of the Company, ensuring the compatibility of the ability of risk-resistance and risk preference of the Company against the existing level of risk exposure, improving the operational efficiency and promoting the operational effectiveness of the Company.

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

The risk management and internal control system of the Company aims to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide a reasonable but not absolute assurance against material misstatement or loss. As risk management and internal control have inherent restrictions, we can only reasonably assure that the above objectives can be achieved. Furthermore, the effectiveness of risk management and internal control may also change with the changes in the Company's internal and external environment and operating conditions. The Company has set up an inspection and supervision mechanism through which the Company can take measures to rectify defects in the risk management and internal control once identified.

The Board concluded that, having based on the requirements of the relevant laws, regulations and regulatory rules, an evaluation on the risk management and internal control of the Group was conducted. As of 31 December 2016, the Group was not aware of any material defect in risk management and internal control of the Group. The Board is of the view that the Group has established an effective risk management and internal control system, which has achieved the Company's objectives of risk management and internal control and is free from material defect and significant defect.

Communication with Shareholders

The Shareholders' general meeting is the body exercising the authority of the Company and shall exercise the duties and powers in accordance with the law, the Articles of Association and the Rules of Procedures for the Shareholders' General Meeting of the Company. The rights of the Shareholders are clearly specified in the Articles of Association. The Company convened the Shareholders' general meetings in strict compliance with the relevant rules and procedures such that all Shareholders are treated equally and can fully exercise their rights. Shareholders may propose to convene an extraordinary general meeting or Shareholders' class meeting or put forward proposals pursuant to the Articles of Association. Shareholder(s) that hold, individually or collectively, 10 percent (10%) or more of the Shares in the Company shall have the right to request in writing the Board to hold an extraordinary general meeting or Shareholders' class meeting. The Board, the Supervisory Committee and Shareholder(s) that hold, individually or collectively, three percent (3%) or more of the Shares in the Company shall have the right to propose motions to the Company at the general meeting. The Shareholders may attend and vote in Shareholders' general meetings in person and by proxy. The resolutions and the attendance records signed by the attending Shareholders and proxy statements shall be kept at the Company's principal address. Shareholders may inspect the copy of the resolutions of the meetings during the Company's business hours free of charge. The Articles of Association is set out on the websites of the Company and the Hong Kong Stock Exchange.

SECTION 10 CORPORATE GOVERNANCE REPORT (Continued)

The Shareholders' general meeting provides opportunities for constructive communications between the Company and its Shareholders. Shareholders are encouraged to attend the Shareholders' general meetings in person, or if they fail to attend such meetings, appoint proxies to attend and vote at the meetings for and on their behalves. The Company highly values the opinions, suggestions and concerns of the Shareholders and has assigned dedicated persons to proactively and ethically carry out various types of investor relation activities to keep in contact with Shareholders and timely meet their reasonable demands.

The Company's website (www.csc108.com) provides Shareholders with corporate information, such as major business activities and the latest development of the Group, the Group's corporate governance, the structure and functions of the Board and each of the committees of the Company. To serve as a channel promoting effective communication with Shareholders, the Company also publishes announcements, circulars, notices of Shareholders' general meeting, financial data and other information of the Company required to be disclosed under the Listing Rules from time to time through the "Investor Relations" section on the Company's website. Shareholders are encouraged to make enquiries by phone, by email or write directly to the office address of the Company, which will be dealt with appropriately in a timely manner. Please refer to the "Company Information" section of this annual report for the contact details.

The Company welcomes all Shareholders to attend Shareholders' general meetings and makes appropriate arrangement for Shareholders' general meetings to encourage Shareholders' participation. The Company's Directors, Supervisors and senior management will attend Shareholders' general meetings. In accordance with paragraph E.1.2 of the Corporate Governance Code, the Chairman of the Board, the Development Strategy Committee, the Risk Management Committee, the Audit Committee and the Remuneration and Nomination Committee under the Board shall be available to answer questions at the annual general meeting and shall also ensure that the external auditor will attend annual general meetings to answer the relevant questions raised by Shareholders.

The Company shall arrange the Board to answer questions raised by Shareholders during the 2016 annual general meeting. Detailed procedures of voting and resolutions to be voted by way of poll will be contained in the circular to be dispatched to the Shareholders.

SECTION 11 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Scope and Reporting Period

The Group made the following disclosure pursuant to the Environmental, Social and Governance Reporting Guide as required in Appendix 27 under the Listing Rules of The Stock Exchange of Hong Kong Limited.

Unless otherwise specified, this Environmental, Social and Governance Report covers the overall performance in two major areas of the Company, namely environmental and social aspects, from 1 January 2016 to 31 December 2016.

During the Reporting Period, the Group has complied with the “comply or explain” provisions as set out in the Environmental, Social and Governance Reporting Guide.

The Company shall take the social responsibilities to implement energy conservation, emission reduction and environmental protection and has devoted itself in proactively bringing the concept of ecological and environmental protection and sustainable development in practice in daily business as well as achieving energy conservation and emission reduction through various measures with an aim to support the development of charity and environmental protection businesses. During the Reporting Period, the Company implemented green operation in daily business by the following ways:

- (1) We encouraged employees to develop good habits in reducing power consumption and assigned designated persons to regularly check, manage, and maintain power facilities. Electronic equipment not in use shall be turned off immediately to save power consumption; meanwhile, the Group actively installed and replaced the equipment with environmentally friendly equipment featuring lower power consumption, ensuring the basic needs in the office while reducing power consumption as far as possible;
- (2) We offer a centralized supply of drinking water, which is beneficial to bodily health while avoiding waste, and reduced the consumption of water by renewing or replacing the automatic cleaning system and assigning designated persons to conduct regular maintenance;
- (3) We promoted the measure of a paper-free office by holding conference calls and audio-visual meetings, initiating a recycling system of used paper, encouraging double-sided printing and recycled printing in order to reduce paper use and avoid paper waste;
- (4) We spread the idea of living green by organizing a “Healthy Walk” and other relevant activities.

During the Reporting Period, the Group strictly complied with relevant regulations and policies on environmental protection and was not involved in any event of environmental pollution nor subject to any complaint, investigation or punishment for environment issues.

SECTION 11 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Environment

During the Reporting Period, the Group was principally involved in the consumption and use of gasoline, power, water and paper. The business of the Group was not related to the emission of air, water and land pollutants generated from production regulated by national laws and regulations.

During the Reporting Period, the Company's use of major resources and energy is as follows:

Gasoline

During the Reporting Period, the Group consumed gasoline of 26.19 tonnes for vehicles, which was mainly used for the daily consumption by the office vehicles of the Company.

Power

During the Reporting Period, the power consumption of the Group was 5,203,092 kWh, which was standard consumption for the daily operation of the Company.

Use of Water

During the Reporting Period, the water consumption of the Group was 10,729.36 tonnes. The water consumption is classified as daily consumed water.

Paper

During the Reporting Period, the Company procured a total of 1.06 tonnes of paper, which was mainly for general office purposes. The Company promoted the reduction of paper use and strongly supported the measure of a paper-free office by holding conference calls and audio-visual meetings and encouraged the recycling of printed paper and double-sided printing in order to avoid paper waste.

Since the Group operates in the financial service industry, other than the above major emission categories, there is no other category of emission that needs to be disclosed in accordance with relevant laws and regulations. The Group strictly follows the environmental laws and regulations in the PRC, and there has been no material environmental problem during the Reporting Period.

SECTION 11 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Social

Employment

As of 31 December 2016, there are 9,611 staff members in the Group.

Employees of the Group categorized by age and gender:

Age	Number of employees	Proportion (%)
34 or under	7,352	76.50%
35 to 50	1,952	20.31%
51 or above	307	3.19%
Total	<u>9,611</u>	<u>100.00%</u>

Gender	Number of employees	Proportion (%)
Male	5,316	55.31%
Female	4,295	44.69%
Total	<u>9,611</u>	<u>100%</u>

The Group formulated Personnel Administrative Measures, Remuneration Administrative Measures, Performance Appraisal Measures and relevant systems, as well as a Benefits and Leave Management System. The aforesaid systems are in line with the scope of the PRC laws and embody the characteristics of the industry and the actual condition of the Company. The Company strictly follows the regulations and systems to determine the position and remuneration of staff, recruitment and appointment, clearly sets performance targets, and the scope and procedure for appraisal. The Group upholds the core value of “deserving a better position by making achievements and developing talents”. The Company offers promotion and remuneration adjustment based only on the performance and operating results of employees without regard to the gender, race, religion or region of the employees. The Company provides favourable benefits and holidays for employees and keeps improving the standard of benefits by taking into consideration relevant government requirements and the actual operating condition of the Company. The Company encourages work-life balance and guarantees the right of holidays for employees.

SECTION 11 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Health and Safety

The Group highly values the health and safety of its employees and adopts measures to provide satisfactory working conditions and an environment necessary for the commencement of business:

- (1) installation of necessary equipment for pollution control;
- (2) provision of safety equipment when adverse weather occurs;
- (3) provision of health examination for employees to timely alert them to health risks.

As the Group operates in the financial service industry, the possibility of encountering occupational hazards is relatively lower due to the nature of the industry. During the Reporting Period, there was no death of employees due to work.

Development and Training

The Company continues to promote and implement staff training programs with comprehensive layout, overall planning, implementation by levels and clear purposes, and constantly strengthens the development of a talented team. The Company proactively improves the multi-level training system which focuses on the “ladder of training for the growth of employees” against different career development paths of employees of the headquarters and branches. Utilizing e-learning systems and mobile learning APP as carriers for learning resources and combining offline face-to-face teaching with online learning as the major training medium, the Company creates room for learning and growth for employees and comprehensively improves the professional skills and professionalism of the employees through multi-channel, multi-way and multi-means training which broadens the scope and depth of training.

- (1) To strengthen the training of leadership and managerial skills for senior-level employees, broaden their innovative thinking and international perspective and improve their management ability for change and transformation, strategy analysis, operation, business collaboration and risk management, as well as their comprehensive cultural competence, so as to nurture high-quality personnel for corporate operations and management.
- (2) To strengthen the training and execution, competency and professional skills for middle-level employees, to improve their theoretical knowledge and ability in execution, business development and innovation, as well as team management.

SECTION 11 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

- (3) To popularize training of vocational and general skills for entry-level employees, to familiarize them with the Company's corporate culture, compliance in business operations, operating system, workflow and administration system, as well as to improve their ability in communication, customer service, teamwork, office operation and other aspects.
- (4) To popularize the continuing education and training upon obtaining qualifications for securities operations for all practitioners under the system, and keep abreast of the latest development of new policies and businesses in the market in accordance with regulatory requirements, so as to achieve compulsory and elective online learning of 15.2 hours of continuing education per person.
- (5) To attach great importance to campus recruitment and training programs of trainees and new employees from campus recruitments. In 2016, the Company provided a total of approximately 44 hours of pre-work, online courses for the new employees of the headquarters and branches from campus recruitments regarding company culture, business knowledge, office skills, professional quality and others, and organized intensive orientation and training programs for new recruits in batches.

During the Reporting Period, details of face-to-face training of the Company are set out below:

Target	Average Training Hours	Number	Proportion
Senior management	27.1	112	1.78%
Middle management	28.4	846	13.47%
Entry-level employees	25.1	5,323	84.75%
Total	–	6,281	100.00%

Note: Senior management refers to the members of the Executive Committee, managing directors (MD) of the headquarters, executive director (ED), general managers of branches/centers, and general managers/deputy general managers/assistant general managers of subsidiaries of the Company. Middle management refers to director (D), senior vice president (SVP), vice president (VP), and managers of branches of the Company. Entry-level employees refer to the senior associate (SA), associate (A), personnel at or below the rank of branch manager and employees of subsidiaries of the Company.

SECTION 11 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Details of online training:

Target	Average Training Hours	Number
Online study on follow-up education of vocational qualification	15.2	6,090
Online study on pre-work online course for new employees	44	1,346
Total	–	7,436

Labor Standards

The Company formulated policies regarding personnel management and recruitment management. All employees entered into the labor contracts in compliance with laws and regulations with the Company on a voluntary basis. The contracts determine the duties and obligations of both parties, as well as the rights of both parties. For the management of dispatched employees, the Company commissioned a professional human resources institution recognized by the human resources and social security departments of the government to sign the labor contracts in compliance with laws and regulations. The contracts determine the rights and obligations of each party, and the relevant labor security provisions. For management involving brokers for the brokerage business, as both parties entered into the securities broker agency contract, both parties are solely in a relationship of entrusted agency for legal purposes, and it does not constitute a labor employment relationship. All employees work in a fair, mutually beneficial and safe environment and under the protection of labor laws of Mainland China.

According to recruitment standards, the employees of the Company are all over 20 years old, in compliance with the provisions of employees with ability to work of Mainland China. During the Reporting Period, the Company complied with all laws and regulations and did not conduct any illegal acts in terms of employment.

SECTION 11 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Supply Chain Management

As the Company is in the financial services industry, suppliers are mainly information system services providers. The breakdown of suppliers of the Company by region is as follows:

Suppliers by Region

Region	Number
Beijing	56
Shanghai	12
Shenzhen	5
Chongqing	2
Tianjin	5
Guangdong	6
Sichuan	3
Fujian	12
Hebei	5
Shandong	2
Shanxi	2
Jiangxi	4
Jiangsu	8
Yunnan	2
Hubei	2
Jilin	1
Hainan	2
Zhejiang	4
Anhui	1
Heilongjiang	1
Liaoning	1
Shaanxi	2
Total	<u>138</u>

During the Reporting Period, the Company controlled the eligibility of suppliers in strict compliance with the Administrative Regulations on the Evaluation of Information System Suppliers of CSC Financial Co., Ltd. and the Administrative Regulations on the Information System Procurement of CSC Financial Co., Ltd. and adhering to the principle of “open, fair, just, competitive and effective procurement”. All information systems must be purchased from shortlisted and qualified suppliers.

SECTION 11 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

At the end of the Reporting Period, the Company reviewed all the suppliers before their entries with a review ratio of 100%, and determined that the structure of suppliers of the Company had no significant change. Meanwhile, the Company carried out evaluations on suppliers by system users and administrators at the end of the year, and those suppliers who failed to meet the standards will be blacklisted. The Company designed a centralized procurement management system in accordance with the procurement management regulations to regulate the centralized procurement through the platform and ensure that all IT procurements are purchased from shortlisted and qualified suppliers.

Product Liabilities

Feedback on Service Complaints

The Group has established detailed rules and handling processes for complaints to ensure that the opinions of the Company's clients are properly handled. For example, the Company formulated the Regulations on the Standardization of Management on Petition, Complaint and Dispute from Clients of the Securities Branches of CSC Financial Co., Ltd., established a leading group for complaint and dispute handling, carried out a precise and multi-dimensional classification on clients' complaints, and strictly followed the process to handle complaints and answer questions.

Service Quality and Risk Control

The Group provides financial services or financial products to different types of clients through its brokerage business and third-party financial products and futures IB distribution business, asset management business, securities underwriting and sponsorship business, securities financing business, financial advisory business, investment advisory business, research and consultation.

The Company has established stringent product and service quality standards, effective operational procedures and technical support systems in accordance with laws and regulations, industry regulations and industry self-regulatory rules and considers investor education and protection of the legitimate rights and interests of clients as important prerequisites for the business operations of the Company.

SECTION 11 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

The Company implemented the “whole-process quality control”. Before establishment of the project, the quality control department of each business line will designate the relevant quality control personnel to carry out a preliminary review on the establishment of such project. During the stage of due diligence, the quality control personnel will continuously track the rectification of significant problems of the project. Before internal review, the quality control personnel will carry out on-site verification of the project to verify the completeness of the implementation of the due diligence procedures by reviewing drafts and interviews, and issue a preliminary opinion of internal review. Submission of application documents for the project is subject to substantive approval by quality control personnel. During the stage of project review, the quality control personnel will continuously focus on the key points of approval by regulatory authorities, and conduct a substantive review on the feedback. During the stage of continuous supervision on the project, the quality control personnel will continuously track the project, and regularly check the status of continuous supervision of the project team. The proposed establishment of the project is subject to preliminary assessment and due diligence by the project team, preliminary examination by the quality control department and approval from the project approval committee of investment banking related business. Members of the Capital Market Department, Legal and Compliance Department, and Risk Management Department also participate in the approval of the establishment, so as to control the quality risk of the project from the beginning.

The Company formulated prudent risk control standards against the distribution of third-party financial products, underwriting of debt-financing instruments, investment projects under asset management plans and others. Professionals from the Risk Management Department and Legal and Compliance Department will participate in the approval and express independent opinions to ensure that the related quality and risk control standards of the Company are effectively implemented. The Company has established a follow-up tracking and monitoring mechanism for its sales and investment products to identify and handle risks in a timely manner and duly perform its related management responsibilities. Also, the Company has established a thorough client complaint channel, and processing and feedback mechanism against customer services, so as to handle clients’ disputes in a timely manner and safeguard the interests of clients with greatest effort.

During the Reporting Period, the Company did not have any non-compliance nor had prejudiced the interests of its clients.

SECTION 11 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Client Privacy

To further reinforce the management of confidential information of clients and prevent the improper disclosure of client's data and information, the Group mainly adopts the following responsive measures:

Follow-up and Immediate Feedback by Designated Team

The Group requests the staff of all securities branches or call centers to immediately report to the headquarters and address the problems after receiving complaints from our clients.

Upgraded System for Alarm Monitoring

The Group uses reversible encryption for transmission of sensitive information through encrypted transmission at the telecommunication level. Sensitive information of clients will be as invisible as possible on the webpage or client's end or management platform. In testing the data environment, such sensitive information will be censored before external use. For output of large batches of data, an alarm function will be applied to ensure effective protection and management of sensitive information.

Management Strengthening and Risk Mitigation

The Group strengthens the supervision and education of awareness of compliance over staff who gain access to client's sensitive information. Save for exceptional cases, no access to the internal management system is permitted through external networks. Suspected cases shall be reported with suspected evidence and the Company shall encourage successful whistle-blowers with rewards. If the improper disclosure of data is confirmed to have been caused by the misconduct of staff, the Company will undergo the accountability process and impose serious punishment against the staff concerned.

SECTION 11 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Anti-money Laundering

The Group strictly complies with national laws and regulations on anti-money laundering and has established a mature mechanism for anti-money laundering by considering the nature of industry in which it operates and closely follows the designated procedures to implement the mechanism.

- (1) The Company formulated the “Internal Control Measures on Anti-money Laundering and Anti-terrorism of CSC Financial Co., Ltd.”, the “Administrative Measures on Category and Classification of Risks on Money Laundering by Clients and Terrorism Financing of CSC Financial Co., Ltd.”, the “Self-Assessment System for Risks on Money Laundering and Terrorist Financing of CSC Financial Co., Ltd.” and relevant systems on anti-money laundering and made supplements and amendments in accordance with regulatory requirements and actual needs.
- (2) The Legal and Compliance Department will procure and assist relevant business departments and branch offices in formulating and rationalizing the internal system on anti-money laundering and clearly specify the internal work flow and control measures for anti-money laundering. Each of the branch offices timely adjusts the internal control system for anti-money laundering of each branch office in accordance with the requirements of local regulatory departments, including the People’s Bank and report to regulatory departments, including the People’s Bank.
- (3) The Company has included the works on anti-money laundering in its business flow and classified its clients in terms of risks involving in money laundering activities as well as reporting large and suspicious transactions in accordance with applicable regulatory requirements.
- (4) The Legal and Compliance Department will monitor the works on anti-money laundering and provide training to the persons in charge from each branch office in order to enhance their anti-money laundering skills.

SECTION 11 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (Continued)

Anti-corruption and Fraud

The disciplinary committee of the Company formulated the “Implementation Provision on Complaints by Letters and Calls for Discipline Inspection and Supervision”, which clearly requires that the disciplinary committee of the Company shall be the only competent unit to accept complaints. It shall accept collective complaints against a subject under the whistle blowing policy who violates the rules and disciplinary policies of the Company and address such complaints through proper procedures that cover registration, acceptance, preliminary approval, investigation and handling, etc. The Legal and Compliance Department formulated the “Anti-fraud Management System” in order to prevent, manage, investigate and punish anyone who commits fraud against internal and external staff of the Company in an unlawful manner for their own benefit improperly and damages the economic benefits obtained by the Company from lawful sources.

During the Reporting Period, there was no corruption and fraud by employees of the Company.

Community

The Group attaches great importance to its relationship with the local community where it operates its businesses, and actively participates in the establishment and development of the local economy and contributes to the development of the local community by, among others, hiring local staff, providing professional financial services, organizing seminars on financial knowledge, setting up special funds and making donations.

During the Reporting Period, the Group made donations to a total of 18 external organizations in the amount of RMB3.44 million, mainly toward poverty alleviation, donations to schools, resource protection and other charitable projects. Among such projects, the Company donated RMB1 million for the Renovation Project of Dangerous Buildings of Anjiazao Primary School (安家皂小學危房改造項目) of China Children and Teenagers’ Fund for setting up the Anyuan Education and Poverty Alleviation Fund (安遠教育扶貧基金) with initial capital of RMB1 million, which has provided great support to local education and poverty alleviation works. In addition, all business departments of the Company proactively held training courses and seminars on professional financial knowledge for local enterprises and the public and in poor areas. According to incomplete statistics, the Company commenced the training and teaching on M&A and reorganization for local enterprises in Beijing and delivered a keynote speech at the “First Session of NEEQ Investor Conference of China”. In addition, the Company once organized the “CSC Precise Poverty Alleviation Activities in Ji County: Financial Knowledge Training” in Ji County, Linfen City, Shanxi Province, which was targeted to provide professional support to the development of the local economy. Moreover, the research and development department, branch offices and securities branches of the Company provided investment education to the public on 13 occasions.

Independent Auditor's Report

To the Shareholders of CSC Financial Co., Ltd.

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

Opinion

What we have audited

The consolidated financial statements of CSC Financial Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 171 to 295, which comprise:

- the consolidated statement of financial position as of 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as of 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Consolidation of structured entities
- Impairment assessment of margin accounts
- Impairment assessment of available-for-sale financial assets

Independent Auditor's Report (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation of structured entities	
<p>Refer to note 48 to the consolidated financial statements.</p>	<p>We obtained and read the contracts from the Group's asset management and investment portfolio on a sample basis to assess the extent of power the Group has over its structured entities, the Group's exposures or rights to variable returns from its involvement with its structured entities and the link between the Group's power and returns with respect to the structured entities.</p>
<p>The Group acts as asset manager for or invested in a number of investment funds and asset management plans which are structured entities.</p>	<p>We checked the data used in the calculation of the Group's exposures or rights to variable returns from its involvement with the structured entities on a sample basis to the related contracts. We also re-performed management's calculations of the Group's exposures or rights to variable returns.</p>
<p>Management makes significant judgment on whether the Group controls and therefore should consolidate these structured entities.</p>	<p>Based on the procedures performed above, we found management's consolidation judgment relating to these structured entities acceptable.</p>
<p>Management has determined that the Group has control of certain structured entities based on their assessment of the Group's power over, its exposure to variable returns from its involvement with, and its ability to use its power to affect the amount of its returns from these structured entities. The controlled structured entities have been consolidated and their total assets was RMB12,371.83 million as at 31 December 2016.</p>	
<p>The significant judgement exercised by management in assessing whether the Group has control of structured entities and the amount of such structured entities included in the consolidated statement of financial position resulted in this matter being identified as a key area of audit focus.</p>	

Key Audit Matter

Impairment assessment of margin accounts

Refer to note 27 to the consolidated financial statements.

As at 31 December 2016, the Group had margin accounts totalling RMB31,093.62 million, with allowance for impairment losses assessed by management of RMB86.94 million.

Management assessed whether objective evidence of impairment existed for margin accounts that were individually significant at each reporting date. If there was objective evidence of impairment, impairment loss was recognized individually. Management performed a collective assessment for the remaining portfolio that were not individually significant or for which impairment had not yet been identified that were included in one group of financial assets because of their similar credit risk characteristics.

Impairment assessment of margin accounts was considered to be a key audit area due to the size of the balance and the significant management judgement involved in assessing impairment.

How our audit addressed the Key Audit Matter

We evaluated the design and tested the operating effectiveness of controls over management's identification of impaired margin accounts including their regular monitoring of the collateral values.

For impaired margin accounts, we assessed the market prices of the collateral used for determining the impairment losses.

For collective impairment assessment, we assessed the appropriateness of the model and inputs used by comparing against those used in market practice and the Group's historical loss experience. We also re-performed management's calculations.

Based on the results of our procedures performed above, we found the models used and inputs adopted acceptable.

Independent Auditor's Report (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of available-for-sale financial assets	
<p>Refer to note 21 and note 14 to the consolidated financial statements.</p>	<p>With respect to available-for-sale debt instruments, we evaluated management's judgement of the occurrence of the impairment event by referring to market data including market price and the credit ratings of the investees.</p>
<p>As at 31 December 2016, the Group had available-for-sale financial assets of RMB34,594.79 million with impairment losses charged in the consolidated income statement for the year ended 31 December 2016 of RMB14.78 million.</p>	<p>With respect to available-for-sale equity instruments, we evaluated management's judgement of the occurrence of the impairment event by referring to market data including market price or financial information of the investees. We also evaluated the appropriateness of the criteria applied by management in their assessment of whether the decline in fair value was "significant" or "prolonged" by reference to market practice.</p>
<p>Management considered whether there was any objective evidence that the available-for-sale financial assets were impaired. Objective evidence of impairment arose when, among other matters, the investee's financial conditions and business prospects deteriorated significantly. Objective evidence of impairment for available-for-sale equity instruments also included a significant or prolonged decline in fair value below cost.</p>	<p>For impaired instruments, we tested the impairment losses made by evaluating the models and inputs used including market price, financial information of the investees and comparable market parameters.</p>
<p>Impairment assessment of available-for-sale financial assets is a key audit area due to the size of the balance and the significant management judgement involved in assessing impairment.</p>	<p>Based on the results of our procedures, we found management's assessment of occurrence of impairment and the models and inputs used for determining the impairment losses acceptable.</p>

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance is responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report (Continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report (Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yip Siu Foon, Linda.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 17 March 2017

Consolidated Income Statement

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

	Note	Year ended 31 December	
		2016	2015
Revenue			
Fee and commission income	7	10,584,156	14,900,872
Interest income	8	4,440,820	5,572,959
Net investment gains	9	2,411,771	3,979,922
		<u>17,436,747</u>	<u>24,453,753</u>
Other income	10	147,968	58,713
		<u>17,584,715</u>	<u>24,512,466</u>
Total revenue and other income			
Fee and commission expenses	11	(1,388,863)	(2,237,463)
Interest expenses	11	(2,848,795)	(3,218,608)
Staff costs	11	(4,282,080)	(4,743,028)
Tax and surcharges		(347,347)	(1,144,428)
Other operating expenses and costs	11	(1,658,540)	(1,552,589)
Impairment (reversal)/losses	14	1,667	(154,875)
		<u>(10,523,958)</u>	<u>(13,050,991)</u>
Total expenses			
Operating profit		<u>7,060,757</u>	<u>11,461,475</u>
Share of profits and losses of associates		(3,337)	–
		<u>7,057,420</u>	<u>11,461,475</u>
Profit before income tax			
Income tax expense	15	(1,744,198)	(2,809,622)
		<u>5,313,222</u>	<u>8,651,853</u>
Profit for the year			
Attributable to:			
Equity holders of the Company		5,259,251	8,638,825
Non-controlling interests		53,971	13,028
		<u>5,313,222</u>	<u>8,651,853</u>
Earnings per share attributable to ordinary equity holders of the Company (expressed in RMB yuan per share)			
– Basic and diluted	17	0.81	1.37

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016
(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2016	2015
Profit for the year	5,313,222	8,651,853
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent years		
Available-for-sale financial assets:		
Changes in fair value	(414,304)	257,455
Income tax effect on changes in fair value	103,878	(64,507)
Gains reclassified to the consolidated income statement	(133,531)	(146,444)
	(443,957)	46,504
Foreign currency translation differences	57,161	45,883
Other comprehensive (losses)/income for the year, net of tax	(386,796)	92,387
Total comprehensive income for the year	4,926,426	8,744,240
Attributable to:		
Equity holders of the Company	4,872,430	8,731,200
Non-controlling interests	53,996	13,040
	4,926,426	8,744,240

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 31 December 2016

(In RMB thousands, unless otherwise stated)

	Note	31 December 2016	31 December 2015
Non-current assets			
Property, plant and equipment	18	523,317	514,422
Investment properties		56,282	65,511
Intangible assets	19	144,420	121,553
Investment in associates		172,163	50,000
Available-for-sale financial assets	21	6,112,058	1,457,190
Held-to-maturity investments	22	277,480	374,416
Financial assets held under resale agreements	23	625,444	–
Refundable deposits	24	3,460,337	2,144,517
Deferred tax assets	25	811,153	747,397
Other non-current assets	26	192,303	162,864
Total non-current assets		12,374,957	5,637,870
Current assets			
Margin accounts	27	31,006,673	35,931,133
Accounts receivable	28	378,468	153,325
Financial assets held for trading	29	27,227,912	28,485,993
Financial assets designated as at fair value through profit or loss	30	325,211	1,503,783
Available-for-sale financial assets	21	28,482,732	15,890,616
Held-to-maturity investments	22	376,828	13,997
Derivative financial assets	31	49,108	142,052
Financial assets held under resale agreements	23	7,079,669	6,896,446
Cash held on behalf of clients	32	55,082,662	70,663,754
Cash and bank balances	33	17,525,589	16,154,266
Other current assets	34	1,785,231	1,715,140
Total current assets		169,320,083	177,550,505
Total assets		181,695,040	183,188,375

Consolidated Statement of Financial Position (Continued)

As at 31 December 2016

(In RMB thousands, unless otherwise stated)

	<i>Note</i>	31 December 2016	31 December 2015
Current liabilities			
Accounts payable to brokerage clients	35	56,736,034	72,045,265
Derivative financial liabilities	31	132,576	190,752
Financial liabilities held for trading	36	2,972,738	93,191
Financial assets sold under repurchase agreements	37	24,531,442	27,462,271
Placements from banks and other financial institutions	38	9,360,000	2,284,000
Taxes payable	39	755,982	1,591,758
Short-term borrowings	40	1,781,481	1,122,779
Short-term financing instruments payable	41	7,757,199	11,322,686
Other current liabilities	42	22,184,460	19,786,250
Total current liabilities		<u>126,211,912</u>	<u>135,898,952</u>
Net current assets		<u>43,108,171</u>	<u>41,651,553</u>
Total assets less current liabilities		<u>55,483,128</u>	<u>47,289,423</u>
Non-current liabilities			
Financial liabilities designated as at fair value through profit or loss		9,938	–
Financial assets sold under repurchase agreements	37	500,000	1,800,000
Bonds in issue	43	13,653,036	15,072,207
Deferred tax liabilities	25	46,847	218,610
Other non-current liabilities		10,628	15,703
Total non-current liabilities		<u>14,220,449</u>	<u>17,106,520</u>
Net assets		<u><u>41,262,679</u></u>	<u><u>30,182,903</u></u>

Consolidated Statement of Financial Position (Continued)

As at 31 December 2016

(In RMB thousands, unless otherwise stated)

	Note	31 December 2016	31 December 2015
Equity			
Share capital	44	7,176,470	6,100,000
Other equity instruments	45	5,000,000	5,000,000
Reserves	46	15,099,052	8,601,818
Retained earnings		13,787,528	10,404,347
		<u>41,063,050</u>	<u>30,106,165</u>
Equity attributable to equity holders of the Company		41,063,050	30,106,165
Non-controlling interests		199,629	76,738
		<u>41,262,679</u>	<u>30,182,903</u>
Total equity		41,262,679	30,182,903

The accompanying notes form an integral part of these consolidated financial statements.

Approved and authorized for issue by the Board of Directors on 17 March 2017.

Mr. WANG Changqing

Chairman

Mr. QI Liang

Executive Director and President

Consolidated Statement of Changes in Equity

As at 31 December 2016

(In RMB thousands, unless otherwise stated)

	Attributable to equity holders of the Company											
	Note	Share capital	Other equity instruments	Reserves					Retained earnings	Subtotal	Non-controlling interests	Total
				Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Foreign currency translation reserve				
At 1 January 2016		6,100,000	5,000,000	1,435,956	1,752,094	5,113,814	255,569	44,385	10,404,347	30,106,165	76,738	30,182,903
Profit for the year		-	-	-	-	-	-	-	5,259,251	5,259,251	53,971	5,313,222
Other comprehensive (losses)/ income for the year		-	-	-	-	-	(443,982)	57,161	-	(386,821)	25	(386,796)
Total comprehensive (losses)/ income for the year		-	-	-	-	-	(443,982)	57,161	5,259,251	4,872,430	53,996	4,926,426
Capital injected by equity holders												
– Issuance of H shares		1,076,470	-	5,303,611	-	-	-	-	-	6,380,081	-	6,380,081
– Capital injected by subsidiaries' non-controlling equity holders		-	-	-	-	-	-	-	-	-	71,100	71,100
Appropriation to surplus reserve	46	-	-	-	542,351	-	-	-	(542,351)	-	-	-
Appropriation to general reserve	46	-	-	-	-	1,038,093	-	-	(1,038,093)	-	-	-
Distribution to other equity instrument holders	16	-	-	-	-	-	-	-	(294,000)	(294,000)	-	(294,000)
Distribution to ordinary equity holders		-	-	-	-	-	-	-	-	-	(2,205)	(2,205)
Others		-	-	-	-	-	-	-	(1,626)	(1,626)	-	(1,626)
At 31 December 2016		7,176,470	5,000,000	6,739,567	2,294,445	6,151,907	(188,413)	101,546	13,787,528	41,063,050	199,629	41,262,679

Consolidated Statement of Changes in Equity (Continued)

As at 31 December 2016

(In RMB thousands, unless otherwise stated)

	Attributable to equity holders of the Company											
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	Reserves			Retained earnings	Subtotal	Non-controlling interests	Total
						General reserves	Investment revaluation reserve	Foreign currency translation reserve				
At 1 January 2015		6,100,000	-	1,435,956	831,823	3,365,564	209,077	(1,498)	4,728,043	16,668,965	58,948	16,727,913
Profit for the year		-	-	-	-	-	-	-	8,638,825	8,638,825	13,028	8,651,853
Other comprehensive income for the year		-	-	-	-	-	46,492	45,883	-	92,375	12	92,387
Total comprehensive income for the year		-	-	-	-	-	46,492	45,883	8,638,825	8,731,200	13,040	8,744,240
Issuance of perpetual subordinated bonds	45	-	5,000,000	-	-	-	-	-	-	5,000,000	-	5,000,000
Capital injected by equity holders												
- Capital injected by subsidiaries' non-controlling equity holders		-	-	-	-	-	-	-	-	-	4,750	4,750
Appropriation to surplus reserve	46	-	-	-	920,271	-	-	-	(920,271)	-	-	-
Appropriation to general reserve	46	-	-	-	-	1,748,250	-	-	(1,748,250)	-	-	-
Distribution to other equity instrument holders	16	-	-	-	-	-	-	-	(294,000)	(294,000)	-	(294,000)
At 31 December 2015		6,100,000	5,000,000	1,435,956	1,752,094	5,113,814	255,569	44,385	10,404,347	30,106,165	76,738	30,182,903

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016
(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2016	2015
Cash flows from operating activities		
Profit before income tax	7,057,420	11,461,475
Adjustments for:		
Interest expenses from bonds in issue, short-term financing instruments payable and borrowings	1,497,002	1,417,663
Dividend income and interest income from available-for-sale financial assets	(989,488)	(800,889)
Net gains from disposal of available-for-sale financial assets	(480,187)	(835,995)
Interest income from held-to-maturity financial assets	(40,013)	(12,737)
Net gains attributable to other interest holders of consolidated structured entities	307,095	387,087
Net gains from disposal of long-term equity investment	–	(11,818)
Gains on disposal of property, plant, equipment and other assets	(255)	(680)
Revaluation losses/(gains) on financial instruments at fair value through profit or loss	449,761	(179,304)
Net foreign exchange (gains)/losses	(31,943)	14,375
Depreciation and amortization	205,481	169,502
Impairment (reversal)/losses	(1,667)	154,875
	<u>7,973,206</u>	<u>11,763,554</u>
Net changes in operating assets		
Margin accounts	4,962,719	(4,106,441)
Financial assets held for trading	838,764	(10,256,092)
Cash held on behalf of clients	15,581,092	(27,901,787)
Financial assets held under resale agreements	(830,121)	(4,638,234)
Other operating assets	(261,935)	(2,839,452)
	<u>20,290,519</u>	<u>(49,742,006)</u>

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2016	2015
Net changes in operating liabilities		
Accounts payable to brokerage clients	(15,309,231)	28,558,266
Financial liabilities held for trading	2,902,708	(771,127)
Financial assets sold under repurchase agreements	(4,230,829)	(2,639,522)
Placements from banks and other financial institutions	7,076,000	(1,300,000)
Other operating liabilities	4,279,002	5,219,161
	<u>(5,282,350)</u>	<u>29,066,778</u>
Net cash inflow/(outflow) from operating activities before tax	22,981,375	(8,911,674)
Income tax paid	<u>(2,570,218)</u>	<u>(2,506,240)</u>
Net cash inflow/(outflow) from operating activities	<u>20,411,157</u>	<u>(11,417,914)</u>
Cash flows from investing activities		
Net cash outflow from purchase or disposal of available-for-sale financial assets	(17,380,842)	(4,174,857)
Dividend income and interest income received from available-for-sale financial assets	715,404	900,056
Cash paid for purchase of property, plant and equipment and other assets	(262,092)	(282,006)
Net cash outflow from purchase or disposal of held-to-maturity investments	(265,895)	(388,413)
Net cash outflow from other investing activities	<u>(100,831)</u>	<u>(178,832)</u>
Net cash outflow from investing activities	<u>(17,294,256)</u>	<u>(4,124,052)</u>

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2016
(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2016	2015
Cash flows from financing activities		
Cash inflow from issuing perpetual bonds	–	5,000,000
Cash inflow from initial public offering	6,518,732	–
Cash inflow from capital injected by non-controlling interests	71,100	4,750
Cash inflow from borrowing activities	2,892,603	5,334,951
Cash inflow from issuing bonds	19,316,778	40,551,059
Cash outflow from distribution to other equity instrument holders	(294,000)	–
Cash outflow from distribution to subsidiaries' non-controlling equity holders	(2,205)	–
Payments of debts	(28,605,686)	(29,427,643)
Payments of interest on debts	(1,721,342)	(1,246,315)
Net cash inflow/(outflow) from other financing activities	<u>78,751</u>	<u>(187,041)</u>
Net cash (outflow)/inflow from financing activities	<u>(1,745,269)</u>	<u>20,029,761</u>
Net change in cash and cash equivalents	1,371,632	4,487,795
Cash and cash equivalents at the beginning of the year	15,967,225	11,447,921
Effect of exchange rate changes on cash and cash equivalents	<u>89,103</u>	<u>31,509</u>
Cash and cash equivalents at the end of the year (Note 47)	<u><u>17,427,960</u></u>	<u><u>15,967,225</u></u>

The accompanying notes form an integral part of these consolidated financial statements.

Note to the Consolidated Financial Statements

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

1 GENERAL INFORMATION

CSC Financial Co., Ltd. (the “Company”) (formerly known as China Securities Finance Co., Ltd.) is the successor entity of China Securities Finance Limited Liability Company which was approved for establishment by the China Securities Regulatory Commission (the “CSRC”) on 2 November 2005. The original registered capital of the Company was RMB2,700.00 million. The registered address of the Company is Flat 4, No. 66 Anli Road, Chaoyang District, Beijing, the People’s Republic of China (the “PRC”).

The Company received the approval of CRSC on 30 June 2011 to convert into a joint stock company, with registered capital increased to RMB6,100.00 million. The Company completed the industrial and commercial registration for these changes on 28 September 2011, and obtained its new business license with the Unified Social Credit Code of 91110000781703453H on 31 December 2015.

The Company completed its initial public offering of overseas listed foreign shares (“H shares”) on the Stock Exchange of Hong Kong Limited on 9 December 2016. Under this offering, the Company issued a total of 1,076.47 million new shares with a nominal value of RMB1 per share. After this public offering, total share capital of the Company increased to RMB7,176.47 million.

The principal activities of the Company and its subsidiaries (collectively, the “Group”) include securities brokerage, financial advisory relating to securities trading and securities investment activities, securities underwriting and sponsoring, proprietary trading and investment of securities, securities asset management, agency sale of securities investment funds, introducing brokerage for futures companies, margin financing and securities lending services, agency sale of financial products, market-making of stock options, custodian services for securities investment funds, and sale of precious metal products, commodity futures brokerage, financial futures brokerage and asset management, equity investment and corporate management services, investment management, raising and management of investment funds.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), as issued by the International Accounting Standards Board (“IASB”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments, financial assets and liabilities held for trading, financial assets and liabilities designated as at fair value through profit or loss and available-for-sale financial assets (unless the fair value cannot be reliably measured) that have been measured at fair value, as further explained in the respective accounting policies below. The consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 Amendments to the accounting standards effective in 2016 and adopted by the Group

The following amendments have been adopted by the Group for the first time during the financial year ended 31 December 2016.

- | | | |
|-----|---|--|
| (1) | Amendments to IFRS 11 | Accounting for Acquisition of Interests in Joint Operations |
| (2) | Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortization |
| (3) | Amendments to IFRSs | Annual Improvements to IFRSs 2012–2014 cycle |
| (4) | Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception |
| (5) | Amendments to IAS 1 | Disclosure Initiative |
| (6) | IFRS 14 | Regulatory Deferral Account |

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.1 Amendments to the accounting standards effective in 2016 and adopted by the Group (Continued)

(1) Amendments to IFRS 11: Acquisition of Interests in Joint Operations

The amendments to IFRS 11 – Joint Arrangements provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business. The amendments require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business.

(2) Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 – Property, Plant and Equipment, clarify that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate. The amendments to IAS 38 – Intangible Assets, establish a rebuttable presumption that amortization of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances.

(3) Amendments to IFRSs: Annual Improvements to IFRSs 2012–2014 cycle

The Annual Improvements to IFRSs 2012–2014 Cycle include a number of amendments to various IFRSs, including the amendments IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations regarding methods of disposal, the amendments to IFRS 7 – Financial Instruments: Disclosures regarding servicing contracts, the amendments to IAS 19 – Employee Benefits regarding discount rates, the amendments to IAS 34 – Interim Financial Reporting regarding disclosure of information.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.1 Amendments to the accounting standards effective in 2016 and adopted by the Group (Continued)

(4) Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception

The amendments to IFRS 10 clarify that the exception from preparing consolidated financial statements is available to intermediate parent entities which are subsidiaries of investment entities. The exception is available when the investment entity parent measures its subsidiaries at fair value. The intermediate parent would also need to meet the other criteria for exception listed in IFRS 10. The amendments also clarify that an investment entity should consolidate a subsidiary which is not an investment entity and which provides services in support of the investment entity's investment activities, such that it acts as an extension of the investment entity. However, the amendments also confirm that if the subsidiary is itself an investment entity, the investment entity parent should measure its investment in the subsidiary at fair value through profit or loss. This approach is required regardless of whether the subsidiary provides investment-related services to the parent or to third parties.

The amendments to IAS 28 allow an entity which is itself not an investment entity, but has an interest in an associate or a joint venture which is an investment entity, a policy choice to retain the fair value measurement applied by the associate or joint venture, or to unwind the fair value measurement and perform a consolidation at the level of the associate or joint venture for their subsidiaries.

(5) Amendments to IAS 1: Disclosure Initiative

The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. Although the amendments do not require specific changes, they clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.1 Amendments to the accounting standards effective in 2016 and adopted by the Group (Continued)

(6) IFRS 14: Regulatory Deferral Accounts

The IASB has issued IFRS 14 – Regulatory Deferral Accounts, an interim standard on the accounting for certain balances that arise from rate-regulated activities (“regulatory deferral accounts”). IFRS 14 is only applicable to entities that apply IFRS 1 – First-time Adoption of International Financial Reporting Standards as first-time adopters of IFRSs. It permits such entities, on adoption of IFRSs, to continue to apply their previous GAAP accounting policies for the recognition, measurement, impairment and de-recognition of regulatory deferral accounts. The interim standard also provides guidance on selecting and changing accounting policies (on first-time adoption or subsequently) and on presentation and disclosure.

The adoption of these amendments does not have a significant impact on the operating results, comprehensive income or financial position of the Group.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group

Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group are as follows:

			<i>Effective for annual periods beginning on or after</i>
(1)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed.
(2)	Amendments to IAS 12	Income Taxes	1 January 2017
(3)	Amendments to IAS 7	Statement of Cash Flows	1 January 2017
(4)	Amendments to IFRS 2	Share-based Payment	1 January 2018
(5)	IFRS 9	Financial Instruments	1 January 2018
(6)	IFRS 15	Revenue from Contracts with Customers	1 January 2018
(7)	IFRS 16	Leases	1 January 2019

(1) **Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture**

These amendments address an inconsistency between the requirements in IFRS 10 – Consolidated Financial Statements and those in IAS 28 – Investment in Associates and Joint Ventures in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

(2) *Amendments to IAS 12 – Income Taxes*

The IASB has issued amendments to IAS 12 – Income Taxes. These amendments on the recognition of deferred tax assets for unrealized losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. The Group anticipates that the adoption of this amendment will not have a significant impact on the Group's consolidated financial statements.

(3) *Amendments to IAS 7 – Statement of Cash Flows*

The IASB has issued an amendment to IAS 7 – Statement of Cash Flows introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. The Group anticipates that the adoption of this amendment will not have a significant impact on the Group's consolidated financial statements.

(4) *Amendments to IFRS 2 – Share-based Payment*

The IASB issued an amendment to IFRS 2 – Share-based Payment, addressing three classification and measurement issues. The amendment addresses the accounting for cash-settled share-based payments and equity-settled awards that include a “net settlement” feature in respect of withholding taxes.

The amendment clarifies the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. The Group anticipates that the adoption of this amendment will not have a significant impact on the Group's consolidated financial statements.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

(5) IFRS 9 – Financial Instruments

The complete version of IFRS 9 – Financial Instruments was issued in July 2014. It replaces the guidance in IAS 39 – Financial Instruments: Recognition and Measurement that relates to the classification and measurement of financial instruments.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (“OCI”) and fair value through profit or loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI in which case the accumulated fair value changes in OCI will not be recycled to the profit or loss in the future. For financial liabilities there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. The measurement of the loss allowance generally depends on whether there has been a significant increase in credit risk since initial recognition of the instrument. IFRS 9 requires an entity to recognize lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition considering all reasonable and supportable information, including that which is forward-looking.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

(5) IFRS 9 – Financial Instruments (Continued)

The directors of the Company anticipate that the adoption of IFRS 9 in the future may have an impact on the Group's consolidated financial statements, including the classification categories and the measurement of financial assets, and disclosures. For instance, the Group will be required to replace the incurred loss impairment model in IAS 39 with an expected loss impairment model that will apply to various exposures to credit risk. IFRS 9 will also change the way the Group classifies and measures its financial assets, and will require the Group to consider the business model and contractual cash flow characteristics of financial assets to determine classification and subsequent measurement.

The Company is analyzing its business models and changes to its existing credit exposures to assess the potential impact on its financial statements resulting from the adoption of IFRS 9. Given the nature of the Company's operations, it is expected to have an impact on the classification of financial instruments as well as the calculation, amount and timing of its allowances for impairment losses for financial assets. Implementation of IFRS 9 will also have an impact on the management process, budgeting and performance review, as well as the IT systems. The Company will start to collect and prepare the information related to the expected credit loss model, updating financial instruments impairment policies and procedures as well as launching relevant staff training in the year of 2017.

It is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

(6) IFRS 15 – Revenue from Contracts with Customers

IFRS 15 – Revenue from Contracts with Customers establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an ‘earnings processes’ to an ‘asset-liability’ approach based on transfer of control.

IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. The Group anticipates that the adoption of this amendment will not have a significant impact on the Group’s consolidated financial statements.

(7) IFRS 16 – Leases

IFRS 16 – Leases addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts, unless the underlying asset is of low value, in the statement of financial position. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the lease liability in the consolidated income statement, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the consolidated statement of cash flows.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

(7) IFRS 16 – Leases (Continued)

As at 31 December 2016 the amounts of operating leasing commitment was RMB927 million as disclosed in Note 50(2). However, the Group has not yet determined to what extent these commitments will result in the recognition of right-of-use assets and liabilities for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The accounting policies and accounting period of the Company and its subsidiaries are consistent.

Subsidiaries are all entities (including structured entities) over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When the Group assesses whether it has power over an investee, the Group's voting rights or potential voting rights and other contractual arrangements are considered.

Income or expenses resulted from acquisition or disposal of subsidiaries, from the date on which the Company obtains control to the date on which the Company ceases its control over subsidiaries, are in the scope of consolidation. Intra-group assets and liabilities, equity, income, expenses, and cash flow which are relevant to all intra-group transactions occurred should be offset in consolidation.

A portion of equity over subsidiaries and profit or loss which does not belong to the Company should be treated as non-controlling interests. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Company and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position separately from the equity attributable to equity holders of the Company.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES

(1) Accounting period

The accounting year starts on 1 January and ends on 31 December.

(2) Functional and presentation currency

The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency.

(3) Cash and cash equivalents

Cash comprises cash on hand and demand deposits which are not restricted as to use.

Cash equivalents comprise short term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

(4) Foreign currency transactions and foreign currency translation

The Group adopts the sub-account system to record foreign currency transactions. Foreign currency transactions are initially recorded on the original currency respectively at the dates of the transactions.

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the prevailing functional currency exchange rates at the end of the Reporting Period. All differences are recorded in the consolidated income statement.

For financial statements prepared in US dollars and foreign currencies other than US dollars are translated into US dollars using the central parity rate published by the People's Bank of China or other authorities as at the end of the Reporting Period. For financial statements prepared in RMB, foreign currencies are translated into RMB using the central parity rate published by the People's Bank of China or other authorities as at the end of the Reporting Period. The exchange differences resulting from foreign currency financial statement translation of subsidiaries are recognized in other comprehensive income.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments

Financial instruments are contracts which become one enterprise's financial assets, at the same time become another enterprises' financial liabilities or equity instruments.

(a) Initial recognition and derecognition of financial instruments

The Group recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

All regular way purchases and sales of financial instruments are recognized and derecognized using trade date accounting. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned. Trade date is the date that the Group commits to purchase or sell the financial instrument.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized, which means to derecognize a financial asset from the account and statement of financial position of the Group when:

- (i) The rights to receive cash flows from the assets have expired; or
- (ii) The Group has transferred its rights to receive cash flows from the asset; or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and (a) the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(a) *Initial recognition and derecognition of financial instruments (Continued)*

When the Group has made substantial modifications to a part of the contract terms of an existing financial liability, the relevant portion of the existing financial liability is derecognized, while the financial liability under modified terms is recognized as a new financial liability.

On derecognition of a financial liability in its entirety or partially, the difference between the carrying amount and the consideration paid (including non-cash assets transferred or new financial liabilities assumed) shall be recognized in the consolidated income statement.

If the Group repurchases a part of a financial liability, the Group shall allocate the previous carrying amount of the financial liability between the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the repurchase. The difference between the carrying amount allocated to the part derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) for the part derecognized shall be recognized in the consolidated income statement.

(b) *Classification and measurement of financial instruments*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are measured at fair value when they are recognized initially. The transaction cost attributable to the acquisition of the financial assets is recognized as profit or loss for the financial assets at fair value through profit or loss, and is recognized into the initial cost of the other financial assets.

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and other financial liabilities. The transaction cost attributable to the acquisition of the financial liabilities is recognized as profit or loss for the financial liabilities at fair value through profit or loss, and is recognized into the initial cost of the other financial liabilities.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(b) Classification and measurement of financial instruments (Continued)

Subsequent measurement of financial instruments depends on their classification as follows:

(i) *Financial assets and financial liabilities at fair value through profit or loss*

Financial assets and financial liabilities at fair value through profit or loss include financial assets and financial liabilities held for trading, and financial assets and financial liabilities designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if it is acquired for the purpose of sale or repurchase in the near term. Derivatives are also classified as held for trading except for the derivative that is a financial guarantee contract or a designated effective hedging instrument.

Such financial instruments are subsequently measured at fair value. Gains or losses arising from the difference between fair value and previous carrying amount are recognized in profit or loss as net investment gains or losses. Realised gains or losses upon disposal of held-for-trading financial assets are recognized as net investment gains or losses. Dividends and interest accrued during the holding period from financial assets measured at fair value through profit or loss are recognized as net investment gains.

Financial assets or financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if one of the following criteria is satisfied:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on different bases;
- A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel;

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(b) Classification and measurement of financial instruments (Continued)

(i) Financial assets and financial liabilities at fair value through profit or loss (Continued)

- Hybrid instruments containing one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear with little or no analysis that the embedded derivative(s) would not be separately recorded;
- Hybrid instruments containing embedded derivatives which need to be separated but cannot be separately measured on acquisition date or subsequent balance sheet date.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets, with fixed or determinable payments and a fixed maturity, which the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest rate method. If there are no significant differences between the contractual interest rates or coupon rates and effective interest rates, held-to-maturity investments are measured at amortized cost using the contractual interest rates or coupon rates.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost using the effective interest rate method. If there are no significant differences between the contractual interest rates and effective interest rates, loans and receivables are measured at amortized cost using the contractual interest rates. When loans and receivables are collected, differences between the amount received and the carrying amount are recognized in the consolidated income statement.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(b) Classification and measurement of financial instruments (Continued)

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are subsequently measured at fair value. When the fair value cannot be reliably measured, equity investment classified as available-for-sale financial assets are carried at cost. When available-for-sale financial assets are disposed of, the difference between the consideration received plus cumulative gains or losses previously recorded in equity arising from changes of fair value and the carrying amount are recognized as net investment gains or losses.

(v) Other financial liabilities

Other financial liabilities are non-derivative financial liabilities that are not classified or designated as financial liabilities at fair value through profit or loss. Other liabilities are subsequently measured at amortized cost using the effective interest rate method.

(vi) Reclassification of financial assets

When the Group changes its intention over held-to-maturity investments, they are reclassified as available-for-sale financial assets. If the Group sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, it shall reclassify any remaining held-to-maturity investments as available-for-sale financial assets, and shall not classify any financial assets as held to maturity during the current and the two subsequent financial years.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(c) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of market approach, income approach and cost approach. When using valuation techniques, the Group prefers observable inputs. Unobservable market inputs would not be used unless relevant observable inputs are not available or not practicable to access.

The Group uses the following hierarchy for determining and disclosing the fair values of financial assets and financial liabilities based on the inputs used when determining the fair value:

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

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

Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs).

The level of fair value measurement depends on the lowest level of input that is significant to the entire fair value measurement.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(d) Impairment of financial assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset is impaired and impairment allowance shall be made. The objective evidence of impairment is a result of one or more events that occurred after the initial recognition of financial assets and has an impact on the estimated future cash flows of the financial assets that can be reliably measured.

(i) Financial assets carried at amortized cost

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The loss is recognized in the consolidated income statement. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition), and the value of collateral should be considered.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognized in the consolidated income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account and recognized in the consolidated income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(d) Impairment of financial assets (Continued)

(ii) Available-for-sale financial assets

If objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss recognized in other comprehensive income is reclassified from equity to the profit or loss and is measured as the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated income statement.

In the case of equity investments classified as available for sale, objective evidence includes a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is “significant” or “prolonged” requires judgement. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. A significant or prolonged decline in the fair value of an equity instrument is an indicator of impairment in such investments where a decline in the fair value of an equity instrument is below its initial cost by 50% or more; or fair value is below cost for 12 months or longer, upon which circumstances an impairment loss is recognized.

For the Company’s specific investment managed by China Securities Finance Corporation Limited, considering the purpose and the special features of this investment, including the investment and divestment decision-making process, the decline is considered significant or prolonged when a decline in the fair value of such investment is below its initial cost by 50% or more; or fair value is below cost for 36 months or longer, upon which circumstances an impairment loss is recognized.

Impairment losses of available-for-sale equity instruments are not reversed through the consolidated income statement. Increases in their fair value after the impairment are recognized directly in other comprehensive income.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(d) Impairment of financial assets (Continued)

(ii) Available-for-sale financial assets (Continued)

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss, the previously recognized impairment loss is reversed through the consolidated income statement.

(iii) Financial assets carried at cost

If there is objective evidence that a financial asset is impaired, the difference between the carrying amount of a financial asset and the present value of the future cash flows discounted at the prevailing market rate of return for a similar financial asset, is recognized as an impairment loss through profit or loss. The impairment losses are not reversed once recognized.

(e) Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

The changes on fair value of derivative financial instruments are directly recognized in the consolidated income statement.

(f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a current legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(6) Impairment of accounts receivable

(a) Individually significant accounts receivable that are individually assessed for impairment

The impairment for significant accounts receivable are assessed individually. Impairment loss is recognized in profit or loss when there is objective evidence that an account receivable is impaired.

(b) Accounts receivable that are collectively assessed for impairment

The Group categorizes accounts receivable into different portfolios with aging as similar credit risk characteristic and applies aging analysis to collectively assess the impairment for accounts receivable and other receivables.

(7) Margin financing and securities lending services

Margin financing and securities lending services refers to the lending of funds by the Group to clients for purchase of securities, or lending of securities by the Group to clients for securities selling, for which the clients provide the Group with collateral.

The Group recognizes margin accounts at initial recognition, and recognizes interest income accordingly. Securities lent are not derecognized, but still accounted for as the original financial assets, and interest income is recognized accordingly.

Securities trading on behalf of margin financing and securities lending clients are accounted for as securities brokerage services.

(8) Fiduciary wealth management

The Group's fiduciary wealth management business includes targeted asset management, collective asset management and specified asset management. The Group keeps separate accounting records for each of these investment schemes, and periodically reconciles the accounting and valuation results of each scheme with the custodians.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(9) Associates

Associates are all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealized gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associate.

(10) Investment properties

Investment properties comprise real estate properties for the purpose of earning rental income and/or for capital appreciation, including buildings that have been leased.

The Group's investment properties are accounted for using the cost model. The initial recognition and subsequent measurement of buildings and properties that are leased out are accounted for using the same measurement and depreciation methods as those for property, plant and equipment.

(11) Property, plant and equipment

(a) Recognition criteria for property, plant and equipment

Property, plant and equipment refer to tangible assets held and controlled by the Group that the Group expects to use for more than one year for using in the supply of services or for administrative purpose. An asset is recognized as property, plant and equipment only if the following criteria are both satisfied:

- (i) It is highly probable that future economic benefits associated with the property, plant and equipment will flow to the Group;
- (ii) The cost of the asset can be measured reliably.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(11) Property, plant and equipment (Continued)

(b) Property, plant and equipment initially measured at cost

Cost of an item of purchased property, plant and equipment comprises purchase price, tax and any costs directly attributable to bringing the asset to the condition necessary for its intended use and it includes transportation costs, installation and assembly costs, and professional service fees.

Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance expenditure are recognized in the profit or loss as incurred. Depreciation of property, plant and equipment is calculated on the straight-line basis monthly.

Estimated useful life, depreciation rate and estimated residual value of each item of property, plant and equipment are as follows:

Types of property plant and equipment	Estimated useful life	Monthly depreciation rate	Estimated residual value
Properties and buildings	35 years	2.262%	5%
Electronic devices	2 to 5 years	1.667%–4.167%	0%
Transportation vehicles	5 years	1.617%	3%
Communication equipment	5 years	1.617%	3%
Office equipment	3 years	2.778%	0%
Security equipment	5 years	1.617%	3%
Others	5 years	1.617%	3%

The years that the property, plant and equipment were already in use were excluded when determining the estimated useful lives of these types of the property, plant and equipment. The estimated useful life, the estimated residual value and the depreciation method of each type of the property, plant and equipment are reviewed, and adjusted if appropriate, at each financial year end. Gains and losses on disposal of property, plant and equipment, the costs of disposal and taxes in connection with such disposal are considered in the determination of the estimated residual value.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(11) Property, plant and equipment (Continued)

(c) Construction in progress

Costs of construction in progress are determined based on the actual expenditure incurred which include all necessary expenditure incurred during the construction period, borrowing costs eligible for capitalization and other costs incurred to bring the asset to its intended use.

Items classified as construction in progress are transferred to property, plant and equipment when such assets are ready for their intended use.

(12) Intangible assets

Intangible assets are recognized only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably, and measured initially at cost. Intangible assets acquired from business combination and their fair value can be measured reliably are recognized as intangible assets individually and measured at their fair value as at date of combination.

Useful lives of intangible assets are determined as the period that the assets are expected to generate economic benefits for the Group, and when there is no foreseeable limit on the period of time over which the asset is expected to generate economic benefits for the Group, the intangible assets are regarded as having indefinite useful life.

Intangible assets with finite useful lives shall be amortized on a straight-line basis over the useful period. The useful lives and amortization method of the intangible assets with finite useful lives shall be reviewed by the Group at least at each financial year end, and adjusted as appropriate. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless there is a commitment by a third party to purchase the asset at the end of its useful life, or there is an active market for the asset, where residual value can be determined by reference to that market; and it is probable that such a market will exist at the end of the asset's useful life.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(12) Intangible assets (Continued)

Trading seat rights at Shanghai and Shenzhen Stock Exchanges are amortized over 10 years (industry rules issued in subsequent years will be adopted thereon) and charged to consolidated income statement. Outsourcing software is amortized over 5 years. Self-developed software, patents, non-patents, trade mark right, client relationship and other intangible assets are amortized over their useful lives.

Intangible assets with indefinite useful lives need to be assessed for impairment no matter if there is any impairment evidence. These assets need not to be amortized, and their useful lives shall be reviewed during every accounting period. If there is any evidence to support that the useful lives are definite, these intangible assets shall apply the policies of intangible assets with definite useful lives.

(13) Revenue

Revenue from the securities brokerage services is recognized on the date of the securities transaction.

Revenue from underwriting services is recognized when the outcome of the underwriting services provided can be reliably estimated and reasonably recognized. The revenue is usually recognized upon completion of the offering.

Revenue from asset management services is recognized when management services are provided in accordance with the asset management contract.

Interest income from the Group's interest-earning financial assets and interest expense on the Group's financial liabilities are recognized in the consolidated income statement by using the effective interest method. Contractual interest rates will be applied if there are no significant differences between the effective interest rates and the contractual interest rates.

Revenues from other businesses are recognized on the basis of when the contractual obligations are fulfilled and when the service fees and commissions are actually received.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(14) Income tax

Income tax comprises current tax and deferred income tax. Current tax is the amount of current income tax payable calculated based on current taxable income. Taxable income is calculated based on the adjustment to the current year pre-tax accounting profit according to the applicable tax laws.

For current income tax liabilities or current income tax assets generated from the current and prior periods, the expected income tax payable or the income tax deduction is calculated according to the applicable tax laws.

The Group measures deferred income tax using the liability method on temporary differences arising between the carrying amount of an asset or liability at the end of the Reporting Period and its tax base.

All taxable temporary differences are recognized as deferred income tax liabilities, except:

- (i) The deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(14) Income tax (Continued)

Deferred income tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

- (i) The deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and
- (ii) In respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each Reporting Period and reflect the corresponding tax effect.

The carrying amount of deferred income tax assets is reviewed at the end of each Reporting Period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. When it is virtually probable that sufficient taxable income will be available, the reduced amount can be reversed accordingly.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(15) Employee compensation

Employee compensation refers to all forms of consideration and other related expenditure given or incurred by the Group in exchange for services rendered by employees or compensate for the termination of labour contract. The compensation payable is recognized as liability in the accounting period of services provided by employee. The employee compensation comprises of short-term compensation, post-employment welfare, termination benefits, and other long-term employee welfares.

Short-term compensation comprises of staff salaries, bonus, allowances, and subsidies, as well as social insurance expenses including employee welfare, medical insurance charge, work-related injury insurance charge, and maternity insurance and also covers housing funds, labour union expenses, personnel education expenses, short-term paid leave, short-term profit-sharing plan, non-monetary welfare and other short-term compensations.

Post-employment welfare plans refer to the agreement reached or regulations and measures developed by the Group in consideration of post-employment welfare. The defined contribution plans refer to post-employment welfare plans in which the Group pays contribution to an independent fund and the Group has no further payment obligation.

(16) Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the Group receives grants of monetary assets, the grants are recorded at the amount received or receivable. Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets. When fair value cannot be reliably measured, they are recognized at nominal amount.

Government grants for purchasing, building or forming long-term assets in other methods regulated in government documents are recognized as government grants related to assets. Judgements should be made based on the necessary basic conditions for obtaining the government grants when government documents are unclearly stated. Government grants with purchasing, building or forming long-term assets in other methods as basic condition, are recognized, as government grants related to assets, whereas the rest are government grants related to income.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(16) Government grants (Continued)

Government grants related to income which are to compensate relevant expenditures or losses in future periods are recognized as deferred income and released into the consolidated income statement during the period when the expense incurs. Government grants that are to compensate the incurred expenses or losses are recognized into profit or loss directly. Government grants related to assets are recognized as deferred income, and released to profit or loss over the expected useful life of the relevant assets by equal annual instalments. Government grants measured at nominal amount are recorded in the consolidated income statement directly.

(17) Long-term pre-paid expense

Improvement expenses on property, plant and equipment under operating leases are amortized on a straight-line basis over the shorter of the contractual lease terms and 5 years, while long-term pre-paid expenses are amortized on a straight-line basis over their respective benefit periods but no longer than 10 years.

(18) Impairment

The Group assesses impairment of assets other than deferred tax assets and financial assets as follows:

The Group assesses at each financial reporting date whether there is any indication that assets are impaired. When any such indication exists, the Group estimates the recoverable amount and assesses impairment allowance. For goodwill acquired from business combination and intangible assets with indefinite useful life, no matter there is objective evidence of impairment or not, impairment should be assessed at each annual financial reporting date. Impairment for intangible assets not readily for use is also assessed annually.

The recoverable amount is the higher of an asset's fair value less costs of disposal and the present value of the estimated future cash flow expected to be derived from the asset. The Group estimates the recoverable amount on the basis of individual asset. When it is difficult to estimate the recoverable amount individually, the recoverable value of the cash generating units which the asset belongs to will be estimated. The recognition of a group of assets shall base on whether the main cash flow generated by the group of assets is independent from those generated by other assets or groups of assets.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(18) Impairment (Continued)

When recoverable amounts of assets or groups of assets are lower than their carrying amounts, the Group decreases the carrying amount to recoverable amount. The decreased amounts are recognized in the consolidated income statement and corresponding allowances are made.

For impairment test of goodwill, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units when being unable to be allocated to each of the cash-generating units. Cash-generating units or groups of cash-generating units refer to those that can benefit from the synergies of the combination and are not larger than the reportable segment determined by the Group.

When performing impairment test for the (groups of) cash-generating unit to which goodwill is allocated, if there is indication of impairment, the Group firstly tests the (groups of) cash-generating unit excluding goodwill, calculates the recoverable amount and recognizes relevant impairment losses. The Group then tests the (groups of) cash-generating units including goodwill, and compares the carrying amount and recoverable amount. If the carrying amount exceeds the recoverable amount, the amount of impairment loss is firstly deducted from the carrying amount of goodwill allocated to the (groups of) cash-generating unit, and then from the carrying amount of each of other assets (other than goodwill) within the (groups of) cash-generating unit, on pro rata basis.

(19) Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(19) Related parties (Continued)

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(20) Provisions and contingencies

The obligation pertinent to contingencies shall be recognized as provisions when the following conditions are satisfied concurrently:

- the obligation is a present obligation of the Group;
- the obligation is probable to cause a future outflow of resources from the Group as a result of performance of the obligation; and
- the amount of the obligation can be reliably measured.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(20) Provisions and contingencies (Continued)

The amount of a provision is initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. To determine the best estimate, the Group takes into full consideration of risks, uncertainty, time value of money and other factors pertinent to the contingencies. The Group reviews the book value of the provisions at the end of the Reporting Period. If there is substantial evidence that the amount of provisions cannot reflect the current best estimate, the Group will adjust the amount in accordance with the current best estimate.

A contingent liability is a possible obligation that rises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or, a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

(21) Profit distribution

After-tax profit for the year is firstly applied to make up for the losses of previous years. Secondly, the Company sets aside 10% of after-tax profit for a statutory surplus reserve, 10% of after-tax profit for a general risk reserve, and according to the requirements of the CSRC, sets aside 10% of after-tax profit for a transaction risk reserve. In addition, with the approval from the Annual General Meeting, the Company may appropriate certain proportions of net profit for a discretionary surplus reserve after setting aside the statutory surplus reserve. The remaining after-tax profit is distributed according to the resolution approved at the Annual General Meeting. If the aggregate balance of the statutory reserve has reached 50% of the Company's registered capital, appropriation for the statutory reserve is no longer mandatory.

General risk reserve and transaction risk reserve sets aside by the Company are used to make up for any losses arising from securities transaction. The Company's reserve funds are used to make up for any losses of the Company, expand the Company's business or as additional capital of the Company. However, capital reserve cannot be used to make up for the Company's losses. When the statutory reserve funds are converted to capital, the balance of the statutory reserve funds cannot be less than 25% of the Company's registered capital.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(21) Profit distribution (Continued)

Dividends proposed by the directors are not deducted from equity, until they have been approved by the ordinary equity holders in the Annual General Meeting. When these dividends have been approved by the shareholders, they are recognized as a liability.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the Reporting Period. Uncertainty about these assumptions and estimates could result in outcomes that could require an adjustment to the carrying amounts of the assets or liabilities.

(1) Impairment losses on available-for-sale financial assets

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

(2) Impairment losses on margin financing and securities lending

Based on the clients' credit standing, collateral securities, guaranteed ratio, solvency ability and willingness and other factors, the Group determines whether there is any indication of impairment on margin financing and securities lending. Such financial assets with indications of impairment are subject to individual impairment assessment and allowance for impairment. The remaining of such financial assets are subject to collective assessment.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(3) Fair value of financial instruments

If the market for a financial instrument is not active, the Group estimates fair value by using a valuation technique. Valuation techniques include using recent prices in arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, or discounted cash flow analyses and option pricing models. To the extent practicable, valuation technique makes the maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

(4) Income tax

Determining provisions for income tax requires the Group to estimate the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and provides for taxes accordingly. In addition, deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimation of the tax treatments of certain transactions and also significant judgement of the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

(5) Consolidation of structured entities

Management makes significant judgment on whether the Group controls and therefore is required to consolidate its structured entities. The decision outcome impacts accounting treatment and the financial and operational results of the Group.

When assessing control, the Group considers: 1) the level of control of the Group over the investee; 2) variable returns gained through participation of relevant activities of the investee; and 3) the ability of the Group from using its power over the investee to affect its return. When there are changes over one or more of the three control elements as described above, the Group will reassess whether control is still valid.

When assessing whether there is control over the structured entities, the Group also considers whether the decisions it makes are as a principal or as an agent. Aspects of considerations normally include the decision making scope over the structured entities, substantive rights of third parties, reward of the Group, and the risk of undertaking variable returns from owning other benefits of the structured entities.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

5 TAXATION

According to relevant PRC tax policies, the most significant categories of taxes to which the Group is currently subjected are as follows:

(1) Income tax

From 1 January 2008, the “Enterprise Income Tax Law of the PRC” and the “Regulations on the Implementation of Enterprise Income Tax Law of the PRC” became effective for the Company and its subsidiaries excluding China Futures Co., Ltd. and China (International) Finance Holding Co., Ltd. Income tax computation and payment are governed by the “Announcement of the State Administration of Taxation on Printing and Distributing Administrative Measures for Collection of Consolidated Payments of Enterprise Income Tax by Enterprises with Multi-Location Operations” (Public Notice of the State Administration of Taxation [2012] No. 57). The PRC Enterprise income tax rate applicable to the Company is 25%.

In accordance with the Explanation on Implementation of Tax Preferential Treatments concerning Western China Development Strategy issued by local taxation bureau in Yuzhong District, Chongqing City, the applicable income tax rates for China Futures Co., Ltd. is 15%.

The income tax rate for China (International) Finance Holding Co., Ltd. (a Hong Kong Company) is 16.5%.

(2) Value-added tax

Pursuant to the “Circular regarding the Comprehensive Implementation of the Pilot Programs for Transformation from Business Taxes to Value-added Taxes (the “VAT Pilot Programs”)” (Cai Shui [2016] No. 36), the “Circular regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs (Cai Shui [2016] No. 46), the “Supplementary Circular regarding VAT Policies Applicable to Transactions between Financial Institutions” (Cai Shui [2016] No. 70) and “Circular regarding Clarification of the VAT Policy Applicable to the Financial Sector: Real Estate Development and Education Assistance and Other Services” (Cai Shui [2016] No. 140) issued by the Ministry of Finance (the “MOF”) and the State Administration of Taxation (the “SAT”) of the PRC, effective from 1 May 2016, the Group is subject to value-added taxes on its income from principal businesses at 6%, instead of business tax at 5% prior to 1 May 2016.

After the implementation of the VAT Pilot Programs, the Group’s related income is presented at value net of its respective VAT in the consolidated income statement.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

5 TAXATION (Continued)

(3) Business tax

The Group's computation and payment of business taxes were governed by "Interim Regulations of the PRC on Business Tax" (State Council Order [2008] No. 540), "the Implementation Rules for the Interim Regulations of the PRC on Business Tax" (Ministry of Finance Order [2011] No. 65), "the Announcement of the State Administration of Taxation on Issues concerning the Business Tax on the Transfer of Financial Commodities" (Guo Shui [2013] No. 63), and other relevant policies. The business tax was calculated and paid at the tax rate of 5% of taxable business income.

According to the "Circular of the Ministry of Finance and the State Administration of Taxation on Business Taxation in Capital Markets" (Cai Shui [2004] No. 203), securities companies were allowed to deduct following expenses charged on behalf of other parties from their taxable business income.

- i. Securities trading regulatory fees collected on behalf of the securities exchanges;
- ii. Fees received on behalf of the stock exchanges in its agency trading of securities;
- iii. Activation fees of stockholder accounts (include A Shares and B Shares), account opening fees of special transferred stocks, and transfer fees, as well as settlement fees of B Shares, and custodian fees collected on behalf of the China Securities Depository and Clearing Co., Ltd.

According to the "Circular of the Ministry of Finance and the State Administration of Taxation on Issues Concerning the Business Tax of the Securities Investor Protection Fund" (Cai Shui [2006] No. 172), securities companies were allowed to deduct their investor protection fund contributions from their taxable business income.

- (4) Urban maintenance and construction taxes and educational surcharges are charged at 7% and 3% of turnover taxes payable, respectively. In addition, according to the provisions of "Administrative Measures for Collection and Usage of Local Educational Surcharges in Beijing" (Jin Zheng Fa [2011] No. 72), since 1 January 2012, the local educational surcharges of the Company's head office and securities trading department located in Beijing are levied at 2% of the total amount of value-added tax, consumption tax and business tax.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

5 TAXATION (Continued)

- (5) Vehicle and vessel taxes, property taxes and stamp duties are levied in accordance with the provisions of the relevant tax laws and regulations.

6 OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's operating segments represents a strategic business engaged in the following activities.

Investment banking segment: provides investment banking services, including financial advisory, sponsoring, underwriting of equity and debt securities.

Wealth management segment: serves as an agent for business and personal clients in the trading of equity stocks, funds, bonds and futures; and provides margin financing and securities lending services to these clients.

Trading and institutional client services segment: engages in trading of financial products; serves as an agent for institutional clients (financial institutions) in the trading of equity stocks, funds and bonds, and provides them with margin financing and securities lending; provides services in relation to sales of financial products to institutional clients, and provides specialized research and advisory services to assist their investment decision-making.

Investment management segment: develops asset management products, fund management products services, and private placement offerings, and provides related services through subsidiaries and consolidated structured entities.

Other segment: primarily the treasury function from the head office.

Management monitors the performance and results of these operating segments for considerations of resource allocation and operating decision-making.

Income taxes are managed as a whole and are not allocated to operating segments.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

6 OPERATING SEGMENT INFORMATION (Continued)

	Year ended 31 December 2016					
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Total
Segment revenue and other income						
Fee and commission income	4,682,209	3,671,108	1,130,692	1,100,147	–	10,584,156
Interest income	–	3,495,818	483,089	11,157	450,756	4,440,820
Net investment gains	–	–	1,961,314	450,457	–	2,411,771
Other income	–	67,226	–	2,696	78,046	147,968
Total revenue and other income	<u>4,682,209</u>	<u>7,234,152</u>	<u>3,575,095</u>	<u>1,564,457</u>	<u>528,802</u>	<u>17,584,715</u>
Segment expenses	(2,070,144)	(4,917,409)	(2,731,989)	(621,179)	(183,237)	(10,523,958)
Including: Interest expenses	(36,509)	(1,065,057)	(1,604,569)	(142,660)	–	(2,848,795)
Impairment losses	(358)	15,985	(13,960)	–	–	1,667
Operating profit	<u>2,612,065</u>	<u>2,316,743</u>	<u>843,106</u>	<u>943,278</u>	<u>345,565</u>	<u>7,060,757</u>
Share of profits and losses of associates	–	–	–	(1,608)	(1,729)	(3,337)
Profit before income tax	<u>2,612,065</u>	<u>2,316,743</u>	<u>843,106</u>	<u>941,670</u>	<u>343,836</u>	<u>7,057,420</u>
Income tax expense						<u>(1,744,198)</u>
Net profit for the year						<u><u>5,313,222</u></u>
Total assets	<u>952,625</u>	<u>85,438,883</u>	<u>65,694,454</u>	<u>13,420,725</u>	<u>16,188,353</u>	<u>181,695,040</u>
Total liabilities	<u>3,394,369</u>	<u>66,760,579</u>	<u>55,773,761</u>	<u>10,960,103</u>	<u>3,543,549</u>	<u>140,432,361</u>
Other segment information:						
Depreciation and amortization	68,036	57,425	36,881	21,854	21,285	205,481
Capital expenditure	80,117	76,187	45,901	34,947	24,940	262,092

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

6 OPERATING SEGMENT INFORMATION (Continued)

	Year ended 31 December 2015					
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Total
Segment revenue and other income						
Fee and commission income	3,397,595	9,181,015	1,531,354	790,908	–	14,900,872
Interest income	–	4,578,103	537,768	10,481	446,607	5,572,959
Net investment gains	–	–	3,374,968	593,136	11,818	3,979,922
Other income	–	26,963	–	5,628	26,122	58,713
Total revenue and other income	<u>3,397,595</u>	<u>13,786,081</u>	<u>5,444,090</u>	<u>1,400,153</u>	<u>484,547</u>	<u>24,512,466</u>
Segment expenses	(1,507,617)	(7,965,550)	(2,862,522)	(402,871)	(312,431)	(13,050,991)
Including: Interest expenses	(8,183)	(1,810,950)	(1,339,530)	(59,945)	–	(3,218,608)
Impairment losses	–	(114,943)	(27,893)	–	(12,039)	(154,875)
Profit before income tax	<u>1,889,978</u>	<u>5,820,531</u>	<u>2,581,568</u>	<u>997,282</u>	<u>172,116</u>	<u>11,461,475</u>
Income tax expense						<u>(2,809,622)</u>
Net profit for the year						<u><u>8,651,853</u></u>
Total assets	<u>510,241</u>	<u>107,478,581</u>	<u>55,308,541</u>	<u>11,812,500</u>	<u>8,078,512</u>	<u>183,188,375</u>
Total liabilities	<u>1,537,332</u>	<u>98,024,312</u>	<u>40,311,185</u>	<u>9,688,253</u>	<u>3,444,390</u>	<u>153,005,472</u>
Other segment information:						
Depreciation and amortization	36,735	59,720	35,649	13,578	23,820	169,502
Capital expenditure	46,107	133,333	53,484	19,445	29,637	282,006

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

7 FEE AND COMMISSION INCOME

	Year ended 31 December	
	2016	2015
Brokerage services	4,731,029	10,686,326
Investment banking	4,682,209	3,397,595
Asset and fund management	1,100,147	776,313
Others	70,771	40,638
Total	<u>10,584,156</u>	<u>14,900,872</u>

8 INTEREST INCOME

	Year ended 31 December	
	2016	2015
Margin financing and securities lending	2,416,812	3,238,062
Financial assets held under resale agreements	198,141	109,398
Bank deposits	1,790,100	2,217,215
Others	35,767	8,284
Total	<u>4,440,820</u>	<u>5,572,959</u>

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016
(In RMB thousands, unless otherwise stated)

9 NET INVESTMENT GAINS

	Year ended 31 December	
	2016	2015
Net gains from disposal of available-for-sale financial assets	480,187	835,995
Dividend and interest income from available-for-sale financial assets	989,488	800,889
Net gains from financial assets held for trading	844,301	2,852,096
Net gains/(losses) from financial liabilities held for trading	98,447	(35,626)
Net gains from financial assets designated as at fair value through profit or loss	7,460	52,789
Net gains/(losses) from derivatives	258,970	(163,689)
Interest Income from held-to-maturity investments	40,013	12,737
Net gains from disposal of long-term equity investment	–	11,818
Net gains attributable to other interest holders of consolidated structured entities	(307,095)	(387,087)
Total	<u>2,411,771</u>	<u>3,979,922</u>

10 OTHER INCOME

	Year ended 31 December	
	2016	2015
Government grants	66,097	41,167
Rental income	14,991	17,183
Gains on disposal of property, plant and equipment	255	684
Net gains/(losses) on foreign exchange	31,943	(14,375)
Others	34,682	14,054
Total	<u>147,968</u>	<u>58,713</u>

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

11 EXPENSES

	Year ended 31 December	
	2016	2015
Fee and commission expenses:		
Brokerage expenses	835,533	1,882,637
Investment banking expenses	519,382	327,753
Others	33,948	27,073
	<u>1,388,863</u>	<u>2,237,463</u>
Interest expenses:		
Accounts payable to brokerage clients	227,628	311,105
Financial assets sold under repurchase agreements	676,713	1,051,761
Placements from banks and other financial institutions	230,549	281,335
Borrowings	39,708	32,201
Bonds in issue and short-term financing instruments payable	1,457,294	1,385,462
Others	216,903	156,744
	<u>2,848,795</u>	<u>3,218,608</u>
Staff costs (including directors' and supervisors' remuneration):		
Salaries, bonuses and allowances	3,682,156	4,268,723
Staff benefits	368,818	300,865
Contributions to defined contribution schemes (i)	231,106	173,440
	<u>4,282,080</u>	<u>4,743,028</u>

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

11 EXPENSES (Continued)

- (i) Retirement benefits are included, and their nature is described below:

Full-time employees of the Group in Mainland China are covered by various government-sponsored retirement plans including social pension schemes and corporate pension schemes, under which the employees are entitled to a monthly pension. Relevant government agencies determine the amount of pension benefits and are responsible for the related pension liabilities to eligible retired employees. The Group is required to make monthly contributions to the government related to these government-sponsored retirement plans for active employees. The Group has no obligation for post-retirement benefits beyond these contributions, which are expensed as incurred.

In addition, the Group participates in various defined contribution retirement schemes for its qualified employees in certain countries or regions outside of Mainland China.

Other operating expenses and costs:

	Year ended 31 December	
	2016	2015
Leasing expenses	284,704	228,490
Depreciation and amortization expenses	205,481	169,502
Business travel expenses	162,347	131,621
Electronic equipment operating expenses	153,339	204,003
Office operating expenses	120,754	99,860
Postal and communication expenses	103,027	90,809
Business entertainment expenses	95,829	152,762
Membership fees of Exchanges	63,599	83,168
Securities investor protection fund	62,431	97,740
Vehicle operating and transportation expenses	56,922	46,868
Property management expenses	35,908	32,972
Auditors' remuneration		
– Audit services	3,089	1,529
– Non-audit services	358	–
Others	310,752	213,265
Total	1,658,540	1,552,589

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

12 DIRECTORS' AND SUPERVISORS' REMUNERATION

- (1) Details of the directors' and supervisors' remuneration before tax are as follows:

Name	Year ended 31 December 2016					Total remuneration before tax
	Salaries, allowances and other benefits	Discretionary bonuses	Deferred bonuses (i)	Directors' fees	Retirement benefits	
Executive Directors						
Wang Changqing (Chairman)						
Current year	2,143	1,000	–	–	114	3,257
Year ended						
– 31 December 2011	–	–	2,600	–	–	2,600
– 31 December 2012	–	–	3,000	–	–	3,000
– 31 December 2013	–	–	520	–	–	520
Qi Liang (President)						
Current year	2,009	2,000	–	–	109	4,118
Year ended						
– 31 December 2012	–	–	3,000	–	–	3,000
– 31 December 2013	–	–	520	–	–	520
Non-executive Directors						
Yu Zhongfu	–	–	–	–	–	–
Hu Donghui (ii)	–	–	–	–	–	–
Wang Chenyang	–	–	–	–	–	–
Wang Shouye (iii)	–	–	–	–	–	–
Liu Dingping	–	–	–	–	–	–
Wang Shumin	–	–	–	–	–	–
Qiu Jianyang	–	–	–	–	–	–
Yin Rongyan (iv)	–	–	–	–	–	–
Li Huaqiang (iv)	–	–	–	–	–	–

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

12 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(1) Details of the directors' and supervisors' remuneration before tax are as follows: (Continued)

Name	Year ended 31 December 2016					Total remuneration before tax
	Salaries, allowances and other benefits	Discretionary bonuses	Deferred bonuses (i)	Directors' fees	Retirement benefits	
Independent Non-executive Directors						
Feng Genfu	–	–	–	120	–	120
Zhu Shengqin	–	–	–	120	–	120
Dai Deming (v)	–	–	–	30	–	30
Bai Jianjun (v)	–	–	–	30	–	30
Liu Qiao (v)	–	–	–	30	–	30
Song Chang (vi)	–	–	–	70	–	70
Guo Li (vi)	–	–	–	70	–	70
Supervisors						
Li Shihua						
Current year	1,525	2,800	–	–	92	4,417
Year ended						
– 31 December 2011	–	–	1,200	–	–	1,200
– 31 December 2012	–	–	1,200	–	–	1,200
– 31 December 2013	–	–	390	–	–	390
Lu Ya						
Current year	1,204	3,000	–	–	85	4,289
Year ended						
– 31 December 2012	–	–	900	–	–	900
Wu Lili	636	550	–	–	60	1,246
Wang Jing (vii)	–	–	–	–	–	–
Ai Bo (vii)	–	–	–	–	–	–
Liu Hui	–	–	–	–	–	–
Fan Yong (viii)	–	–	–	–	–	–
Total	7,517	9,350	13,330	470	460	31,127

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

12 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

- (1) Details of the directors' and supervisors' remuneration before tax are as follows: (Continued)

Name	Year ended 31 December 2015					Total remuneration before tax
	Salaries, allowances and other benefits	Discretionary bonuses	Deferred bonuses (i)	Directors' fees	Retirement benefits	
Executive Directors						
Wang Changqing (Chairman)						
Current year	2,143	4,000	–	–	110	6,253
Year ended – 31 December 2013	–	–	520	–	–	520
Qi Liang (President)						
Current year	2,008	4,000	–	–	106	6,114
Year ended – 31 December 2013	–	–	520	–	–	520
Non-executive Directors						
Yin Rongyan (iv)	–	–	–	–	–	–
Li Huaqiang (iv)	–	–	–	–	–	–
Zhao Jifeng (ix)	–	–	–	–	–	–
Yu Zhongfu	–	–	–	–	–	–
Wang Chenyang (x)	–	–	–	–	–	–
Liu Dingping	–	–	–	–	–	–
Wang Shumin	–	–	–	–	–	–
Qiu Jianyang	–	–	–	–	–	–

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

12 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

- (1) Details of the directors' and supervisors' remuneration before tax are as follows: (Continued)

Name	Year ended 31 December 2015					Total remuneration before tax
	Salaries, allowances and other benefits	Discretionary bonuses	Deferred bonuses (i)	Directors' fees	Retirement benefits	
Independent Non-executive Directors						
Zhang Liqing (xi)	–	–	–	40	–	40
Yu Xiaofeng (xi)	–	–	–	40	–	40
Zhou Zhonghui (xii)	–	–	–	20	–	20
Feng Genfu (xiii)	–	–	–	50	–	50
Song Chang (vi)	–	–	–	70	–	70
Guo Li (vi)	–	–	–	70	–	70
Zhu Shengqin (xiv)	–	–	–	70	–	70
Supervisors						
Li Shihua						
Current year	1,524	3,600	–	–	89	5,213
Year ended – 31 December 2013	–	–	390	–	–	390
Lu Ya						
Current year	1,199	2,000	–	–	81	3,280
Year ended – 31 December 2011	–	–	900	–	–	900
Wu Lili	1,432	260	–	–	56	1,748
Wang Shouye (iii)	–	–	–	–	–	–
Fan Yong (viii)	–	–	–	–	–	–
Liu Hui	–	–	–	–	–	–
Total	8,306	13,860	2,330	360	442	25,298

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

12 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(1) Details of the directors' and supervisors' remuneration before tax are as follows: (Continued)

- (i) Deferred bonuses refer to amounts accrued in previous years and paid in the current year. For the year ended 31 December 2013, according to "Rules for Governance of Securities Companies" (2012 No. 41) issued by the CRSC, deferred payment included 40% discretionary bonuses for directors, supervisors and senior management of the Group. In addition, according to the Bonuses Management Policies of the Group, a portion of the bonuses for the directors, supervisors, senior management, middle management and core employees are accrued by the Group at an approved percentage of the profit before tax and these bonuses are subject to a three-year lock-up period. The exact amounts of bonuses distributable to individuals will be finalized after the expiration of their lock-up period.

For the year ended 31 December 2016, Executive Director Wang Changqing received 2011 deferred bonuses of RMB2.60 million, 2012 deferred bonuses of RMB3.00 million and 2013 deferred bonuses of RMB0.52 million, Executive Director Qi Liang received 2012 deferred bonuses of RMB3.00 million and 2013 deferred bonuses of RMB0.52 million, Supervisor Li Shihua received 2011 deferred bonuses of RMB1.20 million, 2012 deferred bonuses of RMB1.20 million and 2013 deferred bonuses of RMB0.39 million, Supervisor Lu Ya received 2012 deferred bonuses of RMB0.90 million.

For the year ended 31 December 2015, Executive Director Wang Changqing received 2013 deferred bonuses of RMB0.52 million, Executive Director Qi Liang received 2013 deferred bonuses of RMB0.52 million, Supervisor Li Shihua received 2013 deferred bonuses of RMB0.39 million, Supervisor Lu Ya received 2011 deferred bonuses of RMB0.90 million.

For each of the years ended 31 December 2016 and 31 December 2015, no directors and supervisors waived their remuneration. For non-executive directors and supervisors whose remuneration were not paid by the Group was shown as zero in the tables.

- (ii) Hu Donghui was appointed as non-executive director in August 2016.
- (iii) Wang Shouye resigned as supervisor and was appointed as non-executive director in August 2016.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

12 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

- (1) Details of the directors' and supervisors' remuneration before tax are as follows: (Continued)
- (iv) Yin Rongyan and Li Huaqiang resigned as non-executive directors in August 2016.
 - (v) Dai Deming, Bai Jianjun and Liu Qiao were appointed as independent non-executive directors in August 2016.
 - (vi) Song Chang and Guo Li were appointed as independent non-executive directors in June 2015 and resigned as independent non-executive director in July 2016.
 - (vii) Wang Jing and Ai Bo were appointed as supervisors in August 2016.
 - (viii) Fan Yong resigned as supervisor in August 2016.
 - (ix) Zhao Jifeng resigned as non-executive director in May 2015.
 - (x) Wang Chenyang was appointed as non-executive director in July 2015.
 - (xi) Zhang Liqing and Yu Xiaofeng resigned as independent non-executive directors in May 2015.
 - (xii) Zhou Zhonghui resigned as independent non-executive director in April 2015.
 - (xiii) Feng Genfu was appointed as independent non-executive director in May 2015.
 - (xiv) Zhu Shengqin was appointed as independent non-executive director in June 2015.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

12 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(2) Other benefits and rights of directors and supervisors

For each of the years ended 31 December 2016 and 31 December 2015, no emoluments were paid by the Group to any of the persons who are directors, or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office. Except for the contributions to social pension schemes and corporate pension schemes, there were no other retirement benefits for directors or supervisors; meanwhile, there were no consideration provided to third parties for making available directors' and supervisors' services.

For each of the years ended 31 December 2016 and 31 December 2015, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly. In addition, the Group did not provide any guarantee or securities to certain controlled body corporates and connected entities of the directors or supervisors in respect of their loans, quasi-loans or credit transactions.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016
(In RMB thousands, unless otherwise stated)

13 FIVE HIGHEST PAID EMPLOYEES

For the year ended 31 December 2016, the five highest paid employees excluded directors and supervisors. For the year ended 31 December 2015, the five highest paid employees included two directors. These directors' and supervisors' remuneration are disclosed in Note 12.

The remuneration for the rest of the five highest paid employees for the years ended 31 December 2016 and 31 December 2015 are as follows:

	Year ended 31 December	
	2016	2015
Salaries, allowances and other benefits	5,409	4,884
Discretionary bonuses	45,020	15,150
Deferred bonuses	3,300	1,100
Retirement benefits	399	241
Total	<u>54,128</u>	<u>21,375</u>

The number of these individuals whose remuneration fell within the following bands is set out below:

	Year ended 31 December	
	2016	2015
RMB6,000,001 to RMB7,000,000 yuan	–	2
RMB7,000,001 to RMB8,000,000 yuan	–	–
RMB8,000,001 to RMB9,000,000 yuan	–	1
RMB9,000,001 to RMB10,000,000 yuan	–	–
RMB10,000,001 to RMB11,000,000 yuan	2	–
RMB11,000,001 to RMB12,000,000 yuan	3	–
Total	<u>5</u>	<u>3</u>

For each of the years ended 31 December 2016 and 31 December 2015, no remunerations were paid by the Group to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

14 IMPAIRMENT (REVERSAL)/LOSSES

	Year ended 31 December	
	2016	2015
Available-for-sale financial assets	14,775	24,120
Margin financing and securities lending	(38,259)	116,626
Financial assets held under resale agreements	21,454	2,082
Others	363	12,047
Total	(1,667)	154,875

15 INCOME TAX EXPENSE

(1) Income tax

	Year ended 31 December	
	2016	2015
Current income tax		
– Mainland China	1,820,662	3,202,665
– Hong Kong and Macau	10,667	2,475
Subtotal	1,831,329	3,205,140
Deferred income tax	(87,131)	(395,518)
Total	1,744,198	2,809,622

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

15 INCOME TAX EXPENSE (Continued)

(2) Reconciliation between income tax and accounting profit

A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate of 25% to income tax expense at the Group's effective income tax rate is as follows:

	Year ended 31 December	
	2016	2015
Profit before income tax	7,057,420	11,461,475
Income tax at the PRC statutory income tax rate	1,764,355	2,865,369
Effects of different applicable rates of tax prevailing in various regions	(27,439)	(14,896)
Non-deductible expenses	29,410	20,492
Non-taxable income	(56,131)	(51,307)
Others	34,003	(10,036)
Income tax expenses at the Group's effective income tax rate	1,744,198	2,809,622

16 DIVIDENDS

	Year ended 31 December	
	2016	2015
Dividends on ordinary shares declared and paid	–	–
Dividends per ordinary share (expressed in RMB yuan per share)	–	–
Distribution to other equity instrument holders	294,000	294,000

A final dividend of RMB1.80 (pre tax) per 10 ordinary shares in respect of the year ended 31 December 2016 totalling RMB1,304.35 million (pre tax) has been proposed by the directors and is subject to approval by the ordinary shareholders in the Annual General Meeting.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

17 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculations of basic and diluted earnings per share are based on:

	Year ended 31 December	
	2016	2015
Earnings:		
Profit attributable to equity holders of the Company	5,259,251	8,638,825
Less: Profit attributable to other equity instrument holders of the Company (i)	(294,000)	(294,000)
Profit attributable to ordinary equity holders of the Company	4,965,251	8,344,825
Shares:		
Weighted average number of ordinary shares in issue (thousand) (ii)	6,164,706	6,100,000
Basic and diluted earnings per ordinary share (in RMB yuan)	0.81	1.37

Basic earnings per ordinary share was calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding.

For each of the years ended 31 December 2016 and 31 December 2015, there were no dilutive events. Therefore, the diluted earnings per share equals to the basic earnings per share.

- (i) The Company issued two batches of perpetual subordinated bonds during the year ended 31 December 2015, under the terms and conditions as detailed in Note 45 Other Equity Instruments.

For the purpose of calculating basic earnings per ordinary share, distribution of RMB294.00 million on perpetual subordinated bonds for each of the year ended 31 December 2016 and 31 December 2015 was deducted from the profit attributable to ordinary equity holders of the Company.

- (ii) Weighted average number of ordinary shares in issue in 2016 is the number of days that the shares are outstanding as a proportion of the total number of days in the year.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

18 PROPERTY, PLANT AND EQUIPMENT

	Properties and buildings	Electronic devices	Transportation vehicles	Communication equipment	Office equipment	Security equipment	Others	Total
Cost								
1 January 2016	415,001	427,579	37,313	6,317	63,364	7,626	30,990	988,190
Increases	9,760	96,104	1,044	981	8,813	1,340	48	118,090
Decreases	–	(22,014)	(872)	(58)	(820)	(149)	(7)	(23,920)
31 December 2016	424,761	501,669	37,485	7,240	71,357	8,817	31,031	1,082,360
Accumulated depreciation								
1 January 2016	(82,625)	(280,793)	(27,056)	(4,375)	(45,590)	(6,483)	(26,846)	(473,768)
Increases	(14,148)	(78,809)	(3,283)	(627)	(9,765)	(391)	(2,096)	(109,119)
Decreases	–	21,979	847	56	819	137	6	23,844
31 December 2016	(96,773)	(337,623)	(29,492)	(4,946)	(54,536)	(6,737)	(28,936)	(559,043)
Net carrying amount								
31 December 2016	327,988	164,046	7,993	2,294	16,821	2,080	2,095	523,317
Cost								
1 January 2015	369,522	332,846	36,551	6,006	51,954	7,411	30,686	834,976
Increases	58,700	108,107	2,870	610	12,791	342	304	183,724
Decreases	(13,221)	(13,374)	(2,108)	(299)	(1,381)	(127)	–	(30,510)
31 December 2015	415,001	427,579	37,313	6,317	63,364	7,626	30,990	988,190
Accumulated depreciation								
1 January 2015	(72,975)	(242,695)	(25,251)	(3,996)	(38,814)	(5,977)	(23,497)	(413,205)
Increases	(12,551)	(51,375)	(3,472)	(669)	(8,061)	(631)	(3,349)	(80,108)
Decreases	2,901	13,277	1,667	290	1,285	125	–	19,545
31 December 2015	(82,625)	(280,793)	(27,056)	(4,375)	(45,590)	(6,483)	(26,846)	(473,768)
Net carrying amount								
31 December 2015	332,376	146,786	10,257	1,942	17,774	1,143	4,144	514,422

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

19 INTANGIBLE ASSETS

	Software	Trading seat rights and others	Total
Cost			
1 January 2016	222,084	75,919	298,003
Increases	60,202	28	60,230
Decreases	–	–	–
31 December 2016	<u>282,286</u>	<u>75,947</u>	<u>358,233</u>
Accumulated amortization			
1 January 2016	(106,850)	(69,600)	(176,450)
Increases	(37,363)	–	(37,363)
Decreases	–	–	–
31 December 2016	<u>(144,213)</u>	<u>(69,600)</u>	<u>(213,813)</u>
Net carrying amount			
31 December 2016	<u>138,073</u>	<u>6,347</u>	<u>144,420</u>
Cost			
1 January 2015	164,612	75,894	240,506
Increases	58,132	25	58,157
Decreases	(660)	–	(660)
31 December 2015	<u>222,084</u>	<u>75,919</u>	<u>298,003</u>
Accumulated amortization			
1 January 2015	(77,747)	(62,930)	(140,677)
Increases	(29,763)	(6,670)	(36,433)
Decreases	660	–	660
31 December 2015	<u>(106,850)</u>	<u>(69,600)</u>	<u>(176,450)</u>
Net carrying amount			
31 December 2015	<u>115,234</u>	<u>6,319</u>	<u>121,553</u>

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

20 INVESTMENTS IN SUBSIDIARIES

	31 December 2016	31 December 2015
Investments in subsidiaries	1,992,653	1,830,153

General information of the Company's principal subsidiaries are as follows:

Name of subsidiaries	Principal operating place	Place of registration	Registered share capital	Proportion of voting rights		Directly/ Indirectly hold	Principal activities
				As at 31 December 2016	2015		
China Futures Co., Ltd.	Chongqing	Chongqing	RMB700 million	100%	100%	Directly	Futures brokerage
China Capital Management Co., Ltd.	Beijing	Beijing	RMB650 million	100%	100%	Directly	Project investment
China (International) Finance Holding Co., Ltd.	Hong Kong	Hong Kong	Not applicable	100%	100%	Directly	Shareholding and investment
China Fund Management Co., Ltd.	Beijing	Beijing	RMB300 million	55%	55%	Directly	Funds business, asset management

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2016	31 December 2015
Non-current		
At fair value:		
Equity investments	515,068	463,873
Fund investments	10,016	–
Others (i)	4,638,008	407,751
At cost:		
Equity investments	948,966	585,566
Total	6,112,058	1,457,190
Analysed into:		
Listed outside Hong Kong	525,084	463,873
Unlisted	5,586,974	993,317
Total	6,112,058	1,457,190
	31 December 2016	31 December 2015
Current		
At fair value:		
Debt instruments	20,168,666	9,919,416
Equity investments	143,218	137,352
Fund investments	413,300	60,615
Others (i)	7,757,548	5,711,284
At cost:		
Equity investments	–	61,949
Total	28,482,732	15,890,616
Analysed into:		
Listed in Hong Kong	95,876	25,021
Listed outside Hong Kong	21,051,307	9,218,137
Unlisted	7,335,549	6,647,458
Total	28,482,732	15,890,616

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

- (i) Classified as other available-for-sale financial assets of the Group include investments in asset management plans which have been disclosed in Note 48 Interests in Structured Entities.

In addition, as at 31 December 2016 and 31 December 2015, other available-for-sale financial assets included specific accounts invested by the Company together with several other securities companies and managed by China Securities Finance Corporation Limited (the "CSFC"). According to the relevant contracts, the Company made investments on 6 July 2015 and 1 September 2015, in the aggregate amount of RMB4,244.00 million. Risks and returns of the specific accounts are shared by the Company and other investing securities companies based on investment proportion and the accounts are operated and managed by CSFC.

As at 31 December 2016, the fair value of the Company's specific investment managed by CSFC was RMB3,990.58 million, the cumulative decline in the fair value of the investment position amounted to RMB253.42 million (a decrease of 5.97%). Considering the purpose and the special features of this investment, including the investment and divestment decision-making process, the investment is not considered impaired as there has not been a significant or prolonged decline in its fair value as at 31 December 2016.

- (ii) As at 31 December 2016, available-for-sale financial assets of the Group included securities lent to clients amounted to RMB0.25 million (31 December 2015: RMB0.69 million). In addition the fair value of securities of the Group which have been pledged as collateral for repurchase agreements (Note 37), placements from CSFC (Note 38) and securities borrowing business were RMB10,981.77 million (31 December 2015: RMB5,728.07 million).

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

22 HELD-TO-MATURITY INVESTMENTS

	31 December 2016	31 December 2015
Non-current		
Debt instruments	277,480	374,416
Analysed into:		
Listed in Hong Kong	277,480	374,416
Current		
Debt instruments	376,828	13,997
Analysed into:		
Listed in Hong Kong	376,828	13,997

As at 31 December 2016, the fair value of held-to-maturity investments held by the Group was RMB679.56 million (31 December 2015: RMB395.65 million).

As at 31 December 2016, held-to-maturity investments pledged as collateral for bonds in issue (Note 43) by the Group amounted to RMB332.64 million (31 December 2015: RMB259.70 million).

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

23 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	31 December 2016	31 December 2015
Non-current		
Analysed by collateral:		
Stock	633,670	–
Allowance for impairment losses	(8,226)	–
Total	625,444	–
Analysed by counterparty:		
Corporates and individuals	625,444	–
Current		
Analysed by collateral:		
Stock	3,331,317	379,003
Debts	3,197,679	6,271,156
Others	565,983	248,369
Subtotal	7,094,979	6,898,528
Allowance for impairment losses	(15,310)	(2,082)
Total	7,079,669	6,896,446
Analysed by counterparty:		
Banks	674,299	3,503,972
Non-bank financial institutions	2,514,348	3,015,552
Corporates and individuals	3,891,022	376,922
Total	7,079,669	6,896,446

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

23 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

The Group received securities as collateral in connection with financial assets under resale agreements. As part of the resale agreements, the Group received securities allowed to be re-pledged in the absence of default by counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral. The Group had an obligation to return the collateral to its counterparties at the maturity of the contracts.

The fair value of the collateral received in connection with financial assets under resale agreements, the collateral allowed to re-pledged and the collateral re-pledged were as below:

	31 December 2016	31 December 2015
Collateral received	13,676,075	7,394,042
Collateral allowed to be re-pledged	1,517,270	4,777,400
Collateral re-pledged	939,366	4,743,351

24 REFUNDABLE DEPOSITS

	31 December 2016	31 December 2015
Trading deposits	1,843,701	767,458
Performance bonds	1,579,190	1,265,730
Credit deposits	37,446	111,329
Total	3,460,337	2,144,517

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

25 DEFERRED TAX ASSETS AND LIABILITIES

Changes of deferred tax asset and deferred tax liabilities are as follow:

Deferred tax assets	Salaries, bonuses, and allowances payable	Fair value changes of financial instruments	Allowance for impairment losses	Others	Total
1 January 2015	270,134	121,047	10,241	313	401,735
Credit/(charge) to profit or loss	418,484	(107,614)	32,688	2,676	346,234
Credit/(debit) to other comprehensive income	–	150	(722)	–	(572)
31 December 2015	688,618	13,583	42,207	2,989	747,397
(Charge)/Credit to profit or loss	(233)	16,249	(1,691)	3,183	17,508
Credit/(Debit) to other comprehensive income	–	46,926	(678)	–	46,248
31 December 2016	688,385	76,758	39,838	6,172	811,153

Deferred tax liabilities	Fair value changes of financial instruments	Others	Total
1 January 2015	257,294	367	257,661
Credit to profit or loss	(49,257)	(27)	(49,284)
Debit to other comprehensive income	10,233	–	10,233
31 December 2015	218,270	340	218,610
Charge/(credit) to profit or loss	(71,641)	2,018	(69,623)
Credit to other comprehensive income	(102,140)	–	(102,140)
31 December 2016	44,489	2,358	46,847

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

26 OTHER NON-CURRENT ASSETS

As at 31 December 2016 and 31 December 2015, the other non-current assets of the Group represented long-term deferred expenses incurred on leasehold improvements of property, plant and equipment.

27 MARGIN ACCOUNTS

	31 December 2016	31 December 2015
Margin accounts		
– Individuals	29,502,776	34,812,008
– Institutions	1,590,840	1,244,327
Subtotal	31,093,616	36,056,335
Allowance for impairment losses	(86,943)	(125,202)
Total	31,006,673	35,931,133

Margin accounts are funds that the Group provided to clients in margin financing and securities lending business. As at 31 December 2016, the Group's beneficial rights over margin accounts pledged as collateral for repurchase agreements (Note 37) amounted to RMB1,282.54 million (31 December 2015: RMB5,559.34 million).

As at 31 December 2016, the Group received collateral with fair value amounted to RMB99,977.48 million (31 December 2015: RMB125,164.87 million), in connection with its margin financing and securities lending business.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

28 ACCOUNTS RECEIVABLE

	31 December 2016	31 December 2015
Assets management fee receivable	127,026	37,719
Clearing funds receivable	102,802	31,653
Clearing settlement fund and refundable deposits advanced on behalf of sponsored structured entities	23,348	22,988
Others	125,650	60,965
Subtotal	378,826	153,325
Allowance for impairment losses	(358)	–
Total	378,468	153,325

29 FINANCIAL ASSETS HELD FOR TRADING

	31 December 2016	31 December 2015
Debt instruments	21,512,825	20,983,191
Equity investments	1,246,894	1,864,558
Fund investments	1,210,008	4,372,398
Others	3,258,185	1,265,846
Total	27,227,912	28,485,993
Analysed into:		
Listed in Hong Kong	540,211	4,627
Listed outside Hong Kong	22,996,113	26,164,752
Unlisted	3,691,588	2,316,614
Total	27,227,912	28,485,993

As at 31 December 2016, the fair value of financial assets held for trading pledged as collateral for repurchase agreements (Note 37), placements from CSFC (Note 38), borrowings (Note 40) and securities borrowing business by the Group totalled RMB13,926.13 million (31 December 2015: RMB11,739.80 million).

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

30 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2016	31 December 2015
Debt instruments	86,238	–
Equity investments	3,334	3,509
Fund investments	92,982	274
Others	142,657	1,500,000
Total	<u>325,211</u>	<u>1,503,783</u>
Analysed into:		
Listed outside Hong Kong	192,590	3,783
Unlisted	<u>132,621</u>	<u>1,500,000</u>
Total	<u>325,211</u>	<u>1,503,783</u>

As at 31 December 2016, financial assets designated as at fair value through profit or loss held by the Group included securities lent amounted to RMB38.09 million (31 December 2015: RMB2.86 million). The collateral received in margin financing and securities lending business by the Group was disclosed in Note 27 Margin Accounts.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

31 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2016		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	52,267,706	31,033	33,166
Equity derivatives	8,417,278	18,075	97,456
Others	388,475	–	1,954
Total	61,073,459	49,108	132,576

	As at 31 December 2015		
	Nominal value	Fair value	
		Assets	Liabilities
Interest rate derivatives	46,196,440	131,346	137,432
Equity derivatives	10,509,351	10,706	49,725
Others	483,243	–	3,595
Total	57,189,034	142,052	190,752

In the daily settlement system, any gains or losses on the Group's futures contract position are settled on a daily basis and included in "Cash and Bank Balances". Accordingly, as at 31 December 2016 and 31 December 2015, the futures investments accounted under derivative financial instruments were presented on a net basis and were of zero balance.

As at 31 December 2016, the cumulative gains and losses from changes in fair value of the Group's unexpired futures contracts was a net unrealized loss of RMB0.43 million (31 December 2015: a net unrealized loss of RMB12.59 million).

32 CASH HELD ON BEHALF OF CLIENTS

The Group maintains segregated deposit accounts with banks and authorized institutions to hold cash on behalf of customers arising from its normal course of business. The Group has recorded the related amounts as cash held on behalf of clients and the corresponding liabilities as accounts payable to brokerage clients (Note 35). In the Mainland China, the use of cash held on behalf of clients for securities trading and settlement is restricted and governed by relevant third-party custodian regulations issued by the CSRC. In Hong Kong, the "Securities and Futures (Client Money) Rules" under the Securities and Futures Ordinance impose similar restrictions.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

33 CASH AND BANK BALANCES

	31 December 2016	31 December 2015
Cash on hand	105	183
Deposits in banks	17,525,484	16,154,083
Total	17,525,589	16,154,266

As at 31 December 2016, the Group's deposits in banks of RMB90.87 million (31 December 2015: RMB187.04 million) was pledged as collateral for the Group's borrowings (Note 40), and RMB6.76 million (31 December 2015: Nil) was set aside by a subsidiary as a general reserve.

34 OTHER CURRENT ASSETS

	31 December 2016	31 December 2015
Interest receivable	1,565,621	1,239,198
Prepaid expenses	1,981	214,281
Deferred expenses	28,589	24,661
Others	227,878	275,833
Subtotal	1,824,069	1,753,973
Allowance for impairment losses	(38,838)	(38,833)
Total	1,785,231	1,715,140

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

35 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

Accounts payable to brokerage clients represent the amounts received from and repayable to clients arising from the ordinary course of the Group's securities brokerage business. For more details, please refer to Note 32 Cash Held on Behalf of Clients.

36 FINANCIAL LIABILITIES HELD FOR TRADING

	31 December 2016	31 December 2015
Debt securities	2,972,738	93,191

Financial liabilities held for trading are generated from the Group's bonds investment.

37 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	31 December 2016	31 December 2015
Current		
Analysed by collateral:		
Debt securities	16,710,093	18,503,053
Beneficial rights over margin financing and securities lending (Note 27)	300,000	2,715,000
Gold	6,721,358	5,517,528
Others	799,991	726,690
	<hr/>	<hr/>
Total	24,531,442	27,462,271
	<hr/> <hr/>	<hr/> <hr/>
Analysed by counterparty:		
Banks	8,719,621	11,474,773
Non-bank financial institutions	15,011,830	14,434,787
Others	799,991	1,552,711
	<hr/>	<hr/>
Total	24,531,442	27,462,271
	<hr/> <hr/>	<hr/> <hr/>

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

37 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (Continued)

	31 December 2016	31 December 2015
Non-current		
Analysed by collateral:		
Beneficial rights over margin financing and securities lending (Note 27)	500,000	1,800,000
Analysed by counterparty:		
Banks	–	1,000,000
Non-bank financial institutions	500,000	800,000
Total	500,000	1,800,000

38 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2016	31 December 2015
Placements from banks	360,000	1,000,000
Placements from CSFC	9,000,000	1,284,000
Total	9,360,000	2,284,000

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016
(In RMB thousands, unless otherwise stated)

39 TAXES PAYABLE

	31 December 2016	31 December 2015
Income tax	377,263	1,115,480
Value-added tax	44,412	503
Business tax	–	138,912
Others	334,307	336,863
Total	755,982	1,591,758

40 BORROWINGS

(1) Short-term borrowings

	31 December 2016	31 December 2015
Analysed by nature:		
Credit borrowings	1,590,489	837,780
Mortgage borrowings (Note 29)	110,992	109,999
Pledged borrowings (Note 33)	80,000	175,000
Total	1,781,481	1,122,779

As at 31 December 2016, the fixed interest rates on the short-term borrowings of the Group were in the range of 8.72%–8.82% (31 December 2015: 1.90%–4.50%). In addition, the Group has variable-rate borrowings which carry interest at HIBOR or LIBOR.

(2) Long-term borrowings

	31 December 2016	31 December 2015
Mortgage borrowings		
– Maturity within one year (Note 42)	–	290,001

As at 31 December 2015, the interest rate on the long-term borrowings of the Group was 4.60%.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

41 SHORT-TERM FINANCING INSTRUMENTS PAYABLE

Name	Issue date	Maturity date	Coupon rate	1 January 2016	Increase	Decrease	31 December 2016
15 CSC CP007	25/11/2015	24/02/2016	3.20%	3,000,000	–	(3,000,000)	–
15 CSC CP008	21/12/2015	18/03/2016	3.10%	2,500,000	–	(2,500,000)	–
16 CSC CP001	08/03/2016	03/06/2016	2.63%	–	3,000,000	(3,000,000)	–
16 CSC D1	15/06/2016	12/03/2017	3.28%	–	2,999,520	–	2,999,520
Structured notes (i)(ii)	17/06/2016	04/01/2017					
	–29/12/2016	–03/04/2017		5,822,686	8,816,778	(9,881,785)	4,757,679
Total				11,322,686	14,816,298	(18,381,785)	7,757,199

Name	Issue date	Maturity date	Coupon rate	1 January 2015	Increase	Decrease	31 December 2015
14 CSC CP007	17/10/2014	18/01/2015	4.22%	1,700,000	–	(1,700,000)	–
14 CSC CP008	14/11/2014	15/02/2015	4.09%	1,900,000	–	(1,900,000)	–
14 CSC CP009	05/12/2014	08/03/2015	4.95%	1,900,000	–	(1,900,000)	–
15 CSC CP001	13/04/2015	13/07/2015	4.74%	–	1,900,000	(1,900,000)	–
15 CSC CP002	08/05/2015	09/08/2015	3.50%	–	1,800,000	(1,800,000)	–
15 CSC CP003	08/06/2015	07/09/2015	3.08%	–	1,800,000	(1,800,000)	–
15 CSC CP004	21/07/2015	20/10/2015	2.90%	–	1,900,000	(1,900,000)	–
15 CSC CP005	18/08/2015	17/11/2015	2.80%	–	1,800,000	(1,800,000)	–
15 CSC CP006	15/09/2015	15/12/2015	2.91%	–	1,800,000	(1,800,000)	–
15 CSC CP007	25/11/2015	24/02/2016	3.20%	–	3,000,000	–	3,000,000
15 CSC CP008	21/12/2015	18/03/2016	3.10%	–	2,500,000	–	2,500,000
Structured notes (i)(ii)	24/03/2015	12/01/2016					
	–31/12/2015	–28/06/2017		67,416	8,970,741	(3,215,471)	5,822,686
Total				5,567,416	25,470,741	(19,715,471)	11,322,686

As at 31 December 2016 and 31 December 2015, there were no defaults related to any short-term financing instruments payable by the Group.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

41 SHORT-TERM FINANCING INSTRUMENTS PAYABLE (Continued)

- (i) As at 31 December 2016 and 31 December 2015, the Group had issued two types of structured notes. One type accrues interests at a fixed annual rate in the range of 3.00%–4.20% and 3.60%–6.20%, respectively. The other one accrues interests at floating rate linked to one or more indexes.
- (ii) As at 31 December 2015, the Group had issued two structured notes with maturity over one year. Due to redemption option embedded which could be exercised within one year by the Group, these two structured notes were classified as current liabilities.

42 OTHER CURRENT LIABILITIES

	31 December 2016	31 December 2015
Salaries, bonuses and allowances payable	2,789,462	2,829,701
Interest payable	885,733	760,449
Accounts payable to underwriting clients	668,599	136,933
Settlement deposits payable	573,378	576,549
Dividends payable	294,000	294,000
Provision	60,456	52,720
Securities investor protection fund payable	33,502	48,438
Futures settlement risk funds payable	58,597	45,920
Funds payable to securities holders	6,090	6,120
Amounts due to other holders of consolidated structured entities	9,173,295	6,017,807
Long-term borrowings maturity within one year (Note 40)	–	290,001
Bonds in issue with maturity within one year (Note 43)	6,000,000	7,713,193
Others	1,641,348	1,014,419
Total	22,184,460	19,786,250

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

43 BONDS IN ISSUE

	31 December 2016	31 December 2015
Bonds in issue		
– Maturity within one year (Note 42)	6,000,000	7,713,193
– Maturity over one year	13,653,036	15,072,207

- (1) As at 31 December 2016 and 31 December 2015, there were no defaults related to any bonds in issue.
- (2) The details of bonds in issue

Maturity within one year		31 December 2016	31 December 2015
Corporate bonds			
13 Zhongxinjian	(i)	–	4,713,193
Subordinated bonds			
14 Zhongjiantou	(ii)	–	2,000,000
14 Xinjiantou	(iii)	–	1,000,000
15 Zhongjiantou	(iv)	6,000,000	–
Carrying amount		6,000,000	7,713,193

Note to the Consolidated Financial Statements (Continued)

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43 BONDS IN ISSUE (Continued)

(2) The details of bonds in issue (Continued)

Maturity over one year		31 December 2016	31 December 2015
Corporate bonds			
15 Xinjiantou	(v)	6,000,000	6,000,000
15 Xintou 01	(vi)	1,795,749	1,790,936
CSCIFN15B2009	(vii)	1,372,401	1,281,271
16 Xintou G1	(viii)	2,990,493	–
16 Xintou G2	(ix)	1,494,393	–
Subordinated bonds			
15 Zhongjiantou	(iv)	–	6,000,000
Carrying amount		13,653,036	15,072,207

- (i) In November 2013, the Company publicly issued a 3-year fixed rate corporate bond, which paid interest annually at 6.15% per annum and was guaranteed by China Bond Insurance Corporation.
- (ii) In October 2014, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB2 billion, which offers the options, at the end of the second year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond paid interest annually at 5.50% per annum and was not guaranteed.
- (iii) In October 2014, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB1 billion, which offers the options, at the end of the second year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond paid interest annually at 5.50% per annum and was not guaranteed.
- (iv) In April 2015, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB6 billion, which offers the options, at the end of the second year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 5.45% per annum and is not guaranteed.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

43 BONDS IN ISSUE (Continued)

(2) The details of bonds in issue (Continued)

- (v) In June 2015, the Company privately issued a 5-year fixed rate corporate bond with a face value of RMB6 billion which offers the options, at the end of the third year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 5.32% per annum and is not guaranteed.
- (vi) In August 2015, the Company publicly issued a 10-year fixed rate corporate bond with a face value of RMB1.8 billion, which offers the options, at the end of the fifth year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 4.20% per annum and is not guaranteed.
- (vii) In September 2015, CSCI Finance (2015) Co., Ltd. publicly issued a 5-year fixed rate credit enhancement bond with a face value of USD0.2 billion. The bond pays interest semi-annually at 3.125% per annum and is unconditionally and irrevocably guaranteed by China Securities (International) Financial Holding Co., Ltd.
- (viii) In May 2016, the Company publicly issued a 5-year fixed rate corporate bond with a face value of RMB3 billion, which offers the options, at the end of the third year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 3.14% per annum and is not guaranteed.
- (ix) In August 2016, the Company publicly issued a 5-year fixed rate corporate bond with a face value of RMB1.5 billion, which offers the options, at the end of the third year, for the Company to redeem it at face value or increase the coupon rate, or for the investors to sell back the bond. The bond pays interest annually at 2.90% per annum and is not guaranteed.

Note to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

44 SHARE CAPITAL

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

	31 December 2016	31 December 2015
Issued and fully paid ordinary shares of RMB1 each (<i>in thousands</i>)		
– Domestic shares	5,992,353	6,100,000
– H shares	1,184,117	–
Total	<u>7,176,470</u>	<u>6,100,000</u>

	31 December 2016	31 December 2015
Ordinary equity share capital (<i>in RMB'000</i>)		
– Domestic shares	5,992,353	6,100,000
– H shares	1,184,117	–
Total	<u>7,176,470</u>	<u>6,100,000</u>

On 9 December 2016, the Group completed its initial public offering of 1,076.47 million H shares on the Main Board of Hong Kong Stock Exchange.

According to the relevant PRC requirements, certain existing shareholders of the state-owned shares of the Company have transferred an aggregate of 107.65 million 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.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

45 OTHER EQUITY INSTRUMENTS

In January 2015, the Company issued first batch of perpetual subordinated bonds amounted to RMB2 billion. In March 2015, the second batch amounted to RMB3 billion was issued.

Key terms and conditions relating to the above equity instruments are as follows:

- The bonds are repriced every 5 interest-accruing years, and at the end of the repricing cycle, the issuer has the option to extend the bonds for another repricing cycle (another five years) or redeem them in full;
- The bonds offer no redemption option to the investors so that investors cannot require the issuer to redeem their bonds during the duration of the bonds;
- The issuer has the option to defer interest payment, except in the event of mandatory interest payments, so that at each interest payment date, the issuer may choose to defer the interest payment to the next payment date for the current period as well as all interests and accreted interests already deferred according to the related terms, without any limitation with respect to the number of deferrals. Mandatory interest payment events are limited to dividend distributions to ordinary shareholders and reductions of registered capital;
- The priority over repayment of these bonds is subordinated to the Company's general debts but senior to the Company's ordinary equity shares. Unless in the event of discontinuance, closure or liquidation of the Company, investors of these bonds cannot require the Company to accelerate payment of bonds' principals.

The perpetual subordinated bonds issued by the Company are classified as equity instruments, and recognized under equity in the consolidated statement of financial position.

46 RESERVES

The amounts of the Group's reserves and the related movements are presented in the consolidated statement of changes in equity.

(1) Capital reserve

Capital reserve primarily includes share premium arising from the issuance of new shares at prices in excess of par value.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

46 RESERVES (Continued)

(2) Surplus reserve

(i) Statutory surplus reserve

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

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses, if any, and may also be converted into capital of the Company, provided that the balance of the statutory surplus reserve after this capitalization is not less than 25% of the registered capital immediately before capitalization.

(ii) Discretionary surplus reserve

After making the appropriation to the statutory surplus reserve, the Company may also appropriate its after-tax profit for the year, as determined under China Accounting Standards for Business Enterprises, to its discretionary surplus reserve upon approval by the ordinary equity holders in Annual General Meeting. Subject to the shareholders' approval, the discretionary surplus reserve may be used to offset accumulated losses, if any, and may be converted into capital of the Company.

(3) General reserves

Pursuant to the requirements of regulatory authorities, including the Ministry of Finance and the CSRC, the Company is required to appropriate 10% of its after-tax profit for the year for the general risk reserve and 10% for the transaction risk reserve. These reserves may be used to offset accumulated losses of the Company but shall not be declared as dividends or converted into share capital. Regulatory reserve represents reserves that are established by subsidiaries and branches in certain countries or jurisdictions outside Mainland China in accordance with the regulatory requirements in their respective territories are also included herein.

(4) Investment revaluation reserve

The investment revaluation reserve represents the fair value changes of available-for-sale financial assets.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

46 RESERVES (Continued)

(5) Foreign currency translation reserve

The foreign currency translation reserve represents the exchange difference arising from the translation of the financial statements of the subsidiaries incorporated outside Mainland China with functional currencies other than RMB.

(6) Distributable profits

The Company's distributable profits are based on the retained profits of the Company as determined under China Accounting Standards for Business Enterprises and IFRSs, whichever is lower.

47 CASH AND CASH EQUIVALENTS

	31 December 2016	31 December 2015
Cash and bank balance	17,525,589	16,154,266
Less: Restricted deposits (Note 33)	(97,629)	(187,041)
Cash and cash equivalents	<u>17,427,960</u>	<u>15,967,225</u>

48 INTERESTS IN STRUCTURED ENTITIES

The Group is involved with structured entities primarily through investments management business. The Group determines whether to consolidate these structured entities depending on whether the Group has control over them.

(1) Structured entities included in consolidated financial statements

Considering that the Company acts as the principal or the investment consultant for the structured entities, and has invested in the subordinated tranches or all of the shares issued by the structured entities, bearing most or all the risk of the products and obtaining most or all of the variable returns, the Group therefore consolidated these structured entities in its consolidated financial statements.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

48 INTERESTS IN STRUCTURED ENTITIES (Continued)

(1) Structured entities included in consolidated financial statements (Continued)

As at 31 December 2016 and 31 December 2015, total assets of consolidated structured entities, the Group's investments and maximum exposure arising from its investments in consolidated structured entities are as follows:

	31 December 2016	31 December 2015
Total assets	12,371,832	11,673,215
Investments	2,303,554	1,720,396
Maximum exposure	2,496,362	2,004,671

(2) Interests in unconsolidated structured entities

(i) Structured entities sponsored by the Group

Unconsolidated structured entities sponsored by the Group primarily include asset management plans and investment funds sponsored by the Group. As the manager of these structured entities, the Group invests, on behalf of its customers, the funds raised in the assets as described in the investment plan related to each structured entities. The interests held by the Group in these unconsolidated structured entities primarily include investments held directly and/or management fees earned from managed structured entities. The variable return that the Group has in relation to these structured entities is not significant, therefore, these structured entities are not consolidated by the Group.

For the year ended 31 December 2016, the Group earned management fee, commission and performance fee amounted to RMB830.39 million (31 December 2015: RMB510.94 million) from unconsolidated structured entities sponsored by the Group, for which the Group held no interest in as at the end of the reporting year.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

48 INTERESTS IN STRUCTURED ENTITIES (Continued)

(2) Interests in unconsolidated structured entities (Continued)

(i) Structured entities sponsored by the Group (Continued)

As at 31 December 2016 and 31 December 2015, the maximum exposure and the carrying amount of relevant balance sheet items of the Group rising from these unconsolidated structured entities, for which the Group held interests in as at the end of the reporting year, were set out as below:

	31 December 2016	31 December 2015
Financial assets designated as at fair value through profit or loss		
– Carrying amount	10,037	–
– Maximum exposure	10,037	–
Available-for-sale financial assets		
– Carrying amount	1,280,749	393,556
– Maximum exposure	1,283,193	395,717

(ii) Structured entities sponsored by third party financial institutions

As at 31 December 2016 and 31 December 2015, the maximum exposure and the book value of relevant balance sheet items of the Group rising from the interest held of directly invested structured entities sponsored by third party financial institutions were set out as below:

	31 December 2016	31 December 2015
Financial assets hold for trading	4,452,706	5,638,244
Financial assets designated as at fair value through profit or loss	225,602	1,500,274
Available-for-sale financial assets	7,718,855	1,738,092

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

49 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognized financial assets to third parties or customers. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognize the transferred assets.

Repurchase transactions

Transferred financial assets that do not qualify for derecognition include debt securities held by counterparties as collateral under repurchase transactions. The counterparties are allowed to repledge those securities sold under repurchase transactions in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require counterparties to return part of collateral or be required to pay additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore does not derecognize them. A financial liability is recognized for cash received.

Securities lending arrangements

Transferred financial assets that do not qualify for derecognition include securities lent to customers for securities selling transactions, for which the customers provide the Group with collateral that could fully cover the credit risk exposure of the securities lent. The customers have an obligation to return the securities according to the contracts. If the securities increase or decrease in value, the Group may in certain circumstances be required to return part of collateral or require counterparties to pay additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore does not derecognize them.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

49 TRANSFERRED FINANCIAL ASSETS (Continued)

Securities lending arrangements (Continued)

The following table analyses the carrying amount of the above-mentioned financial assets transferred to third parties or customers that did not qualify for derecognition and their associated financial liabilities:

	31 December 2016	31 December 2015
Carrying amount of transferred assets		
– Financial assets sold under repurchase agreements	–	293,220
– Securities lending	38,343	3,546
Total	38,343	296,766
Carrying amount of related liabilities		
– Financial assets sold under repurchase agreements	–	284,046

50 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Capital commitments

	31 December 2016	31 December 2015
Contracted, but not provided for	7,064	8,208

The above-mentioned capital commitments are primarily in respect of the construction of properties and purchase of equipment by the Group.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

50 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(2) Operating lease commitments

At the end of the reporting years, the Group leased certain office properties under operating lease arrangements. The total future minimum lease payments under irrevocable operating lease arrangements are summarized below.

	31 December 2016	31 December 2015
Within one year	266,957	219,449
After one year but not more than two years	238,517	214,895
After two years but not more than three years	182,688	153,227
After three years	239,094	206,558
Total	927,256	794,129

(3) Legal proceedings

From time to time in the ordinary course of business, the Group are subject to claims and are parties to legal and regulatory proceedings. As at 31 December 2016 and 31 December 2015, the Group was not involved in any material legal, or arbitration proceedings that if adversely determined, would have material impact its financial position or results of operations.

51 RELATED PARTY DISCLOSURES

(1) Beijing State-owned Capital Operation and Management Center

As at 31 December 2016, Beijing State-Owned Capital Operation and Management Center owned 37.46% of the equity interest and voting rights of the Company (31 December 2015: 45.00%).

Beijing State-Owned Capital Operation and Management Center was established by State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality, which is a People-owned enterprise controlled by the PRC government.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

51 RELATED PARTY DISCLOSURES (Continued)

(1) Beijing State-owned Capital Operation and Management Center (Continued)

The Group entered into transactions with Beijing State-Owned Capital Operation and Management Center at arm's length in the ordinary course of business. Management considers that transactions between the Group and Beijing State-Owned Capital Operation and Management Center are not significant.

(2) Central Huijin and companies under Central Huijin

As at 31 December 2016, Central Huijin Investments Limited ("Central Huijin") owned 33.29% of the equity interest and voting rights of the Company (31 December 2015: 40.00%).

Central Huijin is a wholly-owned subsidiary of China Investment Corporation, which is incorporated in Beijing, the PRC. Central Huijin was established to hold certain equity interests in state-owned financial institutions as authorized by the China State Council and does not engage in other commercial activities. Central Huijin exercises its legal rights and assumes obligations related to the Company on behalf of the PRC Government. Central Huijin has equity interests in certain other banks and financial institutions under the direction of the Chinese government.

The Group enters into transactions with Central Huijin and its related parties in the ordinary course of business under normal commercial terms. Corresponding transactions and balances with these banks and financial institutions were as follows:

	Year ended 31 December	
	2016	2015
Brokerage services income	5,814	3,206
Investment banking income	54,773	75,614
Other fee and commission income	1,008	–
Interest income from bank deposits	254,029	357,129
Other interest income	6,866	17
Brokerage expenses	(21,179)	(34,934)
Investment banking expenses	(383)	(2,775)
Other fee and commission expenses	(2,615)	(3)
Interest expenses	(80,631)	(37,521)
Other	(33)	–

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

51 RELATED PARTY DISCLOSURES (Continued)

(2) Central Huijin and companies under Central Huijin (Continued)

	31 December 2016	31 December 2015
Assets		
Available-for-sale financial assets	489,599	154,724
Financial assets held for trading	781,983	2,266,498
Derivative financial assets	3,858	19,078
Cash held on behalf of clients	9,856,640	15,777,258
Cash and bank balances	5,984,859	308,234
Interest receivable	26,084	20,557
Liabilities		
Accounts payable to brokerage clients	7,865	75
Derivative financial liabilities	3,158	16,114
Financial assets sold under repurchase agreements	3,328,106	260,469
Short-term borrowings	–	251,333
Interest payable	28,321	14,356
Other current liabilities	33	290,001

(3) Government related entities

According to the provisions of IAS 24 – Related Parties Disclosures, government entities controlled and jointly controlled by the Chinese government and their subsidiaries (the “government related entities”) are also regarded as related parties of the Group.

Part of the Group’s transactions including securities and futures dealing and broking, underwriting of debt securities, purchase and sale of government bonds, and equity and debt securities issued by other government related entities are entered into with government related entities. These transactions are entered into under normal commercial terms and conditions.

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

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

51 RELATED PARTY DISCLOSURES (Continued)

(4) Other major shareholder and its related parties

	Year ended 31 December	
	2016	2015
Investment banking income	–	47,960

	31 December	31 December
	2016	2015
Assets		
Financial assets held for trading	79,600	80,000

(5) The Group's associate

The Group entered into transactions with its associate at arm's length in the ordinary course of business. Management considers that transactions between the Group and its associate are not significant.

(6) Key management personnel

Key management personnel are those who have the authority and responsibility to directly or indirectly plan, direct and control the Group activities, including the board of directors, the board of supervisors and other senior management personnel.

The Group's remuneration for key management personnel (including Note 12 Directors' and Supervisors' Remuneration) are disclosed as follow:

	Year ended 31 December	
	2016	2015
Salaries, bonuses and allowances	124,277	87,570
Staff benefits	2,753	2,720
Contributions to defined contribution schemes	1,645	1,514
Total	128,675	91,804

Note to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

52 FAIR VALUE AND FAIR VALUE HIERARCHY

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

- Level 1 : where the inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 : where the inputs are all directly and indirectly observable inputs other than the quoted market prices of assets and liabilities in Level 1.
- Level 3 : where the inputs are unobservable inputs for relevant assets or liabilities.

The Group uses valuation techniques or counterparty quotations to determine fair value when market prices are not available in active markets.

The major parameters used in valuation techniques include underlying securities prices, interest rates, foreign exchange rates, volatilities, correlations and counterparty credit spreads, among others, which are all observable and available from an active market.

For certain unlisted equity securities (private equity securities), thinly traded equity securities, unlisted asset management plans, and certain over-the-counter derivative contracts, the management uses counterparty quotations or valuation techniques to determine their fair value. Valuation techniques used include discounted cash flow analysis, net asset value method and market comparison approach. The fair value measurement of these financial instruments may use unobservable inputs that may have significant impact on the valuation results, and therefore, the Group includes them as Level 3 assets and liabilities. The unobservable inputs that may have impact on the valuation include weighted average cost of capital, liquidity discount, and price to book ratio, among others. As at 31 December 2016 and 31 December 2015, fair value changes resulting from the changes in the unobservable inputs were not significant. The Group has implemented internal control procedures to monitor and control the Group's exposures to such financial instruments.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(1) Financial instruments recorded at fair value

	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt instruments	7,662,569	13,850,256	–	21,512,825
– Equity investments	1,246,894	–	–	1,246,894
– Fund investments	1,210,008	–	–	1,210,008
– Others	–	3,258,185	–	3,258,185
Subtotal	10,119,471	17,108,441	–	27,227,912
Financial assets designated as at fair value through profit or loss	96,315	228,896	–	325,211
Derivative financial assets	15,358	31,032	2,718	49,108
Available-for-sale financial assets				
– Debt instruments	84,174	20,084,492	–	20,168,666
– Equity investments	466,633	92,769	98,884	658,286
– Fund investments	423,316	–	–	423,316
– Others	–	12,189,556	206,000	12,395,556
Subtotal	974,123	32,366,817	304,884	33,645,824
Total assets	11,205,267	49,735,186	307,602	61,248,055
Financial liabilities held for trading	–	2,972,738	–	2,972,738
Financial liabilities designated as at fair value through profit or loss	–	–	9,938	9,938
Derivative financial liabilities	16,060	90,898	25,618	132,576
Total liabilities	16,060	3,063,636	35,556	3,115,252

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(1) Financial instruments recorded at fair value (Continued)

	31 December 2015			Total
	Level 1	Level 2	Level 3	
Financial assets held for trading				
– Debt instruments	7,224,063	13,759,128	–	20,983,191
– Equity investments	1,864,558	–	–	1,864,558
– Fund investments	4,372,398	–	–	4,372,398
– Others	–	1,265,846	–	1,265,846
Subtotal	<u>13,461,019</u>	<u>15,024,974</u>	<u>–</u>	<u>28,485,993</u>
Financial assets designated as at fair value through profit or loss	<u>3,783</u>	<u>1,500,000</u>	<u>–</u>	<u>1,503,783</u>
Derivative financial assets	<u>10,663</u>	<u>131,389</u>	<u>–</u>	<u>142,052</u>
Available-for-sale financial assets				
– Debt instruments	120,724	9,798,692	–	9,919,416
– Equity investments	579,527	–	21,698	601,225
– Fund investments	54,442	6,173	–	60,615
– Others	2,110	6,116,925	–	6,119,035
Subtotal	<u>756,803</u>	<u>15,921,790</u>	<u>21,698</u>	<u>16,700,291</u>
Total assets	<u>14,232,268</u>	<u>32,578,153</u>	<u>21,698</u>	<u>46,832,119</u>
Financial liabilities held for trading	<u>–</u>	<u>93,191</u>	<u>–</u>	<u>93,191</u>
Derivative financial liabilities	<u>41,721</u>	<u>149,031</u>	<u>–</u>	<u>190,752</u>
Total liabilities	<u>41,721</u>	<u>242,222</u>	<u>–</u>	<u>283,943</u>

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(2) Movements in Level 3 financial instruments measured at fair value

Movements in Level 3 financial instruments measured at fair value in each year are as follow:

	Year ended 31 December 2016			
	Available-for-sale financial assets	Derivative financial assets	Financial liabilities designated as at fair value through profit or loss	Derivative financial liabilities
Beginning balance	21,698	–	–	–
Total gains or losses for the year	–	(3,202)	138	(12,455)
Changes in fair value in other comprehensive income for the year	43,668	–	–	–
Increases	250,644	5,920	9,800	38,073
Decreases	(1,626)	–	–	–
Transfers to Level 1 from Level 3	(9,500)	–	–	–
Ending balance	<u>304,884</u>	<u>2,718</u>	<u>9,938</u>	<u>25,618</u>
Gains/(losses) for the year included in profit or loss for assets/liabilities held at the end of the year	–	(3,202)	(138)	12,455

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

- (2) Movements in Level 3 financial instruments measured at fair value (Continued)

	Year ended 31 December 2015			
	Available-for-sale financial assets	Derivative financial assets	Financial liabilities designated as at fair value through profit or loss	Derivative financial liabilities
Beginning balance	72,017	-	-	-
Total gains or losses for the year	227,138	-	-	-
Changes in fair value in other comprehensive income for the year	(43,569)	-	-	-
Increases	19,000	-	-	-
Decreases	-	-	-	-
Transfers to Level 1 from Level 3	(252,888)	-	-	-
Ending balance	21,698	-	-	-
Gains for the year included in profit or loss for assets held at the end of the year	-	-	-	-

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(3) Important unobservable input value in fair value measurement of Level 3

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

Financial instruments	Valuation technique and key input	Significant unobservable input	Relationship of unobservable input to fair value
Equity investment	Discounted cash flow technique	Liquidity adjustment	The lower the discount, the higher the fair value
Asset-backed Securities, Structured Notes	Discounted cash flow technique	Risk-adjusted discount rate	The higher the risk-adjusted discount rate, the lower the fair value
Over-the-counter options	Black-scholes option pricing model	Risk-adjusted discount rate, Price volatility of underlying assets	Not applicable

(4) Transfers between Level 1 and Level 2

For each of the years ended 31 December 2016 and 31 December 2015, there were no transfers of fair value measurement between Level 1 and Level 2.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(5) Financial assets and financial liabilities not measured at fair value

As at 31 December 2016 and 31 December 2015, among the Group's financial assets and financial liabilities not measured at fair value, the fair value of financial instruments that are traded in an active market, are quoted as market price at the end of the reporting year or evaluated by data published by the valuation institution. The fair value of financial instruments that are not traded in an active market are determined by the current value of estimated future cash flow using market rate at the end of the reporting year as the discounted rate, including financial assets held under resale agreements, refundable deposits, margin accounts, accounts receivable, cash held on behalf of clients, cash and bank balances, accounts payable to brokerage clients, financial assets sold under repurchase agreements, placements from banks and other financial institutions, short-term borrowings and short-term financing instruments payable, due to the fact that these financial instruments are approaching their maturity, their fair values approximate their carrying amounts.

The fair value of long-term borrowings are not significantly different from their carrying amounts due to their amount is not significant or less remaining maturities. As at 31 December 2016 and 31 December 2015, the carrying amounts and fair values of held-to-maturity investments are disclosed in Note 22, the carrying amounts and fair values of bonds in issue are summarized below:

	31 December 2016	31 December 2015
Bonds in issue		
– Carrying amount	19,653,036	22,785,400
– Fair value	19,799,766	23,515,128

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT

Overview

The management considers effective risk management a critical element in ensuring the Company's successful operations. Therefore, the Company has established a set of comprehensive risk management and internal control systems to enable the Company to monitor, evaluate and manage various financial risks in its business activities, including primarily credit risk, market risk and liquidity risk, etc.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Structure of risk management

The Board of Directors is the Company's highest decision-making body in risk management, the executive management is the execution body, while different units are responsible for directly managing the risks they face in their business or operational activities. The Company has three dedicated risk control departments, namely the Risk Management Department, the Legal and Compliance Department and the Internal Audit Department, which independently monitor and manage risks before the event, during the event and after the event, as per their respective roles and responsibilities.

The Board of Directors makes decisions with respect to the Company's overall risk-management strategies and policies, internal control arrangements, and actions to address material risks facing the Company, among other things.

The Risk Management Committee under the Board of Directors is responsible for supervising the overall risk management of the Company and ensuring the associated risks are adequately managed so that risk management activities may be effectively carried out through the Company's business and operating activities. The Board Risk Management Committee also has the following responsibilities: preparing the overall risk management policies for the Board's deliberation; determining the strategic structure and resources for risk management so that they are aligned with the internal risk management policies; setting limits for major risks; and supervising and reviewing the risk management policies and making recommendations to the Board.

The Company's Executive Committee makes overall decisions with respect to the prevention, control, mitigation, or acceptance of risks in the Company's business and operating activities and makes decisions on efforts to improve the internal control rules and procedures and control measures in accordance with the risk management policies adopted by the Board.

The Company Risk Management Committee of the Executive Committee is responsible for discussing and proposing the Company's risk preference and tolerance as well as key risk limits for further decision-making; review and approval of specific risk limits and risk control criteria for each business lines; drafting and promoting the implementation of various risk management rules and measures; review and approval of new businesses and products; review and approval of the Company's risk reports; and formulating risk control strategies and plans for material business matters.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Structure of risk management (Continued)

The Chief Risk Officer of the Company, serving also as the chairman of the Company Risk Management Committee, is responsible for leading risk management activities across the Company, including organizing the formulation of relevant risk management rules and procedures, improving the Company's risk management practices, and guiding the Risk Management Department in the identification, evaluation, monitoring and reporting of various risks.

Each and every department and branch/subsidiary of the Company, within their respective roles and responsibilities, is responsible for following the decisions, rules and procedures, and risk control polices, and implementing risk-control measures and engaging in direct risk control efforts in their business activities. Every staff of the Company has the responsibility to comply with the Company's relevant rules and procedures and contribute to daily risk control efforts as part of their own job responsibilities.

The Risk Management Department that is responsible for risk management of the Company, the Legal and Compliance Department that is responsible for legal affairs and compliance management, and the Internal Audit Department that is responsible for the Company's internal audit activities are the three independent risk management functions that establish their own rules and procedures and operate independently to promote risk management of the Company. Specifically, the Risk Management Department is responsible for risk management before and during the event through risk monitoring and assessment, the Legal Compliance Department is responsible for managing the overall legal and compliance risks of the Company, and the Internal Audit Department is responsible for conducting audits to identify material defects in key rules and procedures and processes, as well as internal control weakness, and supervising corrections and rectifications.

Risk management activities

The Risk Management Department works with business departments and back-office departments to jointly identify major risks facing the business and management lines, and create the Risk Catalogue and Key Control List on two levels for key business or management lines and general business or management lines, and continues to update the Risk Catalogue and Key Control List in light of business changes and monitoring findings.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk management activities (Continued)

The Risk Management Department formulates the risk monitoring processes and indicators for key business and management lines, with risk monitoring indicators for brokerage business, proprietary business, securities financing business, and asset management business embedded in the monitoring system, while the risk monitoring for other business or management lines primarily relies on regular and ad hoc monitoring.

The Risk Management Department also formulates operational process for risk assessment, and determines main assessment methods and qualitative and quantitative risk rating criteria. It assesses and rates the risk matters on an on-going basis, evaluates the controls of major business risks on a regular basis, and conducts comprehensive year-end assessments of the risk control process, risk exposures and positions, and risk incidents of the departments, branches and subsidiaries as a key component of their performance assessment.

The Risk Management Department is responsible for building and maintaining mechanisms for communicating and reporting risk information and significant risk early warning information. The Company has established a risk information management system for communicating and managing risk information and providing significant risk early warnings, and the Risk Management Department is responsible for formulating operational procedures for communicating and reporting risk information and issuing risk early warnings, so that the departments and branches and subsidiaries can report risk information or issue early warnings on potential risks identified to the Risk Management Department. The Risk Management Department then aggregates and manages the risk information, performs comprehensive analyses on various risk information to identify risk control weaknesses and loopholes and prepare improvement recommendations on risk control, reports significant risks to the Chief Risk Officer and executive management or Risk Management Committee, and at the same time, and communicates risk information to relevant parties, while tracking any follow-up activities. The Risk Management Department prepares risk reports and risk control recommendation report in controlling the risk before the event and risk monitoring before and during the event and evaluation. The Risk Management Department reports the findings to relevant parties, responsible persons, the President and the chairman of the Board of directors. The Risk Management Department continuously monitors the risks and the risk control status by following up on the implementation of risk control recommendations by relevant parties in managing risks identified in the risk reports.

The Legal and Compliance Department manages legal and compliance risks through contract review, litigation management, and compliance management before and during the event, and reports legal and compliance risks to the Company's Chief Compliance Officer and executive management.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk management activities (Continued)

The Internal Audit Department detects defects in rules and procedures and processes or internal control weaknesses through audits, reports these issues to the Company's Board of Supervisors, the Board's Audit Committee, executive management, the Legal and Compliance Department and the Risk Management Department, and drives and reviews any follow-up actions.

Risk analysis and control

Financial risks in the Company's daily operating activities primarily include market risk, liquidity risk, credit risk, and operational risk. The Company has established specific policies and procedures to identify and address these risks, set out appropriate risk limits and internal control processes to manage these risks, and built integrated control system and information technology systems to continuously monitoring these risks.

53.1 Credit risk

Credit risk refers to potential losses due to borrowers or counterparties' failures to meet their contractual obligations.

The Company primarily faces four types of credit risk: firstly, the credit risk associated with its securities financing activities, which is risk of losses due to defaults of its margin financing and securities lending clients, repurchase clients and collateralized stock repurchase clients; secondly, the default risk of bond investments, namely the risk of asset impairment and changes in investment returns due to defaults of bond issuers or counterparties who refuse to repay matured principals and interests; thirdly, the risk associated with over-the-counter derivative transactions where the customers default and are unable to provide margin deposits in full or make settlement payments; and fourthly, the risk of loss arising from the Company's obligations to settle on behalf of its customers in securities trading or derivative trading on the customers' accounts which become under-margined on the settlement date due to the Company's failure to require full margin deposits before the transactions or because the customers are unable to cover their transactions due to other reasons.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

Credit risk arises from securities financing business primarily due to fraudulent credit information from customers, failure of customers to repay debts in full on a timely manner, customers' breach of contract with respect to the size and structures of trading positions, customers' violation of regulatory requirements in their trading actions, decline in value or liquidity of collateral provided by customers, and involvement of collateral in legal disputes, among others. Measures for controlling credit risk arising from this type of business primarily include customer education, credit investigation and verification, setting proper limits, credit review and approval, daily marking to market, customer risk warnings, forced closure customers' positions, and rights of recourse.

Credit risk arises from securities investments primarily due to counterparty defaults, credit issuer defaults or decline in the creditworthiness of issuers. The Company establishes credit lines for counterparties and maintains black lists to manage its counterparty credit risk, and sets a number of credit limits to help control risks on credit facilities, including minimum ratings for credit products and maximum credit exposure of a single borrower.

The Company controls credit risk arising from over-the-counter derivative transactions by setting counterparty ratings and credit lines, and setting limits to the sizes of transactions and credit risk exposures before transactions take place. The Company has also adopted daily monitoring, measuring counterparties risk exposures, implementing the system of underlying securities trading contract, and valuation of collateral, mark-to-market, and established forced position squaring procedures to help control its credit risk exposures within established limits.

In order to manage the credit risk arising from the brokerage business, securities brokerage transactions in Mainland China are all settled on a fully-pledged basis, which enables settlement risks associated with brokerage business to be well under control. The Company strictly complies with relevant trading and settlement rules and procedures to eliminate non-compliant financing operations for clients. With regard to clients' credit risk, the Company has adopted safeguard measures to prevent overdraft or negative balance of equivalent securities for repurchase financing clients, including minimum ratio of equivalent securities retained and maximum leverage ratio, and established various rules and practices to manage the credit risk of option trading clients, including margin management, position limits, and forced close-out.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

Furthermore, the Company's Risk Management Department monitors the credit risk on an on-going basis, including tracking the credit risk status of counterparties and the Company's businesses and products, as well as using stress testing and sensitivity analysis, among other methods, to measure and estimate the credit risk of major business lines.

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

	31 December 2016	31 December 2015
Available-for-sale financial assets	28,949,550	12,005,233
Held-to-maturity investments	654,308	388,413
Financial assets held under resale agreements	7,705,113	6,896,446
Refundable deposits	3,460,337	2,144,517
Margin accounts	31,006,673	35,931,133
Financial assets held for trading	25,885,137	26,457,381
Financial assets designated as at fair value through profit or loss	228,895	1,500,000
Derivative financial assets	49,108	142,052
Cash held on behalf of clients	55,082,662	70,663,754
Bank balances	17,525,484	16,154,083
Others	2,135,109	1,843,806
Total maximum credit risk exposure	<u>172,682,376</u>	<u>174,126,818</u>

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.2 Liquidity risk

Liquidity risk is the risk of loss when the Company is unable to fund its obligations to financial liabilities. The Company has established clear decision-making levels, authority delegation and risk control rules and procedures, and clearly defined the roles and responsibilities of the Board of Directors, executive management and business departments in liquidity risk management. The Company has established strict rules and procedures for managing its own funds and requires strict compliance with these rules and procedures in taking debts, providing guarantees and making investments; it also sets liquidity risk limits and conducts daily position analyses and monthly liquidity position analyses to manage liquidity movements. For effective management of market liquidity risk of its securities portfolios, the Company has implemented securities centralization management for securities investment and financing activities, and adopted credit rating criteria for fixed-income securities investments. The Company also calculates liquidity coverage ratio and net stable funds ratio as per regulatory requirements and all indicators fall within the safety zone.

The Company has the Treasury Operation Department to manage the liquidity of its own funds, including developing long-term and stable funding channels, improving asset allocation between business lines, and steadily optimizing its of assets and liabilities structure. The Company continues to improve its daily practices for liquidity risk management with the help of level-by-level liquidity reserves, liquidity contingency planning, and stress testing. In addition to improving liquidity risk management practices and systems, the Company aims to further improve the use of technology and the level of automation in process management, fund allocation, and position monitoring. The Company has adopted the Funds Transfer Pricing (FTP) since 2016 for trail implementation, which improves the funding allocation in each business lines by marketization and liquidity risk controls.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.2 Liquidity risk (Continued)

The maturity profile of the financial liabilities as at the end of the reporting year, based on their contractual undiscounted payments, is as follows:

	31 December 2016					Total
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Accounts payable to brokerage clients	56,736,034	–	–	–	–	56,736,034
Derivative financial liabilities in net settlement	97,361	53	5,556	29,606	–	132,576
Financial liabilities held for trading	–	2,974,594	–	–	–	2,974,594
Financial liabilities designated as at fair value through profit or loss	–	–	–	9,938	–	9,938
Financial assets sold under repurchase agreements	–	18,990,592	5,825,754	510,956	–	25,327,302
Placements from banks and other financial institutions	–	7,445,178	2,030,333	–	–	9,475,511
Short-term borrowings	–	1,782,793	–	–	–	1,782,793
Short-term financing instruments payable	–	7,839,785	29,355	–	–	7,869,140
Bonds in issue	–	10,691	565,166	14,626,396	–	15,202,253
Others	2,991,681	6,900,322	8,883,804	10,615	13	18,786,435
Total	59,825,076	45,944,008	17,339,968	15,187,511	13	138,296,576

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.2 Liquidity risk (Continued)

The maturity profile of the financial liabilities as at the end of the reporting year, based on their contractual undiscounted payments, is as follows: (Continued)

	31 December 2015					Total
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	
Accounts payable to brokerage clients	72,045,265	-	-	-	-	72,045,265
Derivative financial liabilities in net settlement	49,683	898	8,646	131,525	-	190,752
Financial liabilities held for trading	-	93,222	-	-	-	93,222
Financial assets sold under repurchase agreements	-	23,043,103	4,705,115	1,886,421	-	29,634,639
Placements from banks and other financial institutions	-	2,325,145	-	-	-	2,325,145
Short-term borrowings	-	848,838	592,325	-	-	1,441,163
Short-term financing instruments payable	-	9,509,260	2,010,101	-	-	11,519,361
Bonds in issue	-	20,237	742,148	16,528,860	-	17,291,245
Others	2,494,279	4,090,742	9,709,216	15,702	1	16,309,940
Total	74,589,227	39,931,445	17,767,551	18,562,508	1	150,850,732

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.3 Market risk

Market risk represents risk of fluctuations in fair values or future cash flows of financial instruments due to movements in market prices. Market risks primarily include stock price risk, interest rate risk, foreign exchange rate risk, and other price risks.

For market risks, the Company has established a sound risk management organizational structure and built risk management processes that enables end-to-end coverage of investment activities before, during and after making the investments, with risk limits applied to every investment. The Company annually reviews and approves risk limits for the Company as well as each and every proprietary business lines, including exposure limits, stop-loss limits, VaR limits and stress testing limits, and charges the Risk Management Department to monitor and supervise their implementation and compliance. The Company has adopted daily mark-to-market practices, and implemented stop-loss procedures commensurate with its trading strategies. On a regular basis, the Company assesses the risk tolerance of its proprietary business lines and the effectiveness of its risks, and includes the assessment results in the performance evaluation of these business lines. The Company makes on-going efforts to improve its proprietary business management system, including automated controls over relevant limit indicators.

(1) Value at risk (VaR)

The Company adopts VaR as a tool to measure the market risk of its entire securities investment portfolio comprising different types and varieties of financial instruments. VaR is a method that estimates the maximum possible loss on the portfolio due to movements in market interest rates or securities prices over a specified time period and within a given confidence interval.

VaR is calculated using the Company's historical data (at a confidence level of 95% and with a holding period of 10 trading days). Although VaR analysis is a key instrument for measuring market risk, it has to rely on historical data and relevant information, and accordingly, it has certain inherent limitations so that it may not accurately predict the future changes of risk factors and in particular, cannot effectively reflect the risk under extreme market conditions.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.3 Market risk (Continued)

(1) Value at risk (VaR) (Continued)

The Company's VaR analysis by risk categories is summarised as follows:

	As at	Year ended 31 December 2016		
	31 December 2016	Average	Maximum	Minimum
Equity price-sensitive financial instruments	36,653	89,955	178,640	36,653
Interest rate-sensitive financial instruments	156,075	79,501	157,120	42,667

	As at	Year ended 31 December 2015		
	31 December 2015	Average	Maximum	Minimum
Equity price-sensitive financial instruments	209,026	127,789	241,232	22,005
Interest rate-sensitive financial instruments	91,560	169,802	288,415	82,206

In addition, for the purpose of maintaining market stability, the Company made contributions to a special account solely managed by CSFC and agreed with other investing securities companies to share risks and returns on the investments in proportion to their respective contributions. This investment is also exposed to market risks, but since it is impossible to accurately estimate the exposure, it is not included in the calculations for the above VaR indicators.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.3 Market risk (Continued)

(2) Interest rate risk

Interest rate risk represents the risk of losses to the fair values or future cash flows of financial instruments due to adverse movements in market interest rates. The Company's interest rate risk primarily comes from the interest rate-sensitive financial instruments whose fair values are subject to changes due to adverse movements in market interest rates.

The Company primarily uses interest rate sensitivity analysis to monitor its interest rate risk. Sensitivity analysis measures the impact of fair value changes of financial instruments held at the year end on the Company's total income and shareholders' equity when reasonable and possible changes occur to interest rates, assuming all other variables remain the same. Sensitivity analysis assumes that market interest rates shift in a parallel manner and does not consider any risk management actions that the management may take to reduce its interest rate risk.

Interest rate sensitivity analysis of the Group are as follows:

Sensitivity of revenue	Year ended 31 December	
	2016	2015
Change in basis points		
+25 basis points	(103,902)	(107,085)
- 25 basis points	105,409	107,936

Sensitivity of equity	31 December	31 December
	2016	2015
Change in basis points		
+25 basis points	(152,260)	(63,203)
- 25 basis points	154,381	64,155

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.3 Market risk (Continued)

(3) Foreign currency rate risk

The Group believes that it has limited foreign exchange rate risk and its foreign exchange rate risk has increased but does not have a significant impact on the Group's current operations, considering that assets and liabilities denominated in foreign currencies represent only a small portion in the Group's entire assets and liabilities, and income from businesses conducted in foreign currencies also represents an insignificant portion in the Group's income structure, as almost all income-earning businesses are conducted in RMB. After the public offering on the Stock Exchange of Hong Kong Limited, the Company raised a fund of about HK\$7,331 million. The Company planned to arrange these funds strictly in accordance with the plan disclosed in the Prospectuses, thus 15% of the funds would be used to support overseas business and control the risk exposure of foreign exchange. The rest would be remitted back to the Mainland China to support the business of domestic wealth management, institutional client service and investment management, etc.

(4) Other price risks

Other price risks refer to risks of fair value decline to the Group's investment portfolio due to fluctuations in market prices other than stock prices, interest rates, and foreign exchange rates, including primarily commodity prices. The Group's investment portfolio primarily comprises equity securities and their derivative instruments as well as fixed income businesses. Other market price-related businesses include gold trading where the Group primarily focuses on providing liquidity services and arbitrage trading, and economically hedges its positions with deferred gold trading and gold future transactions. The size of its gold portfolio represents a very small portion of the Group's portfolio and a negligible risk exposure. Accordingly, the Group believes that other price risks do not have a significant impact on the Group's current operations.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.4 Capital management

The Group's objectives of capital management are:

- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for equity holders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2016) (the "Administrative Measures") issued by the CSRC and effective 1 October 2016, the Company is required to meet the following standards for risk control indicators on a continual basis:

- The risk coverage ratio shall be no less than 100%;
- The capital leverage ratio shall be no less than 8%;
- The liquidity coverage ratio shall be no less than 100%;
- The net stable funding ratio shall be no less than 100%;

The risk coverage ratio = net capital/sum of various risk capital provisions x 100%,

The capital leverage ratio = core net capital/total asset on-/off-balance-sheet x 100%,

The liquidity coverage ratio = high quality liquid assets/net cash outflow in 30 days x 100%,

The net stable funding ratio = available amount of stable funding/required amount of stable funding x 100%.

Core net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

As at 31 December 2015, the Administrative Measures for Risk Control Indicators of Securities Companies (Version 2008) issued by the CSRC was applicable to the Company.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

54 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	31 December 2016	31 December 2015
Non-current assets		
Property, plant and equipment	512,606	500,919
Investment properties	56,282	65,511
Intangible assets	125,500	103,310
Investments in subsidiaries	1,992,653	1,830,153
Investment in associate	48,272	50,000
Available-for-sale financial assets	6,924,059	2,138,588
Financial assets held under resale agreements	625,444	–
Refundable deposits	1,963,744	1,014,824
Deferred tax assets	802,818	741,442
Other non-current assets	169,863	145,585
Total non-current assets	13,221,241	6,590,332
Current assets		
Margin accounts	29,745,830	35,288,258
Accounts receivable	198,573	60,852
Financial assets held for trading	14,407,781	16,544,954
Financial assets designated as at fair value through profit or loss	238,973	1,503,783
Available-for-sale financial assets	27,476,955	15,502,659
Derivative financial assets	49,108	142,052
Financial assets held under resale agreements	6,420,749	6,692,405
Cash held on behalf of clients	49,941,012	67,126,626
Cash and bank balances	16,167,801	14,113,892
Other current assets	1,368,306	976,553
Total current assets	146,015,088	157,952,034
Total assets	159,236,329	164,542,366

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

54 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	31 December 2016	31 December 2015
Current liabilities		
Accounts payable to brokerage clients	50,098,190	67,407,321
Derivative financial liabilities	132,576	190,752
Financial liabilities held for trading	2,972,738	93,191
Financial assets sold under repurchase agreements	22,722,732	23,195,913
Placements from banks and other financial institutions	9,360,000	2,284,000
Taxes payable	692,380	1,554,174
Short-term financing instruments payable	7,757,199	11,322,686
Other current liabilities	12,619,688	13,203,368
Total current liabilities	106,355,503	119,251,405
Net current assets	39,659,585	38,700,629
Total assets less current liabilities	52,880,826	45,290,961
Non-current liabilities		
Financial assets designated as at fair value through profit or loss	9,938	–
Financial assets sold under repurchase agreements	500,000	1,800,000
Bonds in issue	12,280,635	13,790,936
Deferred tax liabilities	17,667	206,850
Other non-current liabilities	4,159	5,069
Total non-current liabilities	12,812,399	15,802,855
Net assets	40,068,427	29,488,106
Equity		
Share capital	7,176,470	6,100,000
Other equity instruments	5,000,000	5,000,000
Reserves	14,847,008	8,626,068
Retained earnings	13,044,949	9,762,038
Total equity	40,068,427	29,488,106

Note to the Consolidated Financial Statements (Continued)

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(In RMB thousands, unless otherwise stated)

55 STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Retained Earnings	Total
At 1 January 2016	6,100,000	5,000,000	1,435,956	1,702,588	5,066,664	420,860	9,762,038	29,488,106
Profit for the year	-	-	-	-	-	-	5,109,873	5,109,873
Other comprehensive losses for the year	-	-	-	-	-	(553,381)	-	(553,381)
Total comprehensive (losses)/income for the year	-	-	-	-	-	(553,381)	5,109,873	4,556,492
Capital injected by equity holders - issuance of H shares	1,076,470	-	5,241,359	-	-	-	-	6,317,829
Appropriation to surplus reserves	-	-	-	510,987	-	-	(510,987)	-
Appropriation to general reserves	-	-	-	-	1,021,975	-	(1,021,975)	-
Distribution to other equity instrument holders	-	-	-	-	-	-	(294,000)	(294,000)
At 31 December 2016	7,176,470	5,000,000	6,677,315	2,213,575	6,088,639	(132,521)	13,044,949	40,068,427

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

55 STATEMENT OF CHANGES IN EQUITY OF THE COMPANY (Continued)

	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Retained earnings	Total
At 1 January 2015	6,100,000	-	1,435,956	796,592	3,337,036	225,520	4,455,338	16,350,442
Profit for the year	-	-	-	-	-	-	8,236,324	8,236,324
Other comprehensive income for the year	-	-	-	-	-	195,340	-	195,340
Total comprehensive income for the year	-	-	-	-	-	195,340	8,236,324	8,431,664
Issuance of perpetual subordinated bonds	-	5,000,000	-	-	-	-	-	5,000,000
Appropriation to surplus reserves	-	-	-	905,996	-	-	(905,996)	-
Appropriation to general reserves	-	-	-	-	1,729,628	-	(1,729,628)	-
Distribution to other equity instrument holders	-	-	-	-	-	-	(294,000)	(294,000)
At 31 December 2015	6,100,000	5,000,000	1,435,956	1,702,588	5,066,664	420,860	9,762,038	29,488,106

56 EVENTS AFTER THE REPORTING PERIOD

(1) Issuance of corporate bonds

In January 2017, the Company privately issued a 183-day fixed rate short-term corporate bond ("17 Xintou D1") with a face value of RMB3 billion. The bond pays interest at 4.00% per annum with repayment of principal and interest at maturity and is not guaranteed.

In February 2017 the Company privately issued a 179-day fixed rate short-term corporate bond ("17 Xintou D2") with a face value of RMB3 billion. The bond pays interest at 4.53% per annum with repayment of principal and interest at maturity and is not guaranteed.

The Company plan to privately issue a short-term corporate bond with a nominal value not more than RMB4,500 million ("17 Xintou D3"), with a term of one year by the end of March 2017.

Note to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2016

(In RMB thousands, unless otherwise stated)

56 EVENTS AFTER THE REPORTING PERIOD (Continued)

(2) Partial exercise of the over-allotment option

On 30 December 2016, the over-allotment option of the Company's H Shares Global Offering was partially exercised by the International Underwriters with a total amount of 73,411,000 H Shares (including 69,915,238 newly issued shares and 3,495,762 H shares converted from domestic shares and sold by the existing shareholders of the Company). The over-allotment shares were listed and traded on the Main Board of The Stock Exchange of Hong Kong Limited on 5 January 2017.

Upon completion of the partial exercise of the over-allotment option, the total number of shares of the Company in issue was 7,246,385,238 shares. The additional net proceeds from the issue, allotment and sale of the over-allotment option were approximately HK\$464.20 million. After deducting the underwriting commission and other estimated expenses relating to the exercise of the over-allotment option, the proceeds will be used in accordance with the disclosures in the Prospectuses.

(3) Dividend

Pursuant to the meeting of the Board of Directors on 17 March 2017, profit distribution of the Company for the year ended 31 December 2016 to domestic equity holders and H share equity holders who are on the registry on the dividend registration date, a cash dividend of RMB1.80 per 10 ordinary shares (pre tax), amounting to approximately RMB1,304.35 million in total (pre tax) and is subject to the approval by the ordinary equity holders in the Annual General Meeting.



中信建投証券股份有限公司
CSC Financial Co., Ltd.