



招商证券股份有限公司
China Merchants Securities Co., Ltd.

(於中華人民共和國註冊成立的股份有限公司)

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

股份代號 Stock code: 6099

2016 年年度報告 Annual Report



CMS  招商证券



Chairman and Executive Director GONG Shaolin

Statement of Chairman and Executive Director

Enhancing capability and forging ahead to become a modern investment bank through transformation and upgrade

Dear shareholders,

2016 was another remarkable year in the history of the capital market. There were quite a number of black swan events in the arenas of international politics and economies. The domestic capital market experienced prolonged fluctuation due to various factors. We remained confident and well-prepared for the multitude of challenges in the era of reform. Under the leadership of the management of the Company in strategic planning, implementation of strategies, operation management and other aspects, we were unified to overcome difficulties and meet every challenge. The H Shares of the Company were successfully issued and listed on the Main Board of the Hong Kong Stock Exchange. We also achieved the second best results of operation in our history, representing a great tribute to the 25th anniversary of the Company.

Competitive strategic plan. We have always attached great importance to strategic planning as a key to future success. We made forward-looking strategic planning continuously according to development trends. Currently, the capital market in China is rapidly evolving into a multi-layer capital market with comprehensive product offerings, complementary functions and standardised regulations. The depth and breadth of the market continue to expand. With improving efficiency and liquidity, the market has become more liberalized and attractive. In response to the fast-changing capital market, we continued to plan and invest in the development towards a full-function platform and full-service capabilities covering the entire value chain. While striking a balance between current operation and long-term development, we have focused on institutional transformation by promoting the transformation and upgrade of the three core businesses for corporate, institutional and individual clients. We also developed cross-border business and increased investment in featured areas such as commodities investment and FICC, building first-mover advantages and brand influence.

Continuous enhancement of internal control. In 2016, the regulators had put more efforts in improving the regulatory system. A “legal, strict and comprehensive regulation” has become a new norm in the capital market in China. In view of the regulatory requirements under the new regime, we have proactively, strictly and persistently complied with the requirements and operated our business steadily. We have continuously improved our internal control system, persisted on the compliance culture, strictly managed our risks and identified and mitigated potential risks in a timely manner, in order to promote a stable growth of the Company. In the ranking of securities firms in 2016, we were one of the only two securities firms in the industry to receive the “AA” regulatory rating for nine consecutive years, laying a solid foundation for our development in the future.

Steady development foundation. A sound performance is heavily attributable to the cohesion and promotion of corporate culture. The corporate culture of China Merchants Securities is inherited from China Merchants Group with a history of over 100 years. We have formed unique characteristics through the challenges of the capital market which facilitate our continuous growth. In 2016, our transformation to a modern investment bank had entered into a crucial stage. Reaching a consensus and enhancing our competitiveness have become our major missions. At the beginning of 2016, we formulated and introduced the “Operation and Management Guidelines of China Merchants Securities” (《招商證券經營管理大綱》), the ultimate guidelines for becoming the best investment bank in China. Throughout 2016, we had conducted comprehensive promotion of the “Operation and Management Guidelines of China Merchants Securities” (《招商證券經營管理大綱》) to all staff to deliver the concepts therein to all levels of our staff and further consolidate the cultural foundation for our development. The confidence and loyalty of our staff had been strengthened and a culture of dedication, devotion and strong capabilities in implementing our strategies was formed throughout the Company.

We are well prepared to start a new era. Facing an ever-changing era with opportunities and challenges, we will persist on our objective of “becoming the best investment bank in China” and develop our business in the promising capital market by taking advantage of our professional strengths, so as to facilitate the development of the society and this era and create returns for the trust of our shareholders and the entrustment from this era.



Executive Director, President and Chief Executive Officer **WANG Yan**

Statement of Executive Director, President and Chief Executive Officer

Striving in the voyage to become the best investment bank in China

2016 was the 25th anniversary of China Merchants Securities. Benefiting from the rapid economic development and thriving capital market of China in the past 25 years, with the trust and support by China Merchants Group, our shareholders and customers, China Merchants Securities has made remarkable progress and achievements. Our operation scale and profitability have grown exponentially. Our core businesses have also become significantly more competitive in the market and ranked top-tier in the industry in terms of overall competitiveness. In 2016, in response to the opportunities and challenges in the market, China Merchants Securities steered on the correct course to push for our transformation and upgrade into a modern investment bank and achieved balanced development of quality, scale and profitability.

Accelerating transformation and upgrade to develop high-quality and sustainable growth. In recent years, we continuously promoted transformation, improved capabilities and upgraded overall operating models, resulting in high-level and quality development. In 2016, our customer structure was optimized significantly with new breakthrough in marketing strategies for major customers. With the introduction of dozens of large corporate customers such as Suning Commerce Group and CNPC, the number of core customers continued to increase. We continued to improve innovation capabilities, and our pioneer products and services in the prime brokerage, the issuance of non-performing asset securitization products and many other pioneer products and services in this industry were further welcomed and recognized by customers. Our operating models were further optimized and upgraded to focus on professional financial intermediary services. By efficiently allocating resources and diversifying product offerings, we promoted practical use of funds and facilitated the capital market to better serve the real economy. In addition to improving our business operation, we also modelled on the top-level design of transformation and reform carefully. We finished the promotion of the operation and management guidelines regarding the development of China Merchants Securities into a modern investment bank, which further unified the strategic understanding and direction of all staff.

Enhancing capital strength to provide revenue for long-term development. In 2016, our H shares were successfully issued and listed, becoming the IPO with the highest valuation premium, highest public offering over-subscription rate and largest scale in the capital market of Hong Kong in 2016 for a PRC securities firm. The successful issue and listing of H shares have fully demonstrated that our development strategies, corporate culture, overall competitiveness and prospect are highly recognized by investors. In addition to gaining strong capital support, we have also entered a new level of international operation and brand awareness, which marked the new milestone of the Company heading towards being the best investment bank in China with international competitiveness.

Diversifying income sources and further enhancing competitiveness. In recent years, through capability improvement, we introduced a number of new main drivers to our business growth, giving a refreshed look to our business. New business platforms such as the Fixed Income Department, Custody Department and OTC Business Department grew significantly and became new contributors to our profit. New service intermediary, capital-based intermediary and capital investment businesses were also developed to create more diversified income and profit structures. Meanwhile, our core businesses also became more competitive in the market. In 2016, in respect of businesses for individual customers, we maintained stable market share in stock and funds trading and the ranking of our capital-based intermediary business rose steadily. In respect of business for corporate customers, the overall competitiveness improved steadily, and the debt financing business ranked top-tier in the industry. In respect of business for institutional customers, we ranked first in terms of stock trading volume of and commission received from mutual funds in the first half of the year. Our leading prime brokerage services also continued to extend their edge. The enhanced competitiveness of core businesses indicates that our overall strength is increasing, and also established a solid foundation and strong guarantee for us to face our competitors fearlessly and forge ahead in the future.

Looking ahead to 2017, the capital market will have a clearer positioning for serving the real economy. More opportunities for development of the securities industry will arise from the economic transformation. Innovation of business models, cross-sector integration and financial technology application will be overwhelming. New markets for the securities industry emerge constantly. Opportunities favours only well-prepared and competent companies. China Merchants Securities will accelerate the establishment of a comprehensive service platform with full-service capabilities covering the entire value chain of a modern investment bank and improve the overall core competitiveness. We will seize opportunities for becoming the best investment bank in China. We will strive for more glorious operating results in return for the continuous support from all shareholders!

Important Notice

- I. **The Board, the Supervisory Committee, Director(s), Supervisor(s) and senior management of the Company undertake that the information in this annual report is true, accurate and complete and contains no false record, misleading statement or material omission, and assume joint and several liabilities to the information in this report.**
- II. **All Directors of the Company attended the Board meeting.**
- III. **ShineWing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited have issued standard unqualified audit reports for the Company.**
- IV. **GONG Shaolin, officer in charge of the Company, DENG Xiaoli, officer in charge of accounting matters of the Company, and CHE Xiaoxin, officer in charge of the accounting office of the Company (head of accounting department), hereby warrant that the financial statements contained in this report are true, accurate and complete.**
- V. **Proposal on profit distribution or capitalization of common reserve for the Reporting Period considered and approved by the Board**

The proposal on profit distribution for 2016: based on the total share capital of 6,699,409,329 shares, a cash dividend of RMB1.89 (tax inclusive) will be distributed to every 10 shares. The actual total cash dividend distributed for the period amounted to RMB1,266,188,363.18, representing 23.43% of the net profit attributable to the owners of the parent company for 2016 according to the consolidated financial statements.

Taking into account of the interim dividend of 2016 and the above dividend distribution, total cash dividend distributed for 2016 amounted to RMB2,160,641,234.65, representing 39.99% of the net profit attributable to the owners of the parent company for 2016 according to the consolidated financial statements.

Such cash dividend will be denominated and declared in RMB and paid to holders of A Shares in RMB and to holders of H Shares in Hong Kong dollar. The actual amount of dividend paid in Hong Kong dollar will be determined based on the average exchange rate of RMB and Hong Kong dollar published by the People's Bank of China for the five business days immediately before the date of the 2016 shareholders' general meeting of the Company.

In view of the procedure of the distribution of dividend of H Shares, it was agreed that Computershare Hong Kong Trustees Limited was appointed as the trustee in respect of the distribution of dividend to holders of H Shares of the Company. Mr. WU Huifeng was authorized to exercise the rights on behalf of the Company to execute all instructions, guidelines, decisions, notices and approvals to nominees in relation to the nominee agreement. The profit distribution plan will be submitted to the 2016 shareholders' general meeting of the Company for consideration and approval. Subject to the approval of the 2016 shareholders' general meeting, the Company will pay the final dividend for 2016 to its shareholders by no later than August 30, 2017.

- VI. **Forward-looking statements in this annual report, including future plans and development strategies, do not constitute substantive commitments to investors by the Company. Investors should be aware of such investment risks.**
- VII. **There is no appropriation of the Company's funds by the controlling shareholder and its associates for non-operating purposes.**
- VIII. **There is no provision of guarantee by the Company in favour of any third party in violation of the prescribed decision-making procedures.**
- IX. **This report is prepared in both Chinese and English by the Company. In case of any inconsistency between the Chinese version and the English version, the Chinese version shall prevail.**
- X. **Material risk warning**

The business, financial position and operating results of the Company may be susceptible to the general economic and market conditions in China and other regions where the relevant businesses are operated in various aspects.

The Company is primarily exposed to the following risks: securities industry is highly regulated and relevant rules and regulations could be revised from time to time based on the development of the securities markets. New rules and regulations, and changes in the interpretation or enforcement of the existing rules and regulations, may directly impact our business strategies and prospects, or could result in limitations on the business areas that we may conduct, modifications to our business practices or additional costs, which may adversely affect our ability to compete with other institutions that are not affected in the same way; if we are unable to fulfill the applicable laws, regulations and regulatory requirement in a timely manner, we may be exposed to legal and compliance risks; we are subject to credit risk associated with economic loss caused by the failure of the borrower or the counterparty to fulfill their contractual obligations; we face market risk arising from the losses on our portfolio due to adverse changes in relevant markets; we are exposed to operational risks arising from imperfect or defective internal procedures, employees and systems or external events; we face liquidity risk that we might not be able to get timely capital injection at reasonable costs to repay debts that are due, fulfill other payment obligations or satisfy other capital needs for normal business operation; we are subject to reputational risk arising from the negative publicity against the Company from stakeholders due to the operation, management or other acts of the Company or external events; and we are exposed to foreign exchange rate risks due to the operation of international business, innovative financial business and other businesses.

To cope with the above risks, the Company has adopted preventive measures in respect of the organisational structure, systems, indicators, risk management culture and IT system, and streamlined the business processes. For details, please see "Potential Risks and Corresponding Solutions" under "Chapter 4 Report of the Board of Directors" of this report.

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Chapter 1: Definition

I. Definition

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

Common terms and expressions	
"A Share(s)"	domestic share(s) in the ordinary share capital of our Company, with a nominal value of RMB1.00 each, which are listed on the SSE (stock code: 600999)
"A Shareholder(s)"	holders of A Shares
"Articles of Association"	the Articles of Association of China Merchants Securities Co., Ltd.
"Bosera Funds"	Bosera Asset Management Co., Limited (博時基金管理有限公司)
"China Merchants Bank"	China Merchants Bank Co., Ltd. (招商銀行股份有限公司)
"China Merchants Futures"	China Merchants Futures Co., Limited (招商期貨有限公司)
"China Merchants Fund"	China Merchants Fund Management Co., Ltd. (招商基金管理有限公司)
"China Merchants Group"	China Merchants Group Limited (招商局集團有限公司)
"CM Finance Investment"	China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)
"CM Steam Navigation"	China Merchants Steam Navigation Co., Ltd. (招商局輪船股份有限公司)
"CMS Asset Management"	China Merchants Securities Asset Management Co., Ltd. (招商證券資產管理有限公司)
"CMS International"	China Merchants Securities International Company Limited (招商證券國際有限公司)
"CMS Investment"	China Merchants Securities Investment Co., Ltd. (招商證券投資有限公司)
"CMS Zhiyuan"	China Merchants Zhiyuan Capital Investment Co., Ltd. (招商致遠資本投資有限公司)
"Company Law"	the Company Law of the PRC (中華人民共和國公司法)
"Company's website"	http://www.newone.com.cn , the website of China Merchants Securities Co., Ltd.
"Company", "our Company", "our Group", "China Merchants Securities" or "Issuer"	China Merchants Securities Co., Ltd. (招商證券股份有限公司) and, unless the context otherwise requires, its subsidiaries
"CSDC"	China Securities Depository and Clearing Corporation Limited
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"CSRC Guangxi Office"	the Guangxi office of the CSRC
"CSRC Shenzhen Office"	the Shenzhen office of the CSRC
"ECT"	E-Capital Transfer Co., Ltd. (證通股份有限公司)
"Equity Exchange"	Guangdong Equity Exchange Co., Ltd. (廣東金融高新區股權交易中心有限公司)
"Everbright Securities"	Everbright Securities Company Limited (光大證券股份有限公司)
"Exchanges"	the Shanghai Stock Exchange and the Shenzhen Stock Exchange

Common terms and expressions	
"H Share(s)"	overseas-listed foreign share(s) in the ordinary share capital of our Company with nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange (stock code: 6099)
"H Shareholder(s)"	holders of H Shares
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange website"	http://www.hkexnews.hk , the HKEXnews website of The Stock Exchange of Hong Kong Limited
"Huatai United Securities"	Huatai United Securities Co., Ltd. (華泰聯合證券有限責任公司)
"independent Directors" or "independent non-executive Directors"	independent non-executive directors of the Company
"Jisheng Investment"	Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)
"Last Year"	from January 1, 2015 to December 31, 2015
"Liaoneng Holdings"	Liaoning Liaoneng Holdings Co., Ltd. (遼寧遼能實業有限公司)
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
"NSSF"	the National Council for Social Security Fund of the PRC (全國社會保障基金理事會)
"PRC"	People's Republic of China
"Reporting Period"	from January 1, 2016 to December 31, 2016
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
"Securities Law"	the Securities Law of the PRC (中華人民共和國證券法)
"SFC"	The Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shanghai Brilliance"	Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. (上海新世紀資信評估投資服務有限公司)
"SSE"	the Shanghai Stock Exchange (上海證券交易所)
"SSE website"	http://www.sse.com.cn , the website of the Shanghai Stock Exchange
"SZSE"	the Shenzhen Stock Exchange (深圳證券交易所)

Unless the context otherwise requires, all amounts are stated in RMB.

Chapter 2: Corporate Profile and Key Financial Indicators

I. Corporate Information

Chinese name of the Company	招商證券股份有限公司
Abbreviation	招商證券
English name of the Company	CHINA MERCHANTS SECURITIES CO., LTD.
Abbreviation	CMS
Legal representative of the Company	GONG Shaolin
General manager of the Company	WANG Yan
Authorized representatives of the Company	GONG Shaolin, PENG Lei

Registered Capital and Net Capital of the Company

Unit: RMB Currency: RMB

	At the end of the Reporting Period	At the end of Last Year
Registered capital	5,808,135,529.00	5,808,135,529.00
Net capital (Parent Company)	45,524,144,216.62	48,705,315,525.96

- Note: 1. On October 7, 2016, upon the approval of the Hong Kong Stock Exchange, the Company issued 891,273,800 overseas-listed foreign shares (H Shares) for listing and trading on the Main Board of the Hong Kong Stock Exchange. As at the end of the Reporting Period, the Company had not completed the registration for the change of capital.
2. In June 2016, CSRC issued the Administrative Measures for the Risk Control Indicators of Securities Companies in the PRC (Revision) and the Provisions on the Calculation Basis for Risk Control Indicators of Securities Companies with effect from October 1, 2016. Net capital of the Company as at the end of Last Year was restated according to such revised provisions.

Business Qualifications of the Company

The parent company of the Company is a member of the Securities Association of China (Membership code: 185053), Shanghai Stock Exchange (Membership code: 0037) and Shenzhen Stock Exchange (Membership code: 000011). Details of its qualifications are as follows:

Number	Qualification	Approval authority	Date of approval
1	Non-bank member of the Shanghai Commercial Paper Exchange	The People's Bank of China	November 2016
2	Trading Authority for Access to Southbound Trading Business under Shenzhen-Hong Kong Stock Connect	Shenzhen Stock Exchange	November 2016
3	Approval for pilot provision of online account opening service	Institution Department (機構部) of CSRC	April 2015
4	Approval for financing through exercising incentive stock options of listed companies	Shenzhen Stock Exchange	March 2015
5	Licence for spot gold proprietary trading business	Institution Department (機構部) of CSRC	March 2015

Number	Qualification	Approval authority	Date of approval
6	Qualification to provide payment services for customers' funds	China Securities Investor Protection Fund Corporation Limited	March 2015
7	Licence for stock options market-making business	CSRC	January 2015
8	Licence for market-making business for SSE 50 ETF options trading	Shanghai Stock Exchange	January 2015
9	Authority for proprietary trading of stock options	Shanghai Stock Exchange	January 2015
10	Licence for futures settlement	CSDC	January 2015
11	Stock options trading participant on the Shanghai Stock Exchange	Shanghai Stock Exchange	January 2015
12	Licence for online securities business	Securities Association of China	November 2014
13	Trading Authority for Access to Southbound Trading Business	Shanghai Stock Exchange	October 2014
14	Ordinary member of Shanghai Clearing House for centralised settlement of RMB interest rate swaps	Shanghai Clearing House	June 2014
15	Qualification of lead manager business (market-making business)	National Equities Exchange and Quotations	June 2014
16	Licence for OTC options trading business	Securities Association of China	February 2014
17	Licence for investment fund custody business	CSRC	January 2014
18	Qualification for agency business of securities pledge registration	CSDC	July 2013
19	Licence for stock-pledged repo business	Shanghai Stock Exchange, Shenzhen Stock Exchange	June 2013
20	Licence for interest rate swap business	CSRC Shenzhen Office	May 2013
21	Permit for conducting insurance and agency businesses	China Insurance Regulatory Commission	April 2013
22	Qualification of lead manager business (recommendation and brokerage businesses)	National Equities Exchange and Quotations	March 2013
23	Licence for OTC trading business	Securities Association of China	February 2013
24	Licence for equity total return swap business	CSRC	January 2013
25	Licence for special institutional client business of insurance companies	China Insurance Regulatory Commission	January 2013
26	Licence for sale of financial products	CSRC	December 2012
27	Qualification of underwriting debt financing instruments of non-financial enterprises	National Association of Financial Market Institutional Investors	November 2012
28	Qualification to provide comprehensive custodian services for private funds	CSRC	October 2012

Chapter 2: Corporate Profile and Key Financial Indicators

Number	Qualification	Approval authority	Date of approval
29	Licence for margin and securities refinancing	China Securities Finance Co., Ltd.	August 2012
30	Qualification of underwriting private placement bonds of small and medium enterprises	Securities Association of China	June 2012
31	Licence for stock repurchase business	CSRC	May 2012
32	Qualification for dealer-quoted bond-pledged repo transactions	CSRC	January 2012
33	Qualification for third-party custodian services for a single customer or multiple bank services	CSRC Shenzhen Office	June 2011
34	Qualification for margin financing and securities leading securities	CSRC	June 2010
35	Licence for direct investment business	CSRC	August 2009
36	Qualification for intermediary introduction business for China Merchants Futures	CSRC	February 2008
37	Qualified Domestic Institutional Investors	CSRC	August 2007
38	Tier-1 dealer on the integrated e-platform for fixed income securities of the Shanghai Stock Exchange	Shanghai Stock Exchange	July 2007
39	Permit for foreign exchange operation in the securities business	State Administration of Foreign Exchange	December 2006
40	Clearing participant of China Securities Depository and Clearing Corporation Limited	CSDC	March 2006
41	Primary dealer of SSE 108 Index Exchange Traded Fund	Shanghai Stock Exchange	March 2006
42	Qualification for underwriting business of short-term financing bills	The People's Bank of China	July 2005
43	Qualification for operation of foreign shares business	CSRC	September 2002
44	Qualification for open-end securities investment fund consignment business	CSRC	August 2002
45	Qualification for online securities entrustment business	CSRC	February 2001
46	Qualified member of interbank market	The People's Bank of China	September 1999

Qualifications of CMS International, a wholly-owned subsidiary of the Company, are as follows:

Number	Qualification	Approval authority	Date of approval
1	Licence for dealing in futures contracts	SFC	June 2014
2	Licence for advising on futures contracts	SFC	June 2014
3	Licence for asset management	SFC	March 2010
4	Licence for dealing in securities	SFC	February 2009
5	Licence for advising on securities	SFC	February 2009
6	Licence for advising on corporate finance	SFC	February 2009

Qualifications of China Merchants Futures, a wholly-owned subsidiary of the Company, are as follows:

Number	Qualification	Approval authority	Date of approval
1	Filing for entry of the interbank bond market	The People's Bank of China	July 2016
2	Licence for asset management	CSRC	March 2013
3	Licence for futures investment consulting	CSRC	August 2011
4	Licence for financial futures brokerage	CSRC	October 2007
5	Licence for commodities futures brokerage	CSRC	January 1993

Qualifications of CMS Zhiyuan, a wholly-owned subsidiary of the Company, are as follows:

Number	Qualification	Approval authority	Date of approval
1	Qualification for pilot direct investment business	CSRC	August 2009

Qualifications of CMS Investment, a wholly-owned subsidiary of the Company, are as follows:

Number	Qualification	Approval authority	Date of approval
1	Private investment funds manager	Asset Management Association of China	August 2014

Chapter 2: Corporate Profile and Key Financial Indicators

Qualifications of CMS Asset Management, a wholly-owned subsidiary of the Company, are as follows:

Number	Qualification	Approval authority	Date of approval
1	Qualified domestic investment enterprise of the pilot scheme for overseas investment of qualified domestic investors	Shenzhen Joint Meeting Office of the Pilot Scheme for Overseas Investment of Qualified Domestic Investors (深圳市合格境內投資者境外投資試點工作聯席會議辦公室)	November 2015
2	Qualified domestic institutional investors	CSRC	January 2015
3	Qualification for securities asset management	CSRC	January 2015

II. Contact Persons and Contact Methods

	Secretary to the Board	Representative of Securities Affairs
Name	WU Huifeng	LUO Li
Correspondence address	45/F, Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen	45/F, Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen
Telephone	0755-82943666	0755-82960432
Fax	0755-82944669	0755-82944669
E-mail address	IR@cmschina.com.cn	luoli@cmschina.com.cn

	Joint Company Secretaries	
Name	WU Huifeng	KWONG Yin Ping Yvonne
Correspondence address	45/F, Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen	18/F, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong

III. Basic Information

Registered address of the Company	38/F-45/F, Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen
Postal code	518026
Office address of the Company	38/F-45/F, Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen
Postal code	518026
Principal place of business in Hong Kong	48/F, One Exchange Square, 8 Connaught Place, Central, Hong Kong
Company's website	http://www.newone.com.cn
E-mail address	IR@cmschina.com.cn

IV. Information Disclosure and Place of Document Inspection

Designated media for information disclosure	China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily
Website designated by the CSRC for publishing this annual report	http://www.sse.com.cn
Website designated by the Hong Kong Stock Exchange for publishing this annual report	http://www.hkexnews.hk
Place for inspection of the Company's annual reports	45/F, Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen

V. Information on the Company's Shares

Information on the Company's Shares			
Classes	Exchanges for the listing of the Company's shares	Stock abbreviation	Stock code
A Shares	Shanghai Stock Exchange	CMS	600999
H Shares	Hong Kong Stock Exchange	CMS	6099

VI. Other Information

(I) History of the Company, including the reform and reorganization, capital increase and share capital enlargement in previous years

The predecessor of the Company is the Securities Department of China Merchants Bank. On August 3, 1991, with the approval of The People's Bank of China (Shenzhen branch) pursuant to the Notice on the Approval for Trial Operation of the Securities Department of China Merchants Bank ([1991] Shen Ren Yin Fa Zi No.140) (《關於同意招商銀行證券業務部試營業的通知》([1991]深人銀發字第140號)), the Securities Department of China Merchants Bank was incorporated upon registration with the Shenzhen Administration for Industry and Commerce.

On August 1, 1993, with the approval of The People's Bank of China (Shenzhen branch) pursuant to the Approval for the Granting of Level 2 Legal Person Qualification to All Securities Business Department in Shenzhen (Shen Ren Yin Fu Zi [1993] No. 394) (《關於同意賦予各深圳證券業務部二級法人資格的批覆》(深人銀覆字[1993]第394號)), the Securities Department of China Merchants Bank was permitted by the Shenzhen Administration for Industry and Commerce to be incorporated as a legal person and became a level 2 legal person under China Merchants Bank with a registered capital of RMB25 million.

On August 26, 1994, with the approval of The People's Bank of China pursuant to the Approval for the Incorporation of CMB Securities Company (Yin Fu [1994] No.161) (《關於成立招銀證券公司的批覆》(銀覆[1994] 161號)) and the permission by the Shenzhen Administration for Industry and Commerce, China Merchants Bank established Shenzhen CMB Securities Company based on its Securities Department with a registered capital of RMB150 million. On September 28, 1994, the Shenzhen Administration for Industry and Commerce permitted Shenzhen CMB Securities Company to change its name to CMB Securities Company (招銀證券公司).

Chapter 2: Corporate Profile and Key Financial Indicators

On November 6, 1998, with the approval of The People's Bank of China pursuant to the Approval for the Reformed Structure on Increase in Capital by CMB Securities Company (招銀證券公司) (Yin Fu [1997] No. 529) (《關於招銀證券公司增資改制的批覆》(銀覆[1997] 529號)) and the CSRC pursuant to the Approval for the Reformed Structure and Capital Increase and Change of Name of CMB Securities Company (招銀證券公司) (Zheng Jian Ji Gou Zi [1998] No. 27) (《關於同意招銀證券公司增資改制、更名的批覆》(證監機構字[1998] 27號)) and with the permission of the Shenzhen Administration for Industry and Commerce, CMB Securities Company introduced 11 new shareholders for the purpose of capital increase and reform of its structure, and changed its name to Guotong Securities Limited Liability Company (國通證券有限責任公司). Its registered capital increased from RMB150 million to RMB800 million. China Merchants Bank contributed to the capital by means of the net assets of CMB Securities Company while the 11 new shareholders contributed to the capital by means of cash.

On August 31, 2000, with the approval of the CSRC pursuant to the Approval for the Capital Increase of Guotong Securities Limited Liability Company (CSRC Ji Gou Zi [2000] No.15) (《關於核准國通證券有限責任公司增資擴股的批覆》(證監機構字[2000] 15號)) and the permission of the Shenzhen Administration for Industry and Commerce, Guotong Securities Limited Liability Company (國通證券有限責任公司) increased its capital. With a total of RMB1.4 billion capital injection made by 12 shareholders including China Merchants Bank, the registered capital of the company increased to RMB2.2 billion.

From 2000 to 2001, Guotong Securities Limited Liability Company underwent various equity transfers, and the number of its shareholders increased from 12 to 40.

On December 26, 2001, being approved by the Ministry of Finance of PRC pursuant to the Approval for the Relevant Issues on State-owned Shares Management by Guotong Securities Co., Ltd. (國通證券股份有限公司) (Cai Qi [2001] No. 723) (《關於國通證券股份有限公司(籌)國有股權管理有關問題的批覆》(財企[2001] 723號)), the CSRC pursuant to the Approval for the Change of Guotong Securities Limited Liability Company (國通證券有限責任公司) to a Joint Stock Limited Company (Zheng Jian Ji Gou Zi [2001] No. 285) (《關於同意國通證券有限責任公司改制為股份有限公司的批覆》(證監機構字[2001] 285號)), the Municipal Government of Shenzhen pursuant to the Approval for Shareholding Structure Reform by Guotong Securities Co., Ltd. (國通證券股份有限公司) (Shen Fu Gu [2001] No. 49) (《關於整體改組設立國通證券股份有限公司的批覆》(深府股[2001] 49號)), and the Shenzhen Administration for Industry and Commerce, Guotong Securities Limited Liability Company (國通證券有限責任公司) reformed its company structure and changed its name to Guotong Securities Co., Ltd. (國通證券股份有限公司). The 40 shareholders of Guotong Securities Limited Liability Company, as the promoters, converted the audited net asset of Guotong Securities Limited Liability Company as at December 31, 2000 on a 1:1 basis into the capital of the joint-stock company comprising a total of 2,400,280,638 shares, forming a registered capital of RMB2,400,280,638. The domicile was at 8/F-11/F, Block East, Huaqiang Jiahe Building, No. 34 Shennan Central Road, Futian District, Shenzhen.

On June 28, 2002, being approved by the CSRC pursuant to the Reply on the Filing of Guotong Securities Co., Ltd. for the Changes of Name and Business Address (Ji Gou Bu Bu Han [2002] No. 120) (《關於國通證券股份有限公司更名、遷址有關材料備案的回函》)(機構部部函[2002]120號) and the Shenzhen Administration for Industry and Commerce, Guotong Securities Co., Ltd. (國通證券股份有限公司) was renamed as China Merchants Securities Co., Ltd. (招商證券股份有限公司) and the domicile was changed to the current address, which is 38/F-45/F, Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen.

In 2006, being approved by the CSRC pursuant to the Approval for the Reduction of Shares and Capital Increase of China Merchants Securities Co., Ltd., (Zheng Jian Ji Gou Zi [2006] No. 179) (《關於招商證券股份有限公司縮股並增資擴股的批覆》) (證監機構字[2006]179號) and the Shenzhen Administration for Industry and Commerce, the Company reduced its shares and increased its capital. Based on the audited net assets as at December 31, 2005, the total share capital was reduced from 2,400,280,638 shares to 1,726,915,266 shares. Following the reduction, seven shareholders have subscribed the newly issued 1.5 billion shares, which increased the share capital and the registered capital of the Company to 3,226,915,266 shares and RMB3,226,915,266, respectively.

On November 17, 2009, being approved by the CSRC pursuant to the Approval for the Initial Public Offering of China Merchants Securities Co., Ltd., (Zheng Jian Xu Ke [2009] No. 1132) (《關於核准招商證券股份有限公司首次公開發行股票的批覆》) (證監許可[2009] 1132號) and the SSE pursuant to the Notice on the Listing and Trading of RMB Ordinary Shares of China Merchants Securities Co., Ltd., (Shang Zheng Fa Zi [2009] No. 18) (《關於招商證券股份有限公司人民幣普通股股票上市交易的通知》) (上證發字[2009] 18號), the Company launched its initial public offering of 358,546,141 A Shares on the Shanghai Stock Exchange, among which 286,837,000 shares and 71,709,141 shares were subscribed and settled online and offline, respectively. With an offer price of RMB31 per share, the Company raised a total of RMB11.115 billion and received a net proceeds of RMB10.883 billion after deducting offering expenses of RMB232 million. Following the completion of the offering, the total share capital of the Company has increased from 3,226,915,266 shares to 3,585,461,407 shares.

In July 2011, the Company converted its capital reserve into shares on the basis of three shares for every ten shares, through which the total share capital of the Company has increased by 1,075,638,422 shares to 4,661,099,829 shares from 3,585,461,407 shares.

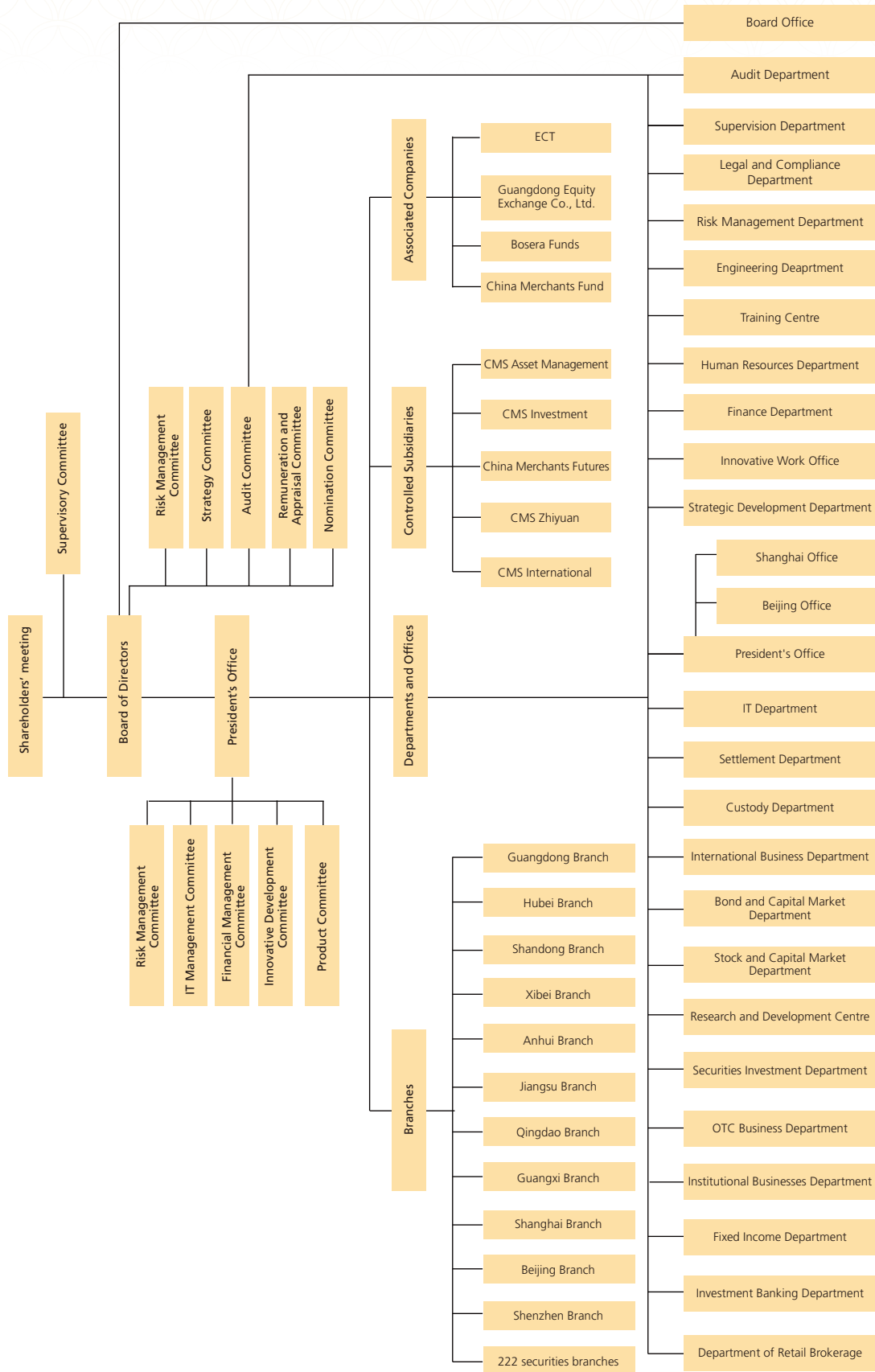
In May 2014, being approved by the CSRC pursuant to the Approval for the Private Placement of Shares of China Merchants Securities Co., Ltd., (Zheng Jian Xu Ke [2014] No. 455) (《關於核准招商證券股份有限公司非公開發行股票的批覆》) (證監許可[2014] 455號), the Company issued 1,147,035,700 shares (A Shares) at RMB9.72 each by way of private placement, raising a total of RMB11,149,187,004.00 and receiving a net proceeds of RMB11,101,736,135.93 after deducting the offering expenses of RMB47,450,868.07. The new shares were registered and deposited with Shanghai office of the CSDC on May 27, 2014. On October 15, 2014, the Company completed the registration for the increase of the registered capital to RMB5,808,135,529.

On October 7, 2016, being approved by the Hong Kong Stock Exchange, the Company issued 891,273,800 overseas-listed foreign shares (H Shares) for the listing and trading on the Main Board of the Hong Kong Stock Exchange. Following the offering, the total share capital of the Company has increased from 5,808,135,529 shares to 6,699,422,311 shares. Due to a change in the shareholding by Liaoneng Holdings, an original state-owned shareholder of the Company, the deregistration for 12,982 A Shares which should have been transferred by it has not yet completed. As of the end of the Reporting Period, the Company has not completed the registration for the increase of the registered capital.

On March 27, 2017, deregistration for 12,982 A Shares held by Liaoneng Holdings, an original state-owned shareholder of the Company, was completed. Total share capital of the Company was changed to 6,699,409,329 shares. For details, please see the Announcement on the Replenishment of State-owned Shares for Fulfilment of Transfer Obligation by Liaoneng Holdings, an Original State-Owned Shareholder (《關於原國有股東遼寧遼能實業有限公司補充履行國有股轉持義務的公告》) of the Company dated March 27, 2017 published on the SSE website.

Chapter 2: Corporate Profile and Key Financial Indicators

(II) Corporate organizational structure



As at the end of 2016, the Company had 11 branches, the basic information of which is as follows:

Number	Name of the branch	Date of incorporation	Place of business	Person-in-charge	Contact number
1	Shenzhen Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司深圳分公司)	February 1, 2010	Suite 16F2, 16G & 16H, Times Fortune Building, South Eastern Part, Central Area, Futian District, Shenzhen,	HE Jincheng (何錦成)	0755-82922188
2	Shanghai Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司上海分公司)	February 12, 2010	Room 3008, Orient Building, No. 1500 Century Avenue, Pudong New District, Shanghai	SHEN yun (沈雲)	021-68407177
3	Beijing Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司北京分公司)	February 26, 2010	Unit A1A2, 8/F, Unit C2D1, 9/F & Unit B1B2, 11/F, No. 118 Jianguo Road, Chaoyang District, Beijing	YAN Xiaohui (嚴曉暉)	010-65684912
4	Guangxi Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司廣西分公司)	May 25, 2011	No. 1203 Jinyuan Modern City, No.63 Jinhu Road, Qingxiu District, Nanning	HU Yi (胡毅)	0771-5625318
5	Qingdao Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司青島分公司)	September 1, 2011	Room 901, Qindao Building, No.89 Xiang Gang Zhong Road, Shinan District, Qingdao	ZHANG Hui (張輝)	0532-66889555
6	Jiangsu Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司江蘇分公司)	December 28, 2012	3/F, Touzi Building, No.414, Zhongshannan Road, Nanjing	MURONG Xinyao (慕容馨韻)	025-52868366
7	Anhui Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司安徽分公司)	January 4, 2013	Suite 1-501 to 1-511, Hui Feng Plaza, No.118 Sui Xi Road, Luyang District, Hefei	YANG Delong (楊德龍)	0551-65697168
8	Shandong Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司山東分公司)	January 9, 2013	3/F, Huang Ting Complex, No.15 Quancheng Road, Lixia District, Jinan	LI Hongying (李紅英)	0531-67885777
9	Northwest China Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司西北分公司)	February 5, 2013	Semiconductor Industrial Park, No.125 Gao Xin Jin Ye Road, Xi'an, Shanxi Province	ZHANG Lixin (張立新)	029-87883708
10	Guangdong Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司廣東分公司)	May 16, 2013	Room 1101B, No. 5 Huasui Road, Tianhe District, Guangzhou	YU Jinbiao (余錦標)	020-38394801
11	Hubei Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司湖北分公司)	October 4, 2013	No. 236 Zhong Bei Road, Wuchang District, Wuhan	ZHANG Yin (張銀)	027-86770878

Note: In accordance with the Approval of the CSRC Shenzhen Office for the establishment of one securities branch by China Merchants Securities Co., Ltd. (Shen Zheng Ju Xu Ke Zi [2016] No.105) (《深圳證監局關於核准招商證券股份有限公司設立1家分支機構的批覆》(深證局許可字[2016]105號)), the Company was permitted to establish a branch in Shanghai. On January 3, 2017, the Shanghai Pilot Free Trade Zone Branch (上海自貿試驗區分公司) of the Company completed the registration with the State Administration for Industry & Commerce. As at the date of this report, the securities branch has not obtained the licence for securities and futures business operation yet.

Chapter 2: Corporate Profile and Key Financial Indicators

As at the end of the Reporting Period, the Company had five tier-1 wholly-owned subsidiaries, namely CMS International, China Merchants Futures, CMS Zhiyuan, CMS Investment and CMS Asset Management.

Number	Company name	Address	Time of establishment	Registered Capital (RMB ten thousand)	Person- in-charge	Contact number
1	CMS International	48/F, One Exchange Square, Central, Hong Kong	July 14, 1999	N/A	WANG Yan (王岩)	0755-82943666
2	China Merchants Futures	9/F Unit 9-15, 7/F Unit 1-8 and Unit 22-26, Duty Free Building, No. 6 Fuhua Yi Road, Futian District, Shenzhen	January 4, 1993	63,000	WANG Zhibin (王志斌)	0755-82763142
3	CMS Zhiyuan	7/F, Financial Street Centre, Financial Street A No.9, Xicheng District, Beijing	August 28, 2009	170,000	LI Zongjun (李宗軍)	0755-82943511
4	CMS Investment	Room 201, Block A, Administrative Office Building, No.1, Qianwan Road 1, Liyumen Street 1, Qianhaishen Port Cooperative District, Shenzhen	December 2, 2013	120,000	KONG Dewei (孔德偉)	0755-82943666
5	CMS Asset Management	Room 201, Block A, No.1, Qianwan Road 1, Qianhaishen Port Cooperative District, Shenzhen	April 3, 2015	100,000	XIONG Jiantao (熊劍濤)	0755-82943666

(III) The number and distribution of securities branches of the Company

The distribution of 222 securities branches of the Company as at the end of the Reporting Period is as follows:

Regional Distribution	Number
Beijing and Tianjin	28
Yangtze River Delta: Shanghai, Jiangsu and Zhejiang	42
Guangdong Pearl River Delta	46
Other cities	106

VII. Other relevant information

Domestic accounting firm appointed by the Company	Name	ShineWing Certified Public Accountants LLP
	Office address	8/F, Block A, Fu Hua Mansion No.8 Chao Yang Men Bei Da Jie, Dong Cheng District, Beijing
	Names of the signing accountants	YAN Fanqing, CUI Weiwei
International accounting firm appointed by the Company	Name	SHINEWING (HK) CPA Limited
	Office address	43/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong
	Name of the signing accountant	CHAN Wing Kit

Legal Adviser:

Legal Adviser (As to Hong Kong law): Clifford Chance (27th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong)

Share Registrar:

1. A Share Registrar: Shanghai Branch of China Securities Depository and Clearing Corporation Limited
Office Address: 36/F, China Insurance Building, 166 Lujiazui East Road, Pudong New District, Shanghai
2. H Share Registrar: Computershare Hong Kong Investor Services Limited
Office Address: 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Chapter 2: Corporate Profile and Key Financial Indicators

VIII. Key Accounting Data and Financial Indicators in the Past Three Years

(I) Key accounting data

Unit: RMB'000 Currency: RMB

Key accounting data	2016	2015	Increase/ decrease for the current period over the corresponding period of Last Year (%)	2014
Total revenue and other income	18,551,718	34,988,568	-46.98	13,766,180
Profit of the year attributable to shareholders of the Company	5,403,451	10,908,749	-50.47	3,850,673
Profit of the year attributable to shareholders of the Company after deduction of non-recurring profit or loss	5,353,862	10,863,330	-50.72	3,844,136
Net cash from operating activities	-2,448,925	-29,572,813	—	-3,939,378
Other comprehensive income	-620,506	371,576	-266.99	314,170
Major financial indicators	As at the end of 2016	As at the end of 2015	Increase/ decrease for the end of the current period over the end of the corresponding period of Last Year (%)	As at the end of 2014
Total assets	243,058,428	291,655,585	-16.66	193,408,052
Total liabilities	183,143,389	243,223,795	-24.70	151,811,891
Equity Attributable to Shareholders of the Company	59,826,337	48,351,119	23.73	41,537,250
Total equity	59,915,039	48,431,790	23.71	41,596,161

(II) Major financial indicators

Major financial indicators	2016	2015	Increase or decrease for the current period over the corresponding period of Last Year (%)	2014
Basic earnings per share (RMB per share)	0.9071	1.8782	-51.70	0.7224
Diluted earnings per share (RMB per share)	0.9071	1.8782	-51.70	0.7224
Basic earnings per share after deduction of non-recurring profit or loss (RMB per share)	0.8988	1.8704	-51.95	0.7212
Weighted average return on net asset (%)	10.58	23.95	Decreased by 13.37 percentage points	10.85
Weighted average return on net asset after deduction of non-recurring profit or loss (%)	10.48	23.85	Decreased by 13.37 percentage points	10.83

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

Unit: RMB Currency: RMB

Items	As at the end of the Reporting Period	As at the end of Last Year
Net capital	45,524,144,216.62	48,705,315,525.96
Net assets	56,884,318,589.01	46,274,081,106.47
Total risk capital reserves	14,258,394,120.66	16,166,003,737.64
Total assets on- and off- balance sheet	168,000,435,649.00	195,302,529,097.53
Risk coverage ratio (%)	319.28	301.28
Capital leverage ratio (%)	24.30	17.04
Liquidity coverage ratio (%)	151.00	254.36
Net stable funding ratio (%)	134.94	158.90
Net capital/net assets (%)	80.03	105.25
Net capital/liabilities (%)	43.03	33.53
Net assets/liabilities (%)	53.77	31.86
Value of proprietary equity securities and its derivatives/net capital (%)	37.01	43.58
Value of non-proprietary securities and its derivatives/net capital (%)	98.12	148.24

Note: In June 2016, CSRC published the Revised Administrative Measures for Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》) and the Calculation Standard for Risk Control Indicators of Securities Companies (《證券公司風險控制指標計算標準》) which came into effect on 1 October. As at the end of Last Year, each risk control indicator was calculated pursuant to the relevant requirements after revision.

Chapter 2: Corporate Profile and Key Financial Indicators

(IV) Key Financial Data and Indicators for the Last Four Years ^(Note 1)

1. Earnings

Unit: RMB million Currency: RMB

	2016	2015	2014	2013
Revenue and other income	18,552	34,989	13,766	7,740
Total expenses	12,728	21,906	9,133	5,359
Profit before income tax	6,453	13,634	4,972	2,650
Profit for the year attributable to shareholders of the Company	5,403	10,909	3,851	2,232

2. Assets

Unit: RMB million Currency: RMB

	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013
Total assets	243,058	291,656	193,408	83,860
Total liabilities	183,143	243,224	151,812	56,675
Accounts payable to brokerage clients	67,582	88,749	57,694	26,718
Equity attributable to shareholders of the Company	59,826	48,351	41,537	27,159
Share capital	6,699	5,808	5,808	4,661

3. Key Financial Indicators

	2016	2015	2014	2013
Basic earnings per share (in RMB)	0.9071	1.8782	0.7224	0.4789
Diluted earnings per share (in RMB)	0.9071	1.8782	0.7224	0.4789
Weighted average return on net assets (%)	10.58	23.95	10.85	8.45
Gearing ratio (%) ^(Note 2)	65.86	76.13	69.35	52.43

Notes:

- The group financial reports for the year 2012 and before 2012 were prepared according to PRC GAAP instead of IFRS, investors can visit the following SSE website for related information: <http://www.sse.com.cn/>
- Gearing ratio = (Total liabilities – Accounts payable to brokerage clients)/(Total assets – Accounts payable to brokerage clients)

IX. Discrepancies in Financial Data between Domestic and International Accounting Standards

There is no difference between the net profit for 2016 and 2015 and the net assets as of December 31, 2016 and 2015 set out in the consolidated financial statements prepared in accordance with the PRC GAAP and in the consolidated financial statements prepared in accordance with the IFRSs.

Chapter 3: Summary of Operation

I. Principal business and operating models of the Company and relevant industry condition during the Reporting Period

(I) Principal business and operating models of the Company

Operating with a client-oriented approach, the Company offers diverse and comprehensive financial products and services to individual, institutional and corporate clients, and engages in proprietary investment and trading. Its principal business lines comprise the following:

Brokerage and wealth management: the Company trades stocks, funds, bonds, futures, commodities and other derivatives on behalf of our clients and provides them with other value-added services such as investment consultancy, investment portfolio recommendation, sales of products, account assessment and assets allocation in return for fees and commissions. It also provides capital-based intermediary services (including margin financing and securities lending as well as securities-backed lending and stock repurchases) to clients and earns interest income. In addition, the Company provides investment research, sales and trading, prime brokerage and other services for a variety of institutions such as funds and insurance companies in order to gain fees and commissions.

Investment banking: the Company provides one-stop domestic and international investment banking services to its corporate clients, including domestic and international equity financing, debt financing, structured financing, OTC listing, merger and acquisition, financial advisory and other services. In return, it earns underwriting and sponsorship fees and financial advisory fees.

Investment management: the Company provides investment management services, including collective asset management, targeted asset management, specialized asset management, direct equity investment and fund management, and earns management fees and performance fees.

Investment and trading: the Company engages in trading and market-making business in relation to equity and fixed-income securities, commodities, alternative investment and other derivatives as well as OTC financial products to earn investment income. It also adopts advanced investment and trading strategies and techniques for managing investment risks and boosting returns.

(II) Development stage and cyclical nature of the industry and market position of the Company during the Reporting Period

1. Development stage and cyclical nature of the securities industry during the Reporting Period

During the Reporting Period, the capital market experienced continuous fluctuation due to a number of complicated factors at home and abroad, including the “circuit breaker” mechanism introduced by the stock market at the beginning of the year and the plummeted stock market, foreign exchange market and bond market towards the end of the year. The equity and debt financing in the primary market remained active in general, while the stock market index in the secondary market saw fluctuations at low level. Transaction value recorded a year-on-year decrease, whereas the risk-free interest rates bottomed out. The regulations remained comprehensive and strict, posing greater impact on the industry and securities firms. Nonetheless, the general development of the securities industry was stable despite the complex and difficult market condition.

Given the “new normal” stage of the macro-economy, accelerated capital flow across different markets, adjustment of regulatory policies in the PRC securities industry and the changes in risk appetite of investors, the domestic securities industry has shown a spiral development. In the long run, the securities industry is still in the stage of strategic development with rapid growth and extensive potential. First, capitalizing on the growing trend of securitization in China, the proportion of direct financing will further increase, which will boost the long term development of the securities industry. Second, the economic transformation and upgrade will create a broader room

Chapter 3: Summary of Operation

for development of the capital market, and the securities industry will play a more important role in supporting the development of real economy, promotion of national strategies driven by the supply-side reform and innovation and the increase of wealth and income of residents. Third, the overall regulatory environment is favourable for the sound and sustainable development of the securities industry.

2. Market position of the Company during the Reporting Period

During the Reporting Period, the Company as a whole and its core business maintained a leading position in the industry. According to the Asset Management Association of China, the custody and outsourcing business of the Company ranked first among the industry in terms of its size. According to Wind Info, the Company ranked eighth in terms of the trading volume of stocks and funds, ranked sixth in terms of the balance of margin loans and securities lent, ranked first in terms of stock trading volume of and commission received from mutual fund in the first half of the year, ranked 11th in terms of the amount of domestic equity securities underwritten as a lead underwriter, ranked fourth in terms of the amount of domestic bonds underwritten as a lead underwriter, ranked first in terms of the size of asset securitization business, and ranked eighth in terms of the number of new companies listed on the NEEQ. In 2016, our M&A financial advisory service for listed companies was graded as “A” by the Securities Association of China. For the final ranking in terms of total assets, net assets, operating revenue, net profit, stock and bonds underwriting amounts as a lead underwriter and other indicators in 2016, please refer to the ranking of securities company members by results published on the website of the Securities Association of China (as at the date of this report, the Securities Association of China has not announced the ranking).

II. Significant changes in major assets of the Company during the Reporting Period

As at the end of 2016, the cash and bank balances and clearing settlement funds of the Company amounted to RMB80,316 million in aggregate, representing a decrease of RMB20,469 million, or 20.31%, as compared with last year. The decrease was mainly due to a decrease in customer deposits as a result of the reduction in the amount from agency trading of securities for customers. As at the end of the period, financial assets amounted to RMB74,076 million, representing a decrease of RMB25,509 million, or 25.62%, as compared with last year. The decrease was mainly due to the reduction in the business scale of propriety investments, such as bonds and stocks.

III. Analysis of core competitiveness during the Reporting Period

In 2016, in pursuit of the objectives to become the best investment bank in China with international competitiveness and a modern investment bank with full-service capabilities covering the entire value chain, the Company focused on expansion and advancement, which significantly enhanced the core competitiveness and established differentiated strengths in various business segments.

(I) A leading investment bank in China with robust innovation capabilities

After years of development, the Company has successfully capitalized on strategic opportunities to transform into a leading investment bank in China. The Company was one of the first securities firms to be qualified for the pilot innovation program in 2004, and innovation has always been an important strategic direction of the Company. With the ongoing efforts in developing and expanding new products and services, the Company has maintained leading position in different segments, including the lead-underwriter, custody and outsourcing, asset securitization and global commodity trading services, with differentiated competitive advantages.

In 2016, aiming to serve the real economy and satisfy the needs of corporate and institutional clients, the Company made various achievements in innovation, including the underwriting of 11 non-performing ABS products and the continuous expansion of ABS underlying assets, which enhanced the scale and market influences of the Company; the underwriting of National Bank of Canada Panda Financial Bonds, the first public issue of panda bonds in China by an overseas non-sovereign institution. The Company was the first in the industry to offer customized asset allocation MOM product series for institutional clients as well as mutual FOF fund custody services. At the same time, the Company provided a number of innovative products to individual clients, including being the first company in the industry to offer “Zhao Jin Niu”(招金牛), a collective wealth management product series linked to gold and cross-boundary crude oil future contracts, and the Company’s first structured notes with continuous expansion of the linked products to cover gold, silver, crude oil and foreign exchange.

(II) The prime broker of choice for institutional investors with strong institutional client service capabilities

The Company is the prime broker of choice for many renowned institutional investors, and the first prime broker providing one-stop services to institutional investors. In addition, the Company is the first securities firm to obtain the approval for providing comprehensive custodian services for private investment funds, and one of the first batch of securities firms to establish a prime brokerage trading system. The Company is also a leading provider of securities lending services and OTC products for institutional investors.

In 2016, the Company developed differentiated competitive advantages in providing services for institutional clients. After topping the market in terms of stock trading volume for mutual funds in 2015, the Company became the leader again in terms of both stock trading volume for mutual funds and trading commission in the first half of 2016. Moreover, the Company’s leading prime brokerage services further differentiated the Company from other competitors. The Company covered over 10,000 products under its custody and outsourcing business with a value of over 1 trillion, both of which ranked first in the industry. The Company’s research team has been recognized as one of the best research teams in China by New Fortune for many consecutive years.

(III) A strategically positioned business network and diversified service capabilities

As market competition continues to intensify, the Company has devoted substantial resources to upgrading the brokerage business model from a traditional brokerage trading business to a wealth management business. Based on customers’ asset size and investment needs, the Company has increased the penetration of margin financing and securities lending business among affluent and high-net-worth customers and expanded the geographic coverage and functions of its securities branches. To satisfy the needs of personalized, customized and diversified wealth management business, the Company has also provided differentiated and diversified services and charged different commission rates for these services.

Among the 26 branches which we obtained approval to open in 2016, 22 branches have obtained the business licences to engage in securities and futures business (《經營證券期貨業務許可證》). As at December 31, 2016, the Company had 222 securities branches and 4 branches under construction, and the branch network spread through 113 cities in the PRC, 62.61% of which were located in well-developed and affluent regions including the Pearl River Delta, the Yangtze River Delta and the Bohai Rim, including 31.98% in Beijing, Shanghai and Shenzhen in aggregate.

Chapter 3: Summary of Operation

(IV) A comprehensive investment banking platform with premier integrated service capabilities for corporate clients

The Company is committed to providing comprehensive and cross-border investment banking services to satisfy various needs of corporate clients throughout their life-cycles, including pre-IPO financing, equity underwriting and sponsoring, debt underwriting, OTC Listing and financial advisory services. Meanwhile, the Company has strategically built up expertise and competitiveness in six industries, including TMT, healthcare and medical, financial services, infrastructure and real estate, agriculture, food and beverage, and energy and transportation.

In 2016, the Company reformed the marketing strategy for major customers of investment banking business, resulting in a significant growth in the number of core customers and a more diversified and balanced customer structure, which formed a solid foundation for the expansion of investment banking business. During the Reporting Period, the overall competitiveness of investment banking business increased steadily. In addition to the traditional business advantage in IPOs, the Company's bond financing also ranked tier one in the industry. Particularly, the Company ranked first in the industry for the amount of ABS underwritten, and the mergers, acquisitions and restructuring business received the highest rating of "A" in the assessment of service capabilities in 2016. In addition, the ranking of the Company in Hong Kong, a highly competitive market, in terms of the amount of corporate equities underwritten advanced significantly to ninth. The Company also successfully established cooperation with renowned customers such as Wanda, Suning and China Unicom, and completed the listing of USD7.43 billion H shares of Postal Savings Bank of China, the largest IPO project in Hong Kong in the last six years, as well as the issuance of USD3.0 billion bonds of Sinopec, the largest issue of USD bonds in the Asian market (excluding Japan) in 2016.

(V) A highly collaborative business model with strong cross-selling capabilities

The Company has established effective internal collaboration mechanisms and service systems, including operating model of committee governance, project team approach and the recognition, assessment and compensation of internal collaboration efforts. The Company has developed a comprehensive measurement and appraisal system based on synergistic value to record the synergistic effect of different business lines in order to improve the management efficiency, further enhance the synergies across business lines and facilitate collaboration and cross-selling of different businesses in China and overseas. Also, through the full-service business platform, the Company provides comprehensive and one-stop financial wealth management services to clients. In 2016, the Company introduced the "Soft Dollars Assessment" (軟錢考核) mechanism to further spread synergies through the establishment of cross-department collaboration platform.

(VI) Prudent, proactive and comprehensive risk management and internal controls

A prudent risk management culture, an effective risk management framework, pioneering quantitative risk measurements and comprehensive risk management instruments are essential components of a modern investment bank and fundamental to the Company's sustainable growth. The Company has established a leading global market risk management system across different markets and business lines, which performs VaR testing, stress testing and sensitivity analysis. In addition, the Company has developed a credit risk management system, which centralizes the management of data on various businesses and customers, as well as an internal credit assessment tool and collateral conversion rate model. The Company has set up a sound operational risk management system with operational risk self-examination process and data collection tools in relation to the operational risk events and losses, which aims to maintain stable development and maximize profitability under the premise of identifiable, predictable, manageable and bearable risks.

In 2016, attributable to its effective risk management, the Company maintained steady growth with sound and well-managed brands amid the complex condition. In 2016, in spite of the significant market fluctuations and the extensive tightening of regulation by the regulatory authorities, the Company did not experience any major risk event, and the risk loss rate, market risk, credit risk and liquidity risk were relatively low. The Company, with its pioneering quantitative risk management ability, was one of the first trial securities firms which supervise risk control indices on a consolidated basis. The Company has received the “(Class A) AA” regulatory rating issued by the CSRC for nine consecutive years from 2008 to 2016, being one of the only two brokerages in the industry to receive the “AA” regulatory rating for nine consecutive years.

(VII) A core financial service platform of China Merchants Group, benefiting from the century-old “China Merchants” brand and its unique business resources

China Merchants Group is the controlling shareholder of the Company. As a large-scale state-owned enterprise directly managed by the SASAC under the State Council, China Merchants Group’s principal businesses cover the three core industries of transportation, finance and property. The securities business is one of the four principal businesses under the financial segment of China Merchants Group. Benefiting from the critical positioning within China Merchants Group, the Company is able to obtain client and business resources that are unattainable by its competitors. In particular, the Company enjoys competitive advantages in capturing the emerging business opportunities arising from the various business initiatives within China Merchants Group, such as “One Belt One Road”(一帶一路), “Collaboration between Industrial Companies and Financial Companies”(產融結合) and “Collaboration between Financial Companies”(融融結合). As a result, the Company has successfully enhanced its brand recognition and market position.

In 2016, the Company made full use of the platform resources of China Merchants Group to capture business opportunities arising from “Collaboration between Industrial Companies and Financial Companies”(產融結合) and “Collaboration between Financial Companies”(融融結合). Through extensive collaboration with the financial, real estate, shipping, warehousing and logistics, roads and other segments of China Merchants Group, the Company offered significant supports and services to China Merchants Group in terms of underwriting and sponsorship, mergers, acquisitions and restructuring, financial advisory, global commodities and asset management.

(VIII) A visionary management with an international perspective supported by a professional team

The senior management of the Company has extensive managerial experience in the securities and financial industries, and has a visionary strategy and international outlook. The middle-level management team of the Company possesses many years of experience in the PRC securities industry with outstanding executive capabilities. The Company has established a “Four-in-One” strategic management system, combining the four core elements of strategic planning, performance-based management, bonus evaluation and cadre appointment and dismissal, which closely aligned employee interests with the business strategies. Moreover, the Company has implemented a competitive remuneration structure and career development paths to motivate and attract talents, further strengthening the competitiveness of the Company.

In 2016, the Company further optimized its cadre management and selection mechanism and refined the administrative measures on staff performance appraisal. Top-level executives in key areas under transformation and upgrading such as FICC, cross-border, OTC and internet finance were introduced through different channels. Various training programs in relation to business management and innovation were organized, which provided strong support for the business innovation and development of the Company.

Chapter 4: Report of the Board of Directors

I. Operation Discussion and Analysis

In 2016, the financial market was full of uncertainties and impact due to both global political and economic risks. Thanks to the supply-side reform and the implementation of a series of stable growth policies, the economy of China maintained its growth momentum at a steady pace. The financial market in China was affected by various factors at home and abroad and experienced fluctuation throughout the year, including the “circuit breaker” mechanism introduced by the stock market early in the year and the plummet of the stock market, foreign exchange market and bond market towards the end of the year. The domestic stock market index saw fluctuations at low level. The SSE Composite Index and the SZSE Composite Index decreased by 12.30% and 19.64% during the year, respectively. The average daily trading volume of stock and funds in the secondary market amounted to RMB535.4 billion, representing a significant decrease of 51.18% as compared to last year. The primary market remained active in general with increasing number of new IPOs. The scale of re-financing expanded rapidly, and the level of debt financing significantly surpassed the level in 2015. Regulatory policies focused on risk prevention and compliance, resulting in adjustment to the pace and progress for innovation in the securities industry.

In 2016, in response to the severe challenges from the capital market and regulation on the industry, the Company strictly adhered to its annual objectives of facilitating capital-based transformation through improvement in sales and capabilities, in order to diversify source of revenue, strengthen internal control for risk management and promote transformation through reforms. Remarkable results was achieved: (1) total revenue and other income of the Company and net profit attributable to the parent company in 2016 amounted to RMB18.552 billion and RMB5.403 billion respectively, which was the second best performance in the history of the Company; (2) the Company completed the initial public offering and listing of its H Shares on the Main Board of the Hong Kong Stock Exchange, raising a total of HK\$10.695 billion, and the market ranking of the Company in terms of net assets increased from ninth to sixth, which significantly enhanced its international influence and marked the new milestone of the Company heading towards being the best investment bank in China with international competitiveness; (3) competitive strengths of the Company maintained its momentum: overall competitiveness of the investment banking improved steadily, and the debt financing business ranked top-tier in the industry; brokerage and wealth management business was strengthened through transformation and upgrade with stable market ranking in terms of stock and funds trading, while the differentiated competitive edges of prime brokerage business were highlighted and the ranking of capital-based intermediary business rose steadily; competitiveness of investment management business saw significant improvement, and the ranking of asset management business rose in terms of both revenue and scale; service abilities of investment and transaction businesses were enhanced constantly; (4) the Company has successfully overcome the challenges of market volatility, stricter regulations and intensifying competition, and the Company was one of the only two brokerages in the industry with “AA” CSRC regulatory rating in Class A for nine consecutive years.

(I) Brokerage and Wealth Management Business

In 2016, the transaction amount of secondary stock and funds market in China was RMB130,648.9 billion, significantly decreased by 51.18% from last year, while the average net commission rate of the industry was 0.403%, decreased by 19.85% from last year. The year-on-year downward trend continued. As at the end of 2016, the balance of margin loans and securities lent in A share market was RMB939.249 billion, a year-on-year decrease of 20.01%. The futures market in China saw two extremes in 2016. On one hand, trading volume of financial futures market shrank drastically due to the limitation policy on stock index futures. On the other hand, the trading in commodity futures market remained active with a total trading volume in the national futures market of 4,137,768,273 board lots with an aggregate transaction amount of RMB195,631.609 billion, representing a year-on-year increase of 15.65% and a year-on-year decrease of 64.70%, respectively.

CSRC has further tightened the regulations on capital-based intermediary business including margin financing, securities lending and securities-backed lending, while the State Council and CBRC has imposed higher requirement on internet financing. Difficulty in the opening of new accounts has also increased following the promulgation of the revised policy by the CSDC which only allows an individual to have three accounts instead of 20 accounts.

1. Securities brokerage

In 2016, the Company exerted more efforts in the development and marketing of new customers for traditional channel business. Number of new accounts opened in the year was 1.78 million in total. The Company continued to rank eighth in terms of the market share of stocks and funds trading despite the slight decrease during the year. Market share in Southbound Trading was 9.14%, representing an increase of 24.18% over last year and ranking third in the industry.

In 2016, the Company launched a new business model of “Internet + Securities”, marking a significant breakthrough in the expansion of customer development channels from offline to online. “Zhiyuan Yi Hu Tong (智遠一戶通)”, a mobile integrated wealth management platform, was successfully put to service, which offered one-stop online services for product sales. In addition, the Company increased investment to the construction of mobile big data platform, and developed effective applications in various data analysis aspects. Smart customer service robots platform was also introduced to improve the online service ability in responding to clients’ enquiries.

Operating indicators	2016	2015	Changes
Transaction amount of stock and funds	RMB10,129.8 billion	RMB22,049.8 billion	-54.06%
Market share in terms of the transaction amount of stock and funds	3.88%	4.12%	Decreased by 0.24 percentage point
Ranking in terms of the transaction amount of stock and funds	8th	8th	—
Number of eligible accounts (note)	6.71 million	4.80 million	39.79%
Number of new accounts opened in the year	1.78 million	1.64 million	8.54%
Number of securities branches	222	200	11%
Market share in terms of total trading volume under Southbound Trading	9.14%	7.36%	Increased by 1.78 percentage points
Ranking in terms of total trading volume under Southbound Trading	3rd	2nd	Down by 1 rank

Source: Exchanges, data of the Company

Note: Eligible accounts refer to fund accounts which are not dormant or unqualified.

2. Futures brokerage

The Company engages in futures brokerage business through China Merchants Futures, a wholly-owned subsidiary. In 2016, China Merchants Futures further strengthened the development of its commodity futures business, resulting in a significant increase in transaction value of commodity futures by 158% as compared to last year, to a certain extent relieving the impact from the limitation of exposure to stock index futures. Additional efforts were also made to expand the customer base of institutional clients. Average daily position of institutional clients recorded a year-on-year growth of 36%, and its percentage of the average daily position of customers increased from 52% in 2015 to 59% in 2016. The average daily position of clients also increased by 18% as compared to last year. The Company maintained its “AA” regulatory rating.

Chapter 4: Report of the Board of Directors

3. Capital-based intermediary services

Through strengthening marketing efforts to explore potential opportunities to drive business growth, market ranking of the Company continued to rise in 2016. As at the end of the year, outstanding amount of securities-backed lending was RMB43.337 billion, representing a year-on-year increase of 89.92%. As at the end of the period, ranking in terms of the balance of securities-backed lending increased from tenth in 2015 to seventh, with a market share of 3.38%. In terms of the balance of margin financing, the Company continued to rank sixth with a market share of 5.43%.

Operating indicators	2016	2015	Changes
Balance of margin financing and securities lending as at the end of the year	51,008 million	62,816 million	-18.80%
Ranking in terms of the balance of margin financing and securities lending as at the end of the year	6th	6th	—
Outstanding amount of securities-backed lending as at the end of the period	43,337 million	22,818 million	89.92%
Ranking in terms of the outstanding amount of securities-backed lending as at the end of the period	7th	10th	Up by 3 ranks

Source: Exchanges, data of the Company

4. Wealth management

In 2016, the wealth management plans showed remarkable performance. As at the end of the year, the total number of customers of wealth management plans reached 2.44 million, representing a year-on-year increase of 29.22%. The allocation of financial products remained high with RMB102.7 billion of financial assets being allocated to customers during the year. The Company is less vulnerable to the decreasing commission rate in the industry attributable to the improvement in service quality to attract and retain customers: (1) the Company has launched products in accordance with the demands of customers and also innovative products, including quantitative investment products with stable track records and CTA strategy private funds; MOM and FOF product series to diversify risks; the first structured investment product linked to gold in the industry; “Zhao Jin Niu” (招金牛) product series linked to crude oil contracts; customized products of private placement for high net worth customers; and fund instalment investment products for small and medium customers; (2) the Company has launched apps for the operation of mobile sales platform; the critical time management system — Moment of Truth (MOT) improves the efficiency of our service.

In addition to business from individual clients, the Company developed a new batch of core prime brokerage customers for its wealth management business in 2016, resulting in exponential growth in the scale of transactions and assets of customers. In 2016, total assets in the accounts of prime brokerage customers recorded an increase of over 70% as compared to the end of last year.

Operating indicators	2016	2015	Changes
Number of wealth management advisors	824	767	7.43%
Number of clients of wealth management plans	2.44 million	1.89 million	29.22%
Total sales of wealth management products for the year (Note)	102.7 billion	132.7 billion	-22.61%

Source: Data of the Company

Note: The wealth management products sold by the Bank during the year include mutual funds, private equity funds, collective wealth management products of the Company, OTC products of the Company, trust products, products of fund subsidiaries and wealth management products issued by banks.

5. Institutional client services

(1) Institutional sales and research

The Company constantly improved its professional services for institutional business in order to satisfy clients' demand through its full-service professional platform efficiently and enhance clients' satisfaction level. The Company ranked top in terms of the stock trading volume for mutual funds in 2015, and topped the market again in the first half of 2016 in terms of the stock trading volume for mutual funds and transaction commission.

Operating indicators	2016	2015	Changes
Market share of trading of mutual funds by the Company	5.54%	6.03%	Decreased by 0.49 percentage point
Total trading volume for mutual funds by the Company	574.8 billion	1,019.8 billion	-43.64%
Total commission of the Company from trading of mutual funds	450 million	744 million	-39.52%

Source: Data of the Company, Exchanges

In respect of research business, as at the end of 2016, the Company had over 150 researchers in China, over 98% of whom possessed a master's degree or above, and the equity research team covered over 35 industries and over 850 listed companies. The listed companies covered by our research team accounted for 82% of the total market capitalization of CSI 300 Index constituent stocks, and 67% of the total market capitalization of the companies listed on the ChiNext Board. In 2016, the research team published over 4,000 research reports, which was approximately 20% more than last year, and organized 38 large- and medium-scale industry forums and seminars, which was 50% more than last year, serving over 7,800 clients in total. The research team also arranged 220 teleconferences for institutional investors, roadshows for over 12,000 participants and more than 1,500 joint researches for listed companies.

In 2016, the Company's research team was ranked the sixth best domestic research team by New Fortune, which was the same as last year, and was shortlisted in 13 industries (2015: 8 industries) among the nominations in 17 industries. The Company maintained leading position in the industry for its research regarding the food and beverages, banking, environmental protection, light industry paper making, home appliances, communication, media, macro-economy, electronics, automobile, electrical equipment and new energy, military, small-mid capital, fixed income, coal, petrochemical and real estate industries.

(2) Prime brokerage

Prime brokerage service of the Company has developed significant differentiated competitive advantages. Through the prime brokerage system utilizing the core proprietary technology, a specific research service mechanism was constructed to extend the marketing coverage and quality of targeted marketing for key private fund customers. In 2016, the Company was awarded the "Best Institutional Service Provider in China of 2016" (2016中國最佳機構服務商) by the Securities Times (《證券時報》), and the "Best Prime Brokerage of 2016" (2016年最佳主經紀商大獎) by 21st Century Business Herald (《21世紀經濟報道》). As at the end of 2016, securities transaction assets of prime brokerage customers amounted to RMB127.4 billion, representing a year-on-year increase of 34%. In 2016, trading volume of stock and funds of prime brokerage customers amounted to RMB767.873 billion, representing a year-on-year decrease of 7%, which was significantly better than the market average decrease.

Chapter 4: Report of the Board of Directors

(3) Custody and outsourcing

In 2016, the Company's custody and service outsourcing business covered over 10,000 products with a value of over RMB1 trillion, representing a significant growth of 117% and 68% respectively as compared to last year, and both ranked top in the industry. Custody business of the Company covered assets including mutual funds, special fund accounts, asset management plans issued by securities firms, asset management plans issued by futures companies and private investment funds issued by registered private fund managers. In October 2016, the Company won the first prize of the "Best Private Investment Fund Custody Securities Firm" (最佳私募基金託管券商獎) under the "Private Fund — Ying Hua Award (私募英華獎)" organized by China Fund Journal (《中國基金報》).

In 2017, in respect of its brokerage and wealth management business, the Company will maintain and enhance its traditional brokerage advantage while ensuring risk control and compliance. The Company will continue to promote the transformation of its wealth management business, develop comprehensive operations, expand its capital-based intermediary business, enhance its prime brokerage business and internet finance business, optimise its network distribution and improve its network efficiency in order to strengthen its market competitiveness.

(II) Investment Banking Business

1. Equity underwriting and sponsoring

In 2016, upon the reform of IPOs system, approval procedures and the launch of IPO returned to normal, and the CSRC maintained control over the review and approval procedures to adjust the frequency of IPOs. Since November 2016, the CSRC accelerated the launches of IPO. In 2016, total financing through A-share IPO amounted to RMB149.6 billion, representing a decrease of 5.1% as compared to last year. The refinancing market in 2016 was mainly dominated by mergers, acquisition and restructuring. As the CSRC slowed down the review and approval procedures for private placement of shares in the second half of 2016, total scale of refinancing grew by 32.2% to RMB1,847.2 billion as compared to last year. In response to the changes in regulatory policies, the Company's investment banking business focused on the development of major clients to further optimize the customer structure. Attributable to the strengthened risk management, an accumulative of 25 sponsoring projects were approved by the CSRC, with 50 sponsoring projects undergoing the approval procedures. In order to expand the project reserves for investment banking business, synergistic operation with other business segments was promoted. As at the end of 2016, all of the numbers of reserved projects in respect of corporate IPO, refinancing, mergers, acquisitions and restructuring ranked top five in the market, laying a solid foundation for the business development in 2017. In addition, the Company expanded the talent team by recruiting senior talents in the industry and products. As at the end of 2016, the Company had 109 registered sponsor representatives, ranking seventh in the industry.

In 2016, the Company completed 27 A shares underwriting projects as a lead underwriter with a total amount of RMB33.918 billion, including 12 IPO projects, ranking fourth in the market and maintaining its advantageous position. Prominent projects included the IPOs of First Capital Securities Co., Ltd. and Yunnan Chuangxin New Material Co., Ltd.. The Company had also underwritten 15 refinancing projects with a total value of RMB28.16 billion, representing a decrease of 34.24% as compared to last year. The decrease was mainly because more refinancing, mergers, acquisitions and restructuring related financing projects were completed in 2015. In 2016, due to changes in client base, less projects in hand and slow down in the approval process, the number of completed refinancing, mergers, acquisitions and restructuring related financing projects was less than that in 2015. Significant refinancing projects of the Company included the private placement of shares in Suning Commerce Group Co., Ltd. and BYD Company Limited.

Project	2016		2015		Change
	Amount (RMB100 million)	Number of companies	Amount (RMB100 million)	Number of companies	
IPO	57.58	12	49.68	12	15.90%
Refinancing	281.60	15	428.21	29	-34.24%
Total	339.18	27	477.89	41	-29.03%

Source: data of the Company

Note: The convertible notes and exchangeable notes underwritten are included under refinancing projects. The figures of overseas investment banking operation were excluded.

In 2017, the Company will cope with the changes in regulatory environment to secure more reserves in terms of IPO projects and improve operation efficiency so as to consolidate and strengthen its market position and ranking in the IPO market. The Company will strictly control the risks and improve the quality of its IPO projects so as to maintain its good reputation. The Company will also actively explore opportunities in the refinancing business including the issuance of convertible and exchangeable notes.

2. Debt underwriting

In 2016, the regulators continued to push for the expansion of the debt market. The issuance of debts maintained its fast growth and a total of RMB23,257.4 billion of debts was issued in the year, representing a 30% year-on-year increase. The growth of different debts varied. The issuance of corporate bonds, enterprise bonds, asset-backed securities continued to grow rapidly. Due to frequent default, lower risk appetite of investors and less demand for low credit rating debts, there was little growth in the issuance of medium-term notes and short-term financing bills.

In 2016, the Company successfully captured market opportunities to secure a number of clients, including property developers, major clients in the financial industry and state-owned enterprises. Along with strong strategic support for the development of asset securitization business and the expansion of our professional team, we have maintained our strong competitive edges in the debt business. In 2016, the total value of debts underwritten by the Company as a lead underwriter was RMB335.677 billion, representing an increase of 48.66% as compared with last year. According to Wind Info, ranking of the Company in terms of the asset-backed securitization ("ABS") products, debt financial instruments of non-financial companies, corporate bonds issued and the aggregate underwriting amount as a lead underwriting were the first, second, fourth and fourth, respectively. In particular, the value of ABS products underwritten by the Company ranked first in two consecutive years. The Company has a leading position in respect of product innovation as the Company continued to promote internationalization and diversification. The Company had underwritten the National Bank of Canada Panda Financial Bonds, the first public issue of panda bonds in China by an overseas non-sovereign institution; the first project revenue note ("PRN") underwritten by a securities firm as a lead underwriter, i.e. 16 興淮水務PRN; the first non-performing credit card assets securitized product after the resumption of non-performing assets securitization market, 16和萃1; the first NPL, 16中譽1; the first RMBS NPL, 建鑫 2016-2; and the first commercial mortgage-backed securities in line with international standards ("CMBS"), 高和招商 — 金茂凱農CMBS.

In 2017, the Company will further expand the debt financing business by using its comprehensive platform to explore opportunities in all sectors. On the other hand, the Company will also improve its professionalism and innovation in asset securitization to maintain its leading position in the market.

Chapter 4: Report of the Board of Directors

3. Financial advisory

In 2016, there were a number of major mergers, acquisitions and restructuring due to the launches of A shares IPO by some Chinese concept shares issuers. In response, the CSRC amended the Administrative Measures for the Material Asset Reorganizations of Listed Companies (《上市公司重大資產重組管理辦法》) to regulate backdoor listing by imposing stricter regulations. Due to market fluctuation and stricter regulations, the market saw general slowdown of mergers, acquisitions and restructuring activities in 2016. The number of domestic transactions announced in the year was 4,494, a decrease of 28.63% as compared with 2015. The value of transactions was RMB3,018.618 billion, an increase of 8.72% as compared with last year. However, industrial mergers and acquisitions were still the most common transactions in the market.

In 2016, the Company further strengthened its capacity to facilitate mergers and acquisitions and to organize business restructuring. The Company recognized and seized the opportunities arising from the supply-side economic reform, state-owned enterprises reform, economic transformation and integration of industrial chains and introduced innovative solutions to meet the demands of clients. In 2016, based on information disclosed, the Company conducted 22 mergers, acquisitions and restructuring transactions of the Company with a total amount of RMB111.574 billion, and ranked sixth and fifth in terms of the amount and number of transactions, respectively. The Company participated in the first acquisition of an online snack retailer — the acquisition of the entire equity interest in Be & Cherry by Haoxiangni (002582.SZ) and the raising of RMB960 million for the acquisition. In addition, the Company worked on a number of influential mergers, acquisitions and restructuring projects during the year. In particular, the Company completed the listing project of SF Express through reverse takeover of Dingtai New Materials (鼎泰新材) in February 2017, with a transaction amount of RMB43.3 billion.

In 2017, the Company will continue to expand its professional team for mergers and acquisitions to seek for business opportunities brought by industrial mergers and acquisitions, state-owned enterprise reform and the “One Belt, One Road” strategy. The Company will provide valuable solutions in mergers, acquisitions and restructuring for its clients for influential mergers, acquisitions and restructuring projects so as to establish the Company’s expertise and brand position in the market.

4. OTC Business

In 2016, the NEEQ market continued to expand with an increasing number of listed companies. Driven by the rapid market expansion, the financing amount through NEEQ hit record highs. Nonetheless, the NEEQ market also suffered from increasingly strict regulatory pressures, weak market indices performance and low transaction volumes, and the market liquidity was insufficient. Various new regulations were introduced to regulate the classification of listed companies, market entrance, issue of shares and the verification of qualified investors.

The Company proactively seized market opportunities for its OTC business to increase sales and revenues. The Company actively promoted its value-added services that covers the entire value chain with full-service capabilities and are available throughout the entire life-cycle, as based on the demands of clients. The Company also developed its supervisory service brand name by establishing the CM Securities Board Secretary School. During the year, the Company sponsored the listing of 145 companies on NEEQ, ranking eighth in the industry. The Company also had more than 400 clients seeking listing on NEEQ. In 2016, the Company managed the placing of shares by 98 companies and raised a total of RMB5.954 billion, both ranking sixth. The Company had supervised the listing of 309 companies, advancing its ranking to sixth in the industry.

In 2017, it is the objective of the Company to provide full life-cycle services to clients, focusing on post-listing markets. Market-making, share options and share placing businesses are integrated to provide comprehensive post-listing services so as to facilitate the development of other businesses.

(III) Investment Management

1. Asset management

In 2016, the asset management business of securities firms maintained its growth momentum despite the significant fluctuations in the equity and debt markets. The proportion of revenues from asset management saw relatively strong growth as the brokerage and proprietary trading businesses shrank. In 2016, the value and annual net revenue of asset management of securities firms were RMB17.05 trillion and RMB29.3 billion, representing increases of 44% and 7% as compared to last year, respectively.

The Company engages in asset management business through CMS Asset Management, a wholly-owned subsidiary. In 2016, CMS Asset Management comprehensively upgraded its core capacities in product development, sales and investment, and its ranking in terms of both revenue and business scale was further promoted. The portfolio of actively managed investment products expanded rapidly, and the investment performance continued to outperform our peers. Its asset securitization business achieved breakthrough with the launch of Yunnan Qujing Highway Assets Securitization (雲南曲靖高速公路資產證券化) and Yuyuan Expressway Assets Securitization (玉元高速資產證券化), two of the largest expressway assets securitized products with a total value of RMB8.5 billion. Leveraging on the platform advantage, CMS Asset Management further improved its asset allocation ability and provided institutional clients with customized products with different risk profiles and return.

As at the end of 2016, total assets managed by the Company amounted to RMB629.9 billion, representing an increase of 49% as compared to last year. Total value of collective assets, targeted assets and specialized assets managed by the Company amounted to RMB44.7 billion, RMB562.0 billion and RMB23.2 billion, respectively. In 2016, the Company ranked sixth in terms of the net revenue from entrusted asset management business, an increase of 2 ranks as compared to last year, and ranked eighth in terms of entrusted funds, an increase of 1 rank as compared to last year.

Category	Assets under management (RMB100 million)		Net revenue of asset management (RMB100 million)	
	2016	2015	2016	2015
Collective wealth management	446.54	555.44	8.09	9.49
Targeted wealth management	5,619.96	3,575.83	2.14	1.10
Specialized wealth management	232.22	100.01	0.42	0.01
Total	6,298.72	4,231.28	10.64	10.60

Source: Data of the Company

In 2017, CMS Asset Management will focus on improving its active management, establishing an asset management platform covering the entire product portfolio, strengthening market analysis and forecast, and refining the talent recruitment policy and incentive mechanism in order to develop a high-end wealth management brand.

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2. Direct investment

With over 20 years of development, the equity investment market in China has become the second largest private equity investment market in the world. In 2016, supported by the favourable policy regarding the private equity market in China, total funds raised increased dramatically to over RMB1 trillion despite the decrease in the number of fundraising projects. In 2016, there were 9,124 equity investment deals with a total amount of RMB744.9 billion, including 4,891 VC/PE divestment deals, 66% of which were NEEQ exit deals. A total of 174 Chinese enterprises backed by VC/PE were listed through IPO globally, raising funds of RMB230.6 billion, representing an increase of 61% as compared to last year.

The Company engages in direct investment business through CMS Zhiyuan, a wholly-owned subsidiary. In 2016, CMS Zhiyuan launched 4 funds, including Zhongan China Merchants Equity Investment Fund of RMB3.05 billion, GaoXin China Merchants Zhiyuan Equity Investment Fund – Phase II of RMB690 million, Guoyun China Merchants NEEQ Mezzanine Fund (國蘊致遠新三板夾層基金) of RMB302 million, and GaoXin China Merchants Zhiyuan Smart City Fund – Phase I (高新致遠智慧城市基金一期) of RMB400 million. Capitalizing on the strong network of China Merchants Group as well as the full-chain integrated financial service ability of China Merchants Securities, CMS Zhiyuan has completed 59 investment projects with a total amount of RMB6,500 million, including 23 new projects launched in 2016.

As at the end of 2016, CMS Zhiyuan managed an accumulative of RMB19.0 billion assets, ranking amongst the top securities firms in terms of direct investment. It also actively developed equity funds, industrial investment funds, venture funds, mezzanine funds and parent funds to form a comprehensive fund portfolio and consolidate its market influence.

3. Fund management

(1) Boserá Funds

In 2016, Boserá Funds seized the market development trend, proactively facing industrial transformation by formulating development strategy adapting to market changes whilst adhering to the objectives of steady growth and reform.

As at the end of 2016, assets managed by Boserá Funds increased by 54.18% from last year to RMB613.4 billion. In particular, assets management of mutual funds amounted to RMB376.0 billion, an increase of 83.08% as compared to last year. Its ranking in the market rose from 12th to 7th back into the top ranks.

In 2017, Boserá Funds will further enhance its investment performance and sales services to grasp the strategic opportunities arising from the capital market and asset management industry. In addition, it will strengthen risk and compliance management to facilitate the transformation and upgrade, so as to consolidate and enhance its core competitiveness.

(2) China Merchants Fund

In 2016, adhering to the strategy to establish core competitive strength through enhancement of investment performance instead of scale expansion, China Merchants Fund focused on product innovation and pension business as its principal business. China Merchants Fund has leapt from second-tier to top-tier in the industry.

As at the end of 2016, assets managed by China Merchants Fund amounted to RMB444.0 billion. In particular, assets management of mutual funds amounted to RMB345.5 billion, ranking ninth in the industry.

In 2017, China Merchants Fund will put more efforts in enhancing investment performance, targeting businesses, developing pension fund business, promoting marketing synergy and economies of scale, improving the level and quality of compliance and risk management and continuous improvement of the operating system with low cost and high efficiency, in order to develop into a top-notch asset management company with unique competitive advantages in the asset management industry of China.

(IV) Investment and Trading Business

1. Equity trading

In 2016, there was a further increase in the downside risk on the securities industry. The securities market experienced sharp plunge in January and began to bottom out in March after a period of fluctuation. In respect of proprietary equity investment, the Company strictly complied with the regulatory and risk control requirement, and implemented various measures such as adjustment to industry portfolio, selection of stocks, offline placing of new stocks, quantitative and hedge trading as well as market-making and OTC derivatives transactions to increase revenue with minimum risk exposure. Nonetheless, since the Company continued to perform the undertaking that it made during the market volatility in 2015 and the lack of liquidity in the stock futures market, the investment yield of the Company's A-share directional equity trading, strategic hedging of stock index futures, and equity derivatives investment were materially affected. In addition, the lack of additional financial total return swap in 2016 also resulted in significant decline in the revenue for the year as compared with that of 2015.

2. FICC

In 2016, the bond market remained volatile with shrinking term and credit spreads and yield, and underwent significant adjustment at the end of the year. The Company further enhanced its investment research capability of proprietary bond trading business. Based on the macro-economic research and credit research systems, the Company strengthened the management of its trading position and swing trading, diversified trading and arbitrage strategies, promptly adjusted its trading position and strategy, and strictly controlled credit risk. Attributable to the advanced strategic planning of innovative business, the Company's gain on investment was higher than the market index.

The Company continued to expand commodities business and established four major segments, namely proprietary trading, agency, product and spots. The business scale was expanded dramatically. In respect of foreign exchange business, the Company is applying for foreign exchange business qualification with the State Administration of Foreign Exchange and the CSRC, developing our working team and system steadily.

3. OTC trading

In respect of NEEQ market-making business, the Company adjusted the market-making strategy and trading strategy according to market development trend and its own advantages. The rate of return was 2.58%, while the NEEQ market-making index for the year dropped by 22.66%.

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(V) Overseas Business

The Company operates overseas business through CMS International, its wholly-owned subsidiary. In 2016, the development of overseas mergers and acquisitions, investment and financing by Chinese enterprises marked a new milestone, which has pushed up their demand for cross-border investment banking business and products. The increasing demand of domestic customers for overseas wealth management products also created valuable development opportunity for China-based securities firms in the establishment of cross-border business platform.

However, the Hong Kong capital market and securities industry experienced a downturn in 2016, posing significant challenges on the overseas business development of the Company. Firstly, the stock market fluctuated sharply due to impacts of slowdown of economic growth in Mainland China and lack of growth momentum in global economy. Daily stock trading value in Hong Kong dropped by 37% as compared to last year, while the funds raised through IPO decreased by 26% as compared to last year. In addition, due to continued influx of PRC-based operators, the industry saw increasingly severe competition for talents, and services and products became more homogeneous. In addition, as the SFC and the Hong Kong Monetary Authority further tightened the market regulation and compliance requirement, operating costs of the Company continued to increase.

In 2016, CMS International improved its client-oriented full-service investment banking business model, and actively collaborated with relevant departments at the headquarters to explore major clients to support cross-border business development.

The Company's investment banking business has maintained its leading position in Hong Kong. In 2016, CMS International completed 20 equity underwriting projects and 2 refinancing projects, ranking ninth in terms of the amount of equity underwritten and second among all PRC-based securities firms. It also completed 18 overseas bond issuance projects with an underwriting amount of USD12.7 billion. Prominent projects included the H Share IPO of China Merchants Securities with USD1,380 million raised, IPO of Postal Saving Bank of China with USD7,430 million raised, IPO of Meitu with USD629 million raised (the largest IPO in IT segment over the past ten years in Hong Kong), and preference shares issuance of Cinda with USD3,200 million raised.

With the appointment of a new department head and a professional management team, the Company aims to develop its securities business as a leader of PRC-based investment banks.

FICC has entered the stage of rapid growth. In 2016, the annualized investment rate of return of the fixed-income bonds of CMS International was significantly higher than the market benchmark, and the overall investment income increased by 193% as compared to last year. International commodity business continued to grow rapidly, and the net revenue increased by 157% as compared to last year.

In respect of cross-border cooperation, the investment banking division collaborated with the headquarters in the development of renowned customers such as Wanda Group, Suning and China Unicom, demonstrating the Company's strength in cross-border operation.

II. Operating Results of Major Businesses for the Reporting Period

As at December 31, 2016, the total assets of the Company amounted to RMB243.058 billion, representing a year-on-year decrease of 16.66%. The net assets attributable to the shareholders of the listed Company amounted to RMB59.826 billion, representing a year-on-year increase of 23.73%. The recognized revenue and other income for the year amounted to RMB18.552 billion, net profits attributable to the shareholders of the listed Company amounted to RMB5.403 billion, representing a year-on-year decrease of 46.98% and 50.47%, respectively. Weighted average return on net assets was 10.58%, representing a year-on-year decrease of 13.37 percentage points.

1. Details of Changes Related to the Profit and Cash Flow

Unit: RMB'000

Item	Current period	Previous period	Change
Total revenue and other income	18,551,718	34,988,568	-46.98%
Total expenses	12,728,121	21,905,679	-41.90%
Profit before income tax	6,452,920	13,633,991	-52.67%
Profit of the year attributable to shareholders of the Company	5,403,451	10,908,749	-50.47%
Net cash used in operation activities	-2,448,925	-29,572,813	—
Net cash generated from/(used in) investment activities	9,769,807	-19,791,495	—
Net cash generated from financing activities	-6,281,751	50,954,010	-112.33%
Net increase in cash and cash equivalents	1,039,131	1,589,702	-34.63%

2. Income

Unit: RMB'000

Item	Current period		Previous period		Change	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Fee and commission income	10,302,652	55.53%	19,317,428	55.21%	-9,014,776	-46.67%
Interest income	6,470,406	34.88%	9,906,061	28.31%	-3,435,655	-34.68%
Net gain on investment	1,394,933	7.52%	5,681,111	16.24%	-4,286,178	-75.45%
Other income and gains	383,727	2.07%	83,968	0.24%	299,759	356.99%
Total revenue and other income	18,551,718	—	34,988,568	—	-16,436,850	-46.98%

In 2016, the recognized revenue and other income amounted to RMB18.552 billion, representing a year-on-year decrease of RMB16.437 billion, or 46.98%, among which:

Fee and commission income recorded a year-on-year decrease of 46.67%, mainly due to the significant decrease in trading volume in A share market and financial and future market, the decrease in scale of margin financing and securities lending business and the decrease in commission rate of the securities trading agency industry. The fee and commission income of securities and futures brokerage business recorded a significant year-on-year decrease. The fee and commission income of underwriting and sponsorship business and asset management business also recorded year-on-year decrease of 12.87% and 3.43%, respectively.

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Interest income recorded a year-on-year decrease of 34.68%, including a year-on-year decrease of 33.29% in interest income from deposits with Exchanges and financial institutions due to significant decline of the trading activities in the stock market, a year-on-year decrease of 40.27% in interest income from margin financing and securities lending due to the decreasing business scale of margin financing and securities lending, and a year-on-year increase of 19.80% in interest income from securities-backed lending and stock repurchases due to a significant expansion of the business scale of securities-backed lending and stock repurchases.

Net investment gains recorded a substantial year-on-year decrease of 75.45%, primarily due to a significant decrease in revenues from investments affected by market condition and market stabilizing measures.

3. Expenses

Unit: RMB'000

Item	Current period		Previous period		Change	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Depreciation and amortization	161,690	1.27%	151,133	0.69%	10,557	6.99%
Staff costs	3,296,948	25.90%	8,180,358	37.34%	-4,883,410	-59.70%
Fee and commission expenses	1,829,189	14.37%	2,868,697	13.10%	-1,039,508	-36.24%
Interest expenses	5,575,103	43.80%	7,285,270	33.26%	-1,710,167	-23.47%
Business tax and surcharges	412,338	3.24%	1,663,829	7.60%	-1,251,491	-75.22%
Other operating expenses	1,386,631	10.89%	1,528,294	6.98%	-141,663	-9.27%
Impairment losses	66,222	0.52%	228,098	1.04%	-161,876	-70.97%
Total expenses	12,728,121		21,905,679		-9,177,558	-41.90%

In 2016, the total expenses of the Company amounted to RMB12.728 billion, representing a year-on-year decrease of 41.90%, of which:

Fee and commission expenses amounted to RMB1.829 billion, representing a year-on-year decrease of 36.24%, primarily due to a year-on-year decrease of RMB1.032 billion in fee and commission expenses of securities and futures brokerage business, as a result of significant decrease in agency trading of securities and the corresponding decrease in stock exchange fees and brokerage commissions paid.

Interest expenses amounted to RMB5.575 billion, representing a year-on-year decrease of 23.47%, mainly due to a substantial decrease in interest expenses for financial assets sold under repurchase agreements, short-term financing bills and short-term corporate bonds as a result of a decrease in the liabilities and financing of the Company.

Staff costs amounted to RMB3.297 billion, representing a year-on-year decrease of 59.70%, primarily due to a decrease in the performance bonus of employees and remunerations for client managers.

Other expenses mainly included depreciation and amortization, business tax and surcharges, other operating expenses and impairment losses. The significant decrease in business tax and surcharges was primarily due to the replacement of business tax by value-added tax during the year while the significant decrease in impairment losses was primarily due to a relatively great amount of impairment losses provided for margin loans and financial assets under resale agreements last year.

4. Segment Revenues

4.1 Analysis of segment revenues and other incomes

Unit: RMB'000

Business segment	Current period		Previous period		Change	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Brokerage and wealth management	12,759,670	68.78%	24,404,367	69.75%	-11,644,697	-47.72%
Investment banking	2,459,479	13.26%	2,843,768	8.13%	-384,289	-13.51%
Investment management	1,322,651	7.13%	1,313,343	3.75%	9,308	0.71%
Investment and trading	1,286,558	6.93%	5,732,157	16.38%	-4,445,599	-77.56%
Others	786,310	4.24%	694,933	1.99%	91,377	13.15%

In 2016, the revenue and other income of the Company amounted to RMB18.552 billion, of which:

Revenue from the brokerage and wealth management recorded a year-on-year decrease of 47.72% and its percentage of the total revenue and other income decreased by 0.97 percentage point. The decrease was primarily due to the drastic drop in the transaction volume in the A-share market and the financial futures market with a year-on-year decrease of 51% and 96%, respectively, a year-on-year decrease of 20.01% in the scale of margin financing and securities lending in the market, and reduction of commission rate of the Company's agency trading business of securities in line with industrial trend. The Company continued to strengthen its wealth management business during the year, and improved the service quality and the basic platforms so as to alleviate the decrease in commission rate of brokerage business. The Company also actively developed capital-based intermediary services. The amount payable for outstanding securities-backed lending business at the end of the period exceeded RMB40.0 billion, representing an increase of 89.92% compared to that at the end of 2015.

Revenue from the investment banking business recorded a year-on-year decrease of 13.51% and its percentage of the total revenue and other income increased by 5.13 percentage points, mainly attributable to a year-on-year increase of 48.66% in the underwriting of the Company's bonds to RMB335,677 million. The Company's equity underwriting amounted to RMB33,918 million, representing a year-on-year decrease of 29.03%.

Revenue from the investment management business of the Company recorded a year-on-year increase of 0.71% and its percentage of the total revenue and other income increased by 3.38 percentage points. During the year, the total value of the asset management business of the Company had a year-on-year increase of 49% and the net value at the end of the period was over RMB600.0 billion.

Revenue from the investment and trading business recorded a year-on-year decrease of 77.56%, primarily due to a significant decrease in the income from the proprietary trading business of the Company as influenced by market condition and market stabilizing measures.

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4.2 Analysis of segment expenses

Unit: RMB'000

Business segment	Current period		Previous period		Change	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Brokerage and wealth management	9,139,145	71.80%	13,702,071	62.55%	-4,562,926	-33.30%
Investment banking	1,126,736	8.85%	1,352,410	6.17%	-225,674	-16.69%
Investment management	505,540	3.97%	610,409	2.79%	-104,869	-17.18%
Investment and trading	955,441	7.51%	3,212,078	14.66%	-2,256,637	-70.25%
Others	1,064,209	8.36%	3,028,711	13.83%	-1,964,502	-64.86%

Among changes in expenses of various business segments, the investment and trading business expenses recorded the greatest year-on-year decrease of 70.25%, mainly due to a reduction in performance bonus and interest expenses. Such decrease was in line with the decrease in revenues.

The expenses for brokerage and wealth management business segment recorded a year-on-year decrease of 33.30%, mainly due to a reduction in Exchanges fees, brokerage fees and performance bonus.

5. Cash Flows

Unit: RMB'000

Item	Current period	Previous period	Change	Percentage change
Net cash used in operating activities	-2,448,925	-29,572,813	27,123,888	—
Net cash generated from/(used in) investing activities	9,769,807	-19,791,495	29,561,302	—
Net cash generated from financing activities	-6,281,751	50,954,010	-57,235,761	-112.33%
Net increase in cash and cash equivalents	1,039,131	1,589,702	-550,571	-34.63%

In 2016, the net increase in cash and cash equivalents of the Company was RMB1.039 billion. The net cash used in operating activities recorded a deficit of RMB2.449 billion. The net cash used in investing activities amounted to RMB9.77 billion. The net cash generated from financing activities recorded a deficit of RMB6.282 billion. The effect of foreign exchange rate changes was RMB732 million.

- (1) Net cash used in operating activities recorded a deficit of RMB2.449 billion, representing an increase of RMB27.124 billion as compared to 2015, primarily due to the decrease in financial assets at fair value through profit or loss and advances to customers.
- (2) Net cash used in investing activities amounted to RMB9.77 billion, representing an increase of RMB29.561 billion as compared to 2015, primarily due to an increase in the net proceeds from the disposal of available-for-sale financial assets during the year.
- (3) Net cash generated from financing activities recorded a deficit of RMB6.282 billion, representing a decrease of RMB57.236 billion as compared to 2015, primarily due to the completion of H Share initial public offering (IPO) of the Company during the year with a net proceed of approximately RMB8.947 billion, a year-on-year decrease of RMB82.827 billion in the proceeds from bonds and short-term debt instruments and a year-on-year increase of RMB17.780 billion in repayment of bonds and short-term debt instruments.

6. Overview of consolidated statement of financial position

Unit: RMB'000

Item	December 31, 2016		December 31, 2015		Change	
	Amount	Proportion	Amount	Proportion	Amount	Percentage
Non-current assets						
Property and equipment	1,779,170	0.73%	1,518,515	0.52%	260,655	17.17%
Investment properties	—	—	4,970	0.00%	-4,970	-100.00%
Goodwill	9,671	0.00%	9,671	0.00%	—	—
Other intangible assets	23,429	0.01%	24,251	0.01%	-822	-3.39%
Investment in associates	5,288,506	2.18%	4,897,814	1.68%	390,692	7.98%
Available-for-sale financial assets	8,809,469	3.62%	10,097,292	3.46%	-1,287,823	-12.75%
Financial assets held under resale agreements	6,462,211	2.66%	3,464,071	1.19%	2,998,140	86.55%
Deferred tax assets	1,207,996	0.50%	726,238	0.25%	481,758	66.34%
Other non-current assets	195,050	0.08%	184,083	0.06%	10,967	5.96%
Total non-current assets	23,775,502	9.78%	20,926,905	7.18%	2,848,597	13.61%
Current assets						
Advances to customers	53,351,538	21.95%	64,389,342	22.08%	-11,037,804	-17.14%
Accounts receivable and other receivables	6,827,360	2.81%	4,051,717	1.39%	2,775,643	68.51%
Current tax assets	425,412	0.18%	—	—	425,412	
Available-for-sale financial assets	15,912,717	6.55%	25,645,352	8.79%	-9,732,635	-37.95%
Loan receivables	64,725	0.03%	287,060	0.10%	-222,335	-77.45%
Financial assets held under resale agreements	12,490,932	5.14%	10,870,685	3.73%	1,620,247	14.90%
Financial assets at fair value through profit or loss	48,244,455	19.85%	62,826,493	21.54%	-14,582,038	-23.21%
Derivative financial assets	1,109,613	0.46%	1,016,347	0.35%	93,266	9.18%
Deposits with Exchanges and non-bank financial institutions	540,442	0.22%	857,442	0.29%	-317,000	-36.97%
Clearing settlement funds	19,043,469	7.83%	19,166,188	6.57%	-122,719	-0.64%
Cash and bank balances	61,272,263	25.21%	81,618,054	27.98%	-20,345,791	-24.93%
Total current assets	219,282,926	90.22%	270,728,680	92.82%	-51,445,754	-19.00%
Total assets	243,058,428	100.00%	291,655,585	100.00%	-48,597,157	-16.66%

At the end of 2016, the total assets of the Company was RMB243.058 billion, decreased by RMB48.597 billion, or 16.66%, as compared with the end of 2015. The total current assets amounted to RMB219.283 billion and total non-current assets accounted to RMB23.776 billion. Excluding the accounts payable to brokerage clients, the total assets at the end of the year amounted to RMB175.477 billion, decreased by RMB27.430 billion, or 13.52%, as compared with the end of 2015. The major changes included: the financial assets of the Company at the end of the period decreased by RMB25.509 billion as compared with the end of 2015; and the decrease in margin financing and securities lending business resulted in a decrease in advances to customers at the end of the year by RMB11.038 billion as compared with the end of 2015.

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The Company has maintained satisfactory assets quality and liquidity as well as adequate provision for impairment loss. Net current assets at the end of 2016 amounted to RMB82.617 billion. At the end of 2016, the Company's cash and bank balances and clearing settlement funds, financial assets, advances to customers, financial assets held under resale agreements and long-term equity investment accounted for 33%, 30%, 22%, 8% and 2% of the total assets, respectively.

As at December 31, 2016, the gearing ratio of the Company was 65.86%, representing a decrease of 10.28 percentage points as compared with the end of 2015.

Unit: RMB'000

Item	December 31, 2016		December 31, 2015		Change	
	Amount	Proportion	Amount	Proportion	Amount	Percentage
Current liabilities						
Short-term borrowings	3,251,970	1.78%	3,090,227	1.27%	161,743	5.23%
Short-term debt instruments	21,782,330	11.89%	27,878,320	11.46%	-6,095,990	-21.87%
Placements from other financial institutions	1,500,000	0.82%	4,000,000	1.64%	-2,500,000	-62.50%
Accounts payable to brokerage clients	67,581,720	36.90%	88,749,044	36.49%	-21,167,324	-23.85%
Accrued staff costs	4,707,662	2.57%	7,125,211	2.93%	-2,417,549	-33.93%
Other payables and accrued charges	6,719,125	3.67%	9,349,464	3.84%	-2,630,339	-28.13%
Provision	—	—	96	0.00%	-96	-100.00%
Current tax liabilities	72,739	0.04%	522,287	0.21%	-449,548	-86.07%
Other liabilities	—	—	545,735	0.22%	-545,735	-100.00%
Financial liabilities at fair value through profit or loss	4,439,956	2.42%	2,369,280	0.97%	2,070,676	87.40%
Derivative financial liabilities	1,842,803	1.01%	1,866,372	0.77%	-23,569	-1.26%
Financial assets sold under repurchase agreements	19,398,988	10.59%	32,088,027	13.19%	-12,689,039	-39.54%
Long-term borrowings due within one year	368,596	0.20%	—	—	368,596	—
Bonds payable due within one year	5,000,000	2.73%	—	—	5,000,000	—
Total current liabilities	136,665,889	74.62%	177,584,063	73.01%	-40,918,174	-23.04%
Net current assets	82,617,037		93,144,617		-10,527,580	-11.30%
Total assets less current liabilities	106,392,539		114,071,522		-7,678,983	-6.73%
Non-current liabilities						
Financial assets sold under repurchase agreements	—	—	10,865,000	4.47%	-10,865,000	-100.00%
Accrued staff costs	787,540	0.43%	787,540	0.32%	—	—
Deferred tax liabilities	98,754	0.05%	446,349	0.18%	-347,595	-77.88%
Deferred income	126,000	0.07%	126,000	0.05%	—	—
Bonds payable	45,465,206	24.82%	52,960,871	21.77%	-7,495,665	-14.15%
Long-term borrowings	—	—	453,972	0.19%	-453,972	-100.00%
Total non-current liabilities	46,477,500	25.38%	65,639,732	26.99%	-19,162,232	-29.19%

At the end of 2016, the total liabilities of the Company was RMB183.143 billion, representing a decrease of RMB60.080 billion, or 24.70%, as compared with the end of 2015. The current liabilities amounted to RMB136.666 billion and non-current liabilities amounted to RMB46.477 billion. Accounts payable to brokerage clients decreased by RMB21.167 billion as compared with the end of 2015. Excluding the accounts payable to brokerage clients, the liabilities of the Company decreased by RMB38.913 billion as compared with the end of 2015. The financial assets sold under repurchase agreements, short-term borrowings and bonds payable at the end of the period decreased by RMB23.554 billion, RMB6.096 billion and RMB2.496 billion, respectively.

Unit: RMB'000

Item	December 31, 2016		December 31, 2015		Change	
	Amount	Proportion	Amount	Proportion	Amount	Percentage
Equity						
Share capital	6,699,409	11.18%	5,808,136	11.99%	891,273	15.35%
Capital reserve	27,533,939	45.95%	19,403,877	40.06%	8,130,062	41.90%
Investment revaluation reserve	-315,695	-0.53%	462,366	0.95%	-778,061	-168.28%
Foreign currency translation reserve	52,121	0.09%	-105,434	-0.22%	157,555	—
General reserves	11,498,783	19.19%	10,117,807	20.89%	1,380,976	13.65%
Retained profits	14,357,780	23.96%	12,664,367	26.15%	1,693,413	13.37%
Equity attributable to shareholders of the Company	59,826,337	99.85%	48,351,119	99.83%	11,475,218	23.73%
Non-controlling interests	88,702	0.15%	80,671	0.17%	8,031	9.96%
Total equity	59,915,039	100.00%	48,431,790	100.00%	11,483,249	23.71%

As of the end of 2016, the equity attributable to shareholders of the Company was RMB59.826 billion, representing an increase of 23.73% as compared with the end of 2015, mainly attributable to the net proceeds from the IPO of H Shares the Company in 2016 of RMB8.947 billion. The profit attributable to shareholders of the Company for 2016 was RMB5.403 billion and dividends distributed to shareholders were RMB2.329 billion.

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(IV) Analysis of investment

1. Analysis of total external equity investments

During the Reporting Period, the Company did not have any new external equity investments.

(1) Significant equity investments

Unit: RMB10,000

Target	Initial investment	Shareholding as at the beginning of the period (%)	Shareholding as at the end of the period (%)	Closing balance	Gain or loss during the Reporting Period	Change in equity attributable to the owner during the Reporting Period	Accounting item	Source
Bosera Funds	369,319	49.00	49.00	415,804	34,380	173	Long-term equity investment	Acquisition
China Merchants Fund	35,584	45.00	45.00	105,620	28,270	324	Long-term equity investment	Promotion and acquisition
Total	404,903	/	/	521,424	62,650	497	/	/

Notes:

- The closing balance refers to the balance net of recognized provision for impairment as at the end of the period.
- Gain or loss during the Reporting Period refers to the effect of investment on the consolidated net profit of the Company during the Reporting Period.
- Change in equity attributable to the owner during the Reporting Period does not take into account of the effect of gain or loss during the Reporting Period.

(2) Significant non-equity investment

Unit: RMB10,000

Project name	Amount	Progress	Amount invested during the year	Total investment paid	Return
Construction project of the China Merchants Securities Building	145,000.00	74.05%	3,626.19	107,374.45	/
Total	145,000.00	/	3,626.19	107,374.45	/

(3) Financial assets and financial liabilities measured at fair value

Unit: RMB10,000

Item	As at the end of 2016		For the year 2016	
	Initial investment cost/nominal amount	Fair value	Investment gains	Change in fair value
Financial assets at fair value through profit or loss	4,886,140.10	4,824,445.48	190,074.37	-236,855.39
Available-for-sale financial assets	2,527,286.06	2,472,218.63	119,241.00	-106,113.67
Derivative financial assets	4,642,837.54	110,961.31	-29,724.97	77,670.02
Derivative financial liabilities		184,280.34		
Financial liabilities at fair value through profit or loss	442,802.51	443,995.56	18,886.45	-416.74
Subtotal	—	—	298,476.85	-265,715.78

(V) Analysis of major subsidiaries and associates**1. Analysis of subsidiaries****(1) China Merchants Securities Asset Management Co., Ltd.**

CMS Asset Management is a wholly-owned subsidiary of the Company. Its principal business is securities asset management.

Unit: RMB10,000

Item	For/as of the end of 2016	For/as of the end of 2015
Registered capital	100,000	30,000
Total revenue and other income	112,693	81,991
Net profit	62,702	42,841
Total assets	236,397	94,899
Net assets	207,743	73,792

(2) China Merchants Securities International Company Limited

CMS International is a wholly-owned subsidiary of the Company. As an overseas business platform of China Merchants Securities, CMS International engages in comprehensive investment banking services through its subsidiaries, including brokerage, corporate finance, capital market, sales and trading, leveraged and structured financing, asset management, direct investment, global commodities and futures.

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Unit: HK\$10,000

Item	For/as of the end of 2016	For/as of the end of 2015
Paid-up capital	180,363	180,363
Total revenue and other income	96,263	125,455
Net profit	8,940	26,029
Total assets	1,781,790	1,736,935
Net assets	287,539	278,672

(3) China Merchants Futures Co., Limited

China Merchants Futures is a wholly-owned subsidiary of the Company. As of the end of 2016, China Merchants Futures had four branches in Beijing, Guangzhou, Shanghai and Hangzhou. Its principal businesses include commodity futures brokerage, financial futures brokerage, futures investment consultation and asset management.

Unit: RMB10,000

Item	For/as of the end of 2016	For/as of the end of 2015
Registered capital	63,000	63,000
Total revenue and other income	56,875	44,727
Net profit	15,238	17,920
Total assets	858,911	670,813
Net assets	113,178	97,940

(4) China Merchants Zhiyuan Capital Investment Co., Ltd.

CMS Zhiyuan is a wholly-owned subsidiary of the Company. Its principal businesses include investment in equity and debt, and equity and debt investment funds through a private investment fund, and provision of financial consultation in respect of equity and debt investment.

Unit: RMB10,000

Item	For/as of the end of 2016	For/as of the end of 2015
Registered capital	170,000	170,000
Total revenue and other income	18,934	3,601
Net profit attributable to the parent company	2,521	-8,513
Total assets	544,407	526,446
Net assets attributable to the parent company	205,848	222,533

(5) China Merchants Securities Investment Co., Ltd.

CMS Investment is a wholly-owned subsidiary of the Company. Its principal businesses include securities investment, financial product investment, commodities investment (except for those prohibited by laws, administrative regulations and orders of the State Council unless prior approval is granted), investment management, investment advisory, equity investment and venture investment.

Unit: RMB10,000

Item	For/as of the end of 2016	For/as of the end of 2015
Registered capital	120,000	30,000
Total revenue and other income	561	2,251
Net profit	496	2,063
Total assets	123,167	32,740
Net assets	123,886	33,390

2. Analysis of Associated Companies**(1) Bosera Asset Management Co., Limited**

The Company holds 49% equity interest in Bosera Funds. Bosera Funds was established on July 13, 1998 as one of the first five mutual fund management companies in mainland China. Its business scope includes fund raising, sales of funds, asset management and other businesses approved by the CSRC.

The following table sets forth the major financial data of Bosera Funds during the Reporting Period:

Unit: RMB10,000

Item	For/as of the end of 2016	For/as of the end of 2015
Registered capital	25,000	25,000
Operating revenue	241,483	190,064
Operating profit	93,049	79,684
Net profit	70,163	60,101
Total assets	432,238	336,291
Net assets	286,054	249,537

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(2) *China Merchants Fund Management Co., Ltd.*

The Company holds 45% equity interest in China Merchants Fund. China Merchants Fund was established on December 27, 2002. Its business scope includes fund management, promotion and establishment of funds, and other businesses approved by the CSRC.

The following table sets forth the basic financial conditions of China Merchants Fund during the Reporting Period:

Unit: RMB10,000

Item	For/as of the end of 2016	For/as of the end of 2015
Registered capital	21,000	21,000
Operating revenue	232,421	211,823
Operating profit	79,833	72,412
Net profit	62,821	54,751
Total assets	388,380	321,134
Net assets	190,368	143,939

(3) *Guangdong Equity Exchange Co., Ltd.*

The Company holds 32.5% equity interest in Equity Exchange. Equity Exchange was established on October 29, 2013 with a registered capital of RMB100 million. Its business scope includes the provision of venues, facilities and supporting services for the listing, transfer, financing, registration, custody and settlement of equity, debts, equity products and related financial products of unlisted companies, entrusted asset management and other businesses approved by laws. As of the end of 2016, the total assets and net assets of Equity Exchange amounted to RMB187.2445 million and RMB114.1835 million, respectively. For 2016, the net profit amounted to RMB6.1345 million.

(VIII) **Structured entities controlled by the Company**

As of December 31, 2016, the Group consolidated six structured entities, including mainly collective asset management schemes, limited partnership and investment funds. If the Group is involved in a structured entity as manager and investor, the Group assesses whether its potential variable returns will be significantly affected by the returns attributable to its investment and the remuneration as a manager and whether the Group is a principal of the entity. As of December 31, 2016, the total assets of the consolidated structured entities amounted to RMB4.690 billion.

(IX) **Financing**

1. **Financing channels**

Through years of fruitful efforts, the Company has explored and developed a financing platform integrating long, medium and short term financing instruments such as domestic and overseas IPO, follow-on equity offering, perpetual subordinated bonds, corporate bonds, subordinated bonds, bank borrowings, short-term corporate bonds, short-term financing bills, structured notes, income right transfer, inter-bank borrowing, and margin and securities refinancing, which played a significant role in the steady and rapid business development of the Company.

Major financing activities during the year: In October 2016, through the IPO of overseas-listed foreign shares (H Shares) and the listing on the Main Board of The Stock Exchange of Hong Kong Limited, a total of HKD10.695 billion has been raised; RMB19.996 billion has been raised through the issue of structured notes and the balance as of the end of the period amounted to RMB20.782 billion; RMB1 billion has been raised through the issue of one tranche of short-term corporate bonds by securities companies and the balance as of the end of the period amounted to RMB1 billion; the construction of China Merchants Securities Building was financed by loans from China Merchants Bank and the balance of the loans as of the end of the period amounted to RMB369 million; CMS International and its subsidiaries had additional short-term borrowings of RMB162 million and the balance as of the end of the period amounted to RMB3.252 billion.

2. Structure of liabilities

As of the end of 2016, the total liabilities of the Company amounted to RMB183.143 billion. Excluding the transaction settlement funds from customers, the liabilities amounted to RMB115.562 billion. Liabilities mainly included corporate bonds, subordinated bonds, bank loans, short-term corporate bonds, structured notes, transfer of rights and interests and financing of bond repurchase. As of the end of 2016, the balance of bonds payable amounted to RMB50.465 billion, accounting for 43.67% of the liabilities. Long-term borrowings amounted to RMB369 million, accounting for 0.32% of the liabilities. The balance of short-term financings payable amounted to RMB21.782 billion, accounting for 18.85% of the liabilities. The balance of financial assets sold under repurchase agreements amounted to RMB19.399 billion, accounting for 16.79% of the liabilities. Interbank borrowings amounted to RMB1.5 billion, accounting for 1.30% of the liabilities. Short-term borrowings amounted to RMB3.252 billion, accounting for 2.81% of the liabilities. Currently, the Company has no debts overdue. The solvency of the Company is strong and the liquidity risk is controllable.

3. Liquidity management

In respect of liquidity management, the Company aimed to maintain the liquidity according to its business strategies at a level such that it is adequate to settle the debts when they fall due and to expand business when necessary. The liquidity should be sufficient to provide the Company with working capital without the need of funds from disposal of assets. The Company also maintains sufficient liquid assets and available facilities to meet unexpected financial needs.

With regular analysis of and monitoring on the size and structure of assets and liabilities, the Company was able to maintain adequate premium liquid assets while keeping proper size and duration of its assets and liabilities to support business development. The Company has an asset and liability management system and has determined liquidity risk indicators for different levels of management to monitor the compliance of limits of assets and liabilities. Such measures are taken to ensure the liquidity of the Company with reasonable structure of assets and liabilities in terms of size and maturity. The Company has an internal capital pricing system to regulate the capital flow to effectively support the liquidity management of the Company. A real-time monitoring system and a quantified analysis model for investment business have been established. Data are collected for sensitivity analysis, stress test, and VaR analysis to keep track the liquidity risk of investment business. The management of the Company will be alerted of any risks exceeding the liquidity alert level and any rapid deterioration of risks for remedial actions. The Company has established an internal risk reporting system to promptly monitor the liquidity risk in the operation of all businesses at each branch so that the Company could take measures to maintain the safety and sustainability of its operations. The Company has a financing policy to secure funds when necessary. It also explored financing channels and methods to satisfy its financial needs for operation. The Company maintained high liquidity through effective asset allocation during the year.

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(X) Business innovation and risk control during the Reporting Period

1. Business innovation during the Reporting Period

In 2016, to cope with the economic restructuring and transformation, capital market development and emerging industries of the PRC, and in response to the increasingly diversified and customized demands of customers, the Company put great effort in business and product innovation by implementing the innovative development strategies and achieved remarkable results.

In respect of retail brokerage, the Company was one of the first batch of securities companies authorized to trade under the Shenzhen-Hong Kong Stock Connect. The Company was also the first company authorized to launch our online system and trade under the Southbound Trading. The Company continued to explore various internet-based financial services. The mobile account opening customization platform and “Zhiyuan Yi Hu Tong (智遠一戶通)” internet-based comprehensive wealth management platform were launched to provide customers with customized experience and tailor-made services so as to support the development of wealth management business.

In respect of institutional client business, the Company was the first in the industry to develop mutual FOF fund custody business to assist fund manager to launch the first private monetary fund. The Company has also developed an online private FOF fund performance evaluation and risk management system. It also provides custody and settlement services for mutual funds under the Shanghai-Hong Kong Stock Connect and the “basket custody” trading system for strategic institutional clients for bulk trading. As of the end of 2016, the Company had over 2,000 custody customers and over 10,000 custody products. The Company became the first custody outsourcing firm with assets of more than RMB1 trillion under its custody.

In respect of investment banking, the Company acted as the lead underwriter for the National Bank of Canada Panda Financial Bonds, the first public issue of panda bonds in China by an overseas non-sovereign institution. Since its launch of the first non-performing asset securitization product in the industry, the Company has issued a total of 11 non-performing asset securitization products as the lead underwriter or joint underwriters during the year, accounting for 79% of similar transaction in the industry. The underlying assets of the securitization products included non-performing corporate loans, non-performing credit card personal consumption assets, non-performing small and micro enterprise loans and non-performing residential mortgage. The Company was also the first to introduce innovative asset securitization products, expanding the underlying assets for securitization to include pledged loans, internet consumption finance, long-term vehicle leasing, supply-chain finance and commercial properties.

In respect of FICC business, the Company has established a comprehensive commodity trading system for commodity arbitrage, commodity over-the-counter derivatives, commodity fund market-making, commodity exchange-traded option market-making and other innovative business systems and trading strategies, which promoted the innovative development of commodity trading. The Company participated in the establishment and trial operation of the Shanghai Commercial Paper Exchange as one of the first three securities firms selected for trial.

In respect of asset management, the Company was the first one in the industry to launch a collective wealth management product series under “Zhao Jin Niu” (招金牛) linked to gold and cross-border crude oil futures contracts, and also the MOM product series which provided customized asset allocation services for institutional clients. Adhering to customers’ demands, the Company issued new products including CTA strategic products and overseas investment and financing products to enrich its wealth management product line. In addition, through Qingdao Asset Management Co., Ltd. (青島市資產管理有限公司), an associated company of the Company’s subsidiary, China Merchants Securities Investment Co., Ltd., the Company has engaged in the disposal of distressed assets.

In respect of OTC business, the Company put tremendous efforts in innovating OTC products and linked its structured notes to more underlying assets, such as gold, silver, crude oil and foreign exchange, to satisfy the needs of clients for investment and wealth management.

2. Risk control of the innovative businesses

- (1) The Company has established a decision-making and management structure for its innovative businesses. Relevant management systems were formulated to ensure that all innovative businesses were carried out in compliance with laws and regulations and risks were well under control.

The Company has established an innovative development committee which acts as the decision-making organ for promotion of innovative businesses and related important matters. The Company set up an innovative office to centralize the management and coordination of innovative businesses and to formulate policies such as Rules of Meeting of the Innovative Development Committee (創新發展委員會議事規則) and Management System of Innovative Businesses (創新活動管理制度). In accordance with the requirements of the Company, an innovative business shall be approved through formal procedures before commencement. The risk management department and legal and compliance department of the Company will participate in the early stages of an innovative business such as proposal, planning and review in order to identify risks, conduct stress tests and compliance examination to prevent legal risks and to ensure the feasibility and overall quality of such innovative business. They also guide the business departments to formulate and improve the policies and procedures under the internal control system. Major innovative businesses shall be subject to specific approval of the Risk Management Committee of the Company.

- (2) The Company has established a risk monitoring and alert system for innovative businesses and actively adjusted the monitoring indicators so as to maintain the risk exposure at an acceptable level determined in accordance with its net capital and liquidity.

When carrying out innovative businesses, based on the risk characteristics of the innovative businesses, the Company determined various monitoring indicators and risk limits for real-time tracking of the risk exposure. When the risk indicators deviated from their normal levels, the business departments will be promptly alerted to ensure that the risk exposure of the innovative businesses remained at a level tolerable by the net capital and liquidity.

- (3) The Company inspected the progress of innovative businesses regularly in order to continuously improve the internal control and risk response of the innovative businesses.

The audit department of the Company has inspected the progress and important stages of the innovative businesses. For problems identified during inspections, the management department of the innovative businesses worked together with the internal control department to conduct analysis and researches in respect of the progress of the innovative businesses. According to the review of the internal control system for the innovative businesses, the two departments modified the management systems, working procedures and control mechanisms for innovative businesses and improved the contingency plans in order to ensure a healthy and stable growth of the innovative businesses.

(XI) Establishment and shutting down of branches during the Reporting Period

In 2016, pursuant to the Approval for Establishment of 26 Branches by China Merchants Securities Co., Ltd. from CSRC Shenzhen Office (Shen Zheng Ju Xu Ke Zi [2016] No. 70) (《深圳證監局關於核准招商證券股份有限公司設立26家分支機構的批覆》(深證局許可字[2016]70號)), the Company established 26 securities offices in 17 cities, including Beijing. 22 of the branches have commenced operation and the remaining four were under preparation. The Company has a total of 222 securities offices in operation.

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III. Discussion and analysis of future development of the Company

(I) Landscape and future development of the industry

1. Competition in the Securities Industry

The intense competition in the securities industry is expected to continue which will expedite the differentiation of securities firms in terms of market position.

First, large securities firms will maximize their advantages in scale by speeding up their expansion through capital injection or merger and acquisition. Large securities firms with strong capital resources will have advantage in satisfying the diversified demands of customers, attracting high-end customers and merging and acquiring operators in the finance industrial chain, and will hold the most favourable position in the industry.

Second, small and medium-sized securities firms with limited capital resources may be restricted to one or a few of highly specialized financial service(s) due to the changes in the industry or incapability. They will focus on regional markets by leveraging their local knowledge or be acquired by financial institutions such as large securities firms and banks, large internet companies and other buyers.

Third, the influx of new players, including foreign securities firms, private securities firms, banks, insurers, mutual funds and internet companies, obtaining securities licence by setting up joint ventures and merger and acquisition may have impact on the existing securities firms through competition for talents and price war.

2. Development Trends of the Securities Industry

It is expected that the general trend of expansion, reform and upgrade of the securities industry will continue:

First, the importance of the securities industry in the real economy will be further consolidated and strengthened. The deepening of supply-side reform and innovation-driven model of the PRC economy will accelerate the changes in economic development model and exert the function of the market in resources allocation. Such development will provide huge room for the development of the securities industry. The steady growth in household wealth and the expedition in the development of social security system will facilitate the rapid development of wealth management and asset management businesses of the securities industry.

Second, the financial reform and continuous development of multi-layer capital markets have laid solid foundations for the development of securities industry. With the advancement of interest rate liberalization, internationalization of Renminbi and financial regulation regime, the reform of financial system will be further refined and accelerated. The "Thirteenth Five-Year" Plan of the PRC explicitly stated "to increase the ratio of direct financing and further develop the capital markets". There are unprecedented opportunities for the development of multi-layer capital markets.

Third, industry regulation supports the healthy development and expansion of the securities industry. In 2016, the industry was in strict and full compliance with the law. The regulatory authorities focused on stable development and strict regulation, resulting in a solid foundation for the long-term healthy development of the securities industry. It is expected that the securities industry will have progresses in the key areas of the capital market in 2017 as the major objective of the regulatory authorities is to maintain the steady development of the industry.

Fourth, expansion in size of operation is a major feature of the securities industry. Capital strength is the key to stable growth and expansion of securities firms. Risks will increase rapidly along with the rapid growth in operation scale, and thus higher standards of capital size and capital adequacy will be required.

Fifth, due to the ongoing liberation and globalization of the capital market in China, the cross-border businesses of securities companies will grow further. In light of the increasingly important role of the PRC economy in the global economic system as well as the progress of the internationalization of Renminbi, the liberation of the PRC capital market will go further. The number and volume of off-shore IPO, debt financing and cross-border mergers and acquisitions of Chinese enterprises continue to grow, demands of cross-border asset allocation from on-shore investors and demands of global wealth management keep growing. On the other hand, the interest of foreign investors in the PRC capital markets is increasingly high. Cross-border trading between on-shore and off-shore investors will become increasing common and profound and will provide securities companies with boarder space for cross-border business development.

(II) Development strategies of the Company

1. Opportunities for the Company

Currently, the securities industry has valuable development opportunities. As a large comprehensive securities companies having a leading position in the industry, the Company has significant strategic opportunities.

Firstly, supply-side reform has been strengthened. The acceleration of changes in economic structure greatly promote the development of securities industry. Secondly, in view of the upcoming IPO system reform, active debt financing and the introduction of various innovative financing instruments such as asset securitization, the financing capacity of capital market continues to grow. As core intermediaries in the capital market, securities companies will be benefitted. Thirdly, the great demands of financing from enterprises and wealth management from the public are main drivers for the development of the securities industry. Fourthly, reforms and adjustments of regulation and regulatory policies will provide the securities industry with more opportunities for business development. Fifthly, with clear strategic guidelines and forward-looking planning, the Company's core competitiveness continues to improve, which lays a solid foundation for seizing opportunities for business development.

2. Challenges faced by the Company

The Company has the following challenges:

Firstly, competition of traditional businesses is intense and competition for customers is increasingly severe. Secondly, it is obvious that operators in the securities industry are expanding their business. Large securities companies took the initiative to replenish capital strength through the issue of debts or shares. As a result, the Company is under great pressure regarding its market position of capital strength. Thirdly, large securities companies are seeking or implementing expansion, which is a challenge to the Company's expansion plan. Fourthly, due to the loosening policy in respect of licenses, there are increasing number of players seeking to enter the securities industry, including foreign financial institutions, banks, insurance companies, mutual fund management companies and large scale Internet companies. As the number of competitive entities continues to grow, competition in the industry will be intensified. Fifthly, factors such as the fast cross-border capital flows, increase in risk-free interest rates as well as geopolitical risks may cause the capital market to fluctuate, which in turn place stricter requirement for asset management and risk management.

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3. Development strategies of the Company

The Company's long-term strategic objective is to: enhance our core competitiveness comprehensively to become a premier investment bank in China to compete in the international market. By adhering to the strategic objective, the Company strives to promote transformation, innovation and cross-border development, implement a proactive "catching up and forging ahead strategy" to speed up the development of core individual client base, core enterprise client base and core institution client base. Efforts will also be made to accelerate the establishment of a business and profit model with a diversified business mix, well-developed business structure and synergies, with a view to establishing modern investment banks with full-service capabilities covering the entire value chain.

4. Proposed innovations in 2017

In 2017, the Company will focus on services for the real economy, capital market construction, cross-border services and cross-sector integration, innovative opportunities in areas such as refined customer services as well as active exploration of various business and product innovations. In respect of services for the real economy, the Company will focus on promoting the development of innovative services such as venture funds as well as disposal of non-performing assets. In respect of cross-border services and cross-sector integration, the Company will focus on developing commodities businesses, developing new capital-based intermediary businesses such as leveraged financing, preparing for Shanghai-London Stock Connect businesses, exploring business and product innovations covering cross-border mergers and acquisitions, cross-border equity and debt financing as well as cross-border capital investment. In respect of capital market development, the Company will aggressively capture the politically innovative opportunities arising from the NEEQ and New Four Board. It will also continue to promote innovations of financial instruments such as asset securitization and private exchangeable bonds. In respect of refined customer services, the Company will actively explore applications of technology in areas such as smart transactions, wealth management and comprehensive services.

(III) Business plans

2017 will be the final year of the three-year forging ahead strategy of the Company. In 2017, the Company will strive to achieve breakthrough in both scale and capability. The Company has adopted business guidelines for 2017 to boost income, enhance capability, maintain steady growth and achieve breakthrough. In order to boost income, the Company will strengthen its marketing, fully utilize its capital, establish a platform and promote innovation. The Company will also pay close attention to the changes in regulatory environment and grasp new opportunities in the market. While maximizing the income from principle operation, the Company actively seeks the growing opportunities of new income sources to boost its overall income. To enhance its capability, the Company will strengthen its marketing capability and improve its products and operation. By overcoming the bottleneck of important capabilities, the Company is able to transform smoothly and strengthen the core competitiveness for its long-term and sustainable growth. The Company places great emphasis on the judgment of the attitude of the central government towards "risk" and "bubble" and accordingly further enhances its internal control and risk management so as to maintain its steady growth. The Company will prevent risks through analysis to maintain its steady growth. On the other hand, the Company strives to expand its business by leveraging on its strong internal control and risk management. The Company aims to achieve breakthrough and maintain its leading position in the final year of the strategic plan and implement the forging ahead strategy successfully with the efforts of all operation units.

(IV) Potential risks and corresponding measures

During the Reporting Period, the Company adhered to the philosophy of taking the lead in innovation with controllable risk level and continued to explore new risk management practices and approaches to ensure its long-term and sustainable development. Details and relevant measures in relation to the risk management profile and the market risk, credit risk, operating risk, liquidity risk and other risks during the business operation of the Company are as follows:

1. Risk Management

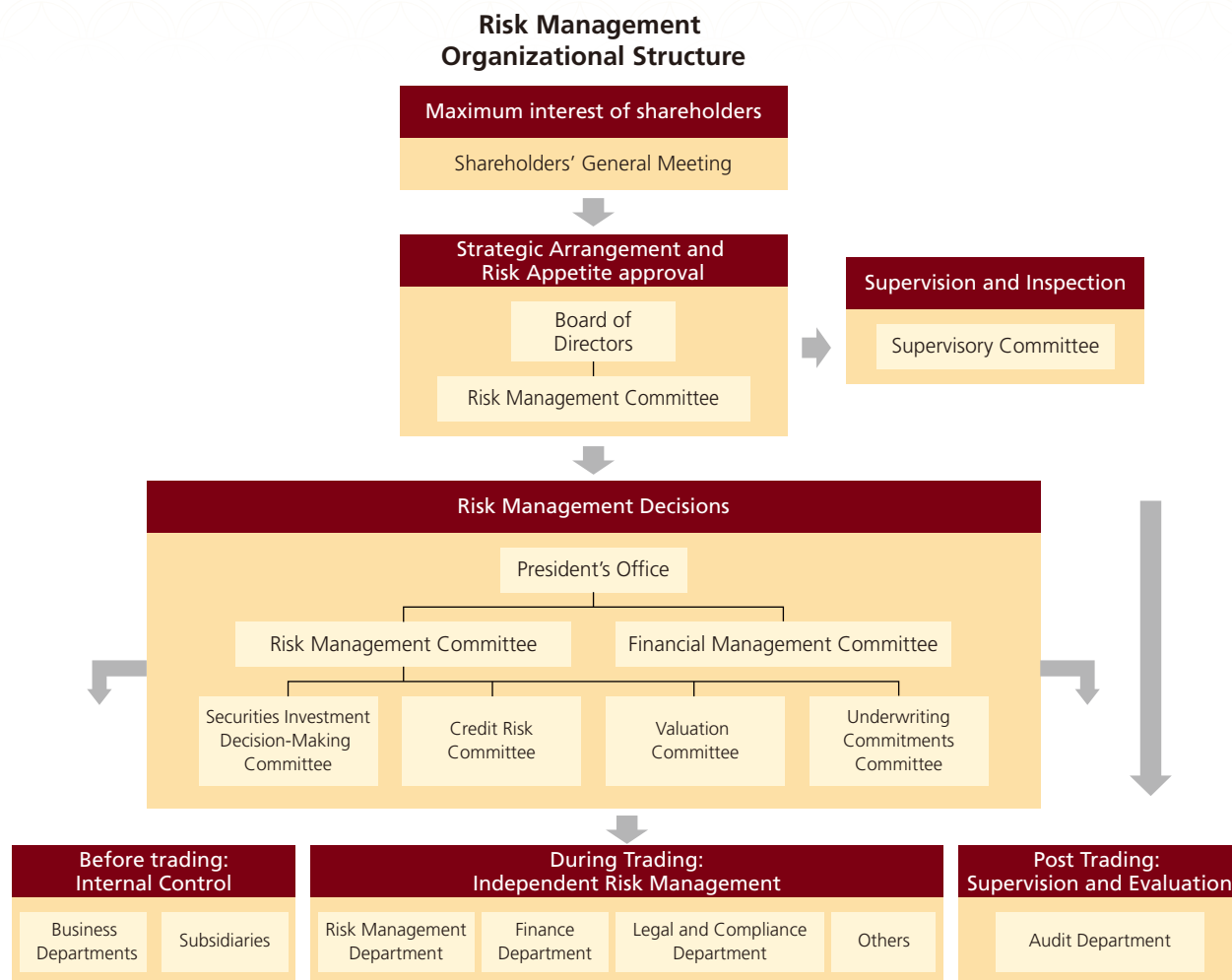
(1) Risk management structure

Since inception, the Company has committed to establishing an innovative and enduring risk management system which can coherent its operation strategies and cover its core business lines comprehensively. Sound corporate governance and effective risk management and internal control system have been put in place to cope with the risks in the securities market faced by the Company.

In accordance with the Guidelines for Internal Control of Securities Companies (《證券公司內部控制指引》) and the Standards for Management of Overall Risks of Securities Companies (《證券公司全面風險管理規範》), and taking into account our operational needs, the Company has taken the lead in establishing a five-level risk management structure, consisting of strategic arrangements of the Board, supervision and inspection of the Supervisory Committee, risk management decision of the senior management and the Risk Management Committee, risk control and supervision of relevant departments in charge of risk management and the direct management of other departments, branches and wholly-owned subsidiaries.

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The chart below sets out our risk management organizational structure:



The risk management responsibilities of each department and position in the risk management organizational structure of the Company are as follows:

- ① The Board and its Risk Management Committee are primarily responsible for reviewing the risk appetite, risk tolerance and various risk limit indicators of the Company, evaluating the allocation plan of economic capital of the Company, convening quarterly meetings to review quarterly risk reports and thoroughly assessing the risk management of the Company.
- ② The Supervisory Committee is responsible for supervising and examining the overall operation of the risk management system of the Company.
- ③ The senior management of the Company is responsible for the overall risk management in the Company's business operation. They regularly review risk assessment reports, formulate risk management measures and establish risk limit indicators. A Risk Management Committee and a financial management committee are set up under the senior management. The Risk Management Committee serves as the highest risk management decision-maker at the operation level. The Company has also appointed a chief risk management officer to oversee the formation of the overall risk management system, monitoring, evaluating and reporting the overall risk level, and providing risk management advice for business decision-making of the Company. In addition, securities investment decision-making committee, credit risk committee, valuation committee and underwriting commitments committee were set up under the Risk Management Committee responsible for making collective decisions based on experts' suggestions on issues relating to securities investment, credit risk, securities evaluation and underwriting risks within the scope of authorization.

- ④ As the department to coordinate market, credit and operating risks management of the Company, the risk management department is responsible for managing the market risks and credit risks, as well as assisting and guiding other business departments in managing operation risks of the Company. As a department in charge of the liquidity risk management of the Company, the finance department is responsible for managing liquidity risks and the formation of the liquidity risk management system. The legal and compliance department is responsible for managing the compliance and legal risks of the Company and assisting the chief compliance officer in reviewing, supervising and examining the compliance of both the business operations of the Company and the employees' practicing behaviours. The audit department is responsible for auditing and examining the effectiveness and execution of the risk management procedures of the Company as well as conducting an overall evaluation of the internal control system of the Company at least once a year.
- ⑤ Each of the business departments, branches and subsidiaries is directly responsible for risk management and supervision of their business and management.

The Company has established a "three defense lines" system of risk management to identify, assess, address, monitor, inspect and report risks. The first defense line is set up by departments and branches which conduct effective self-governed risk management; the second defense line is set up by departments in charge of risk management issues which focus on implementing professional risk management measures; and the third defense line is set up by the audit department which focuses on inspecting and assessing risks after they occur.

(2) Risk management system

In accordance with the Risk Management System (《風險管理制度》), the Rules of Procedures for Risk Management Committee Meeting (《風險管理委員會議事規則》), the Administrative Measures on Business Authorization (《業務授權管理辦法》) and Rules on the Risk Management of Subsidiaries (《子公司風險管理辦法》), the Company has established a comprehensive risk management system which covers various risk exposures including market, credit, operating, liquidity and reputation risks and specifies the boundaries and general principles of each risk category. In 2016, in accordance with the Administrative Measures for Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》) and its rules, the Company actively modified various internal risk management systems and procedures as well as risk indicator control mechanism, and extended the coverage of the comprehensive risk management system to include its subsidiaries.

(3) Quantitative risk management indicator system

The Company has established a quantitative risk management indicator system covering risk appetite, risk tolerance, economic capital and risk limit, so as to prioritize businesses with higher risk-adjusted returns for resources allocation. This approach has effectively improved the risk management and the corporate value of the Company.

- ① **Coherent risk appetite and tolerance indicators:** Risk appetite indicates the basic attitude of the Board and the senior management towards the balance between risk and return based on analysis of the risks. Risk tolerance is a quantitative limit indicator that shows the effectiveness of risk management. According to the risk appetite, the Company has set risk tolerance indicators for each line of business based on its characteristics to specify the maximum tolerance of the risk management. After years of effort, the Company has developed risk appetite descriptions covering five major risk types, namely overall risk, market risk, credit risk, operational risk and liquidity risk, as well as a risk tolerance indicator system. The Company sets its targets of risk appetite and risk tolerance at the beginning of each year and determine economic capital budget and business authorization accordingly. The Company monitors and reports of risk appetite and risk tolerance on a monthly basis, and continuously reviews the risk management based on the results.

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- ② **Scientific economic capital management model:** The Company took the lead to introduce economic capital management model in the PRC securities industry in 2006, and kept on optimizing the methodologies on economic capital measurement and improving the economic capital management process. Our economic capital management covered market risk, credit risk and operational risk. The Company has developed an internal model to measure market risk and credit risk of the economic capital which is highly risk sensitive and reliable. It measured operational risks according to the standards under the Basel Accords. The measurement of economic capital is generally used in risk monitoring, quantitative assessment and performance assessment.
- ③ **Business authorization management system with the core of risk limits:** Within the statutory business scope, the Company granted business authorization at different levels based on the risk rating of the business. The Company granted authorization prudently based on the risk management capability, implementation of business authorization and actual risk management results of each business department, so as to improve decision-making efficiency while keeping the risks under control. Unauthorized operations were strictly prohibited. Persons authorized at each level must exercise their power and conduct business activities only within the authorized scope.
- ④ **Comprehensive stress testing mechanism:** The Company established the Administrative Measures for Stress Testing (《壓力測試管理辦法》). It specifies the division of duties among departments in stress test. It has also determined the methods and procedures of stress test. The Company conducts routine or ad hoc stress test on liquidity risk, credit risk and market risk, as well as net capital and other risk limit indicators, based on business and market development. With this approach the Company can effectively evaluate changes in the operation and risk profiles under extreme circumstances.

(4) Risk management culture

With “effective risk control” integrated into its corporate culture, the Company aimed at efficient risk control, strict compliance with minimum requirements and appropriate risk bearing for reasonable returns. The Company adhered to the dynamic balance between business and risk control by maintaining risk exposure within the approved limits. The “advanced internal control management system and risk management” are considered important elements in the strategic planning of the Company and are the essence of its core competitiveness. A full-process risk management system covering all stages in advance of, during and after an event is incorporated in our operation to ensure the effective performance of functions of management and services to maintain the healthy and sustainable development of the businesses of the Company without encountering any material risks and to safeguard its reputation. Operational risk manual is updated annually in accordance with the operation of the Company to foster the active risk management awareness of the employees. The risk management department prepares annual training materials on various systems and provides employees with systematic risk management trainings. Every year, new employees are provided with risk control and compliance trainings by the risk management department and the legal and compliance department to promote the risk management culture.

(5) Risk management IT system

The Company fully understands the importance of IT system in the modern risk management and has significant investment in the establishment of such systems, including advanced risk management IT systems either developed in collaboration with the IT department of the Company or introduced from home and abroad. A relatively comprehensive market risk management IT system has been established covering the acquisition of daily real-time market information, monitoring business risks, carrying out quantified risk analysis and measurement and risk reports from multiple dimensions, layers and perspectives. The system was continuously updated to include more data and business types and optimize the approach and content of monitoring. A unified credit risk management IT system has been established for credit businesses such as margin financing and securities lending as well as securities-backed lending. A net capital monitoring mechanism has been established according to the Administrative Measures for Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》) issued by the CSRC to effectively monitor various risk indicators for net capitals. Based on the mechanism, a monitoring system of consolidated risk control indicators is being developed to further strengthen the risk management of the Group. In 2016, an internal credit rating system has been established featuring model construction, rating assessment, process management and rating analysis, etc. to be applied in customer access, credit management and risk monitoring. It is intended to be applied in the measurement of economic capital in the future. In accordance with the requirements of the People's Bank of China, a People's Bank of China-linked credit system (for securities-backed lending) has been established and has passed the acceptance test by the People's Bank of China in 2016 to expand the sources of the credit information of the Company and restrict the credit behaviour of customers.

2. Market Risk and Corresponding Measures

(1) Profile

The market risk of the Company is the risk of losses on its investment portfolio due to adverse changes in market conditions. The investment portfolio of the Company mainly includes proprietary investment, market-making for clients and other investment activities, while changes in investment portfolio are mainly from strategic trading activities in proprietary investment and the clients' market-making requirements. The portfolio is measured by using fair values, which are subject to fluctuations due to market conditions and changes in the portfolio. Major market risks of the Company include:

- ① **equity risk:** attributable to portfolio risk exposure to changes in prices and volatility of equity securities such as stocks, stock portfolio and stock index futures;
- ② **interest rate risk:** attributable to portfolio risk exposure to yield curve of fixed-income investment, interest rate movements and credit spreads;
- ③ **commodity risk:** attributable to portfolio risk exposure to changes in spot commodity prices, forward commodity prices and volatility;
- ④ **exchange rate risk:** attributable to portfolio risk exposure to changes in spot exchange rate, forward exchange rate and volatility.

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(2) Market risk management approaches

In order to manage the market risk, the Company has adopted the following measures:

- ① A comprehensive, multi-currency and cross-market risk management system;
- ② Generic and specific market risk management methods.

Through these measures, the Company has robustly controlled the market risk. However, the usage and effectiveness of such measures are subject to certain limitations and various factors, such as hedging effectiveness, changes in market liquidity, and relevance of hedging prices. Therefore, based on market development and changes in the portfolio as well as real-time and accurate assessment of market risk, the Company has continuously improved and adjusted the risk management measures to actively manage market risk.

(3) Responsibilities of market risk management

The Company collectively allocates the economic capital in accordance with the risk preference and risk tolerance indicators set by the Board. By considering the risk and return associated with each type of investment and interrelationship, the Company diversifies the overall risk limitation to different business departments and business lines and formulates corresponding business authorization. Directly confronted with the market risk, the front-office business departments are responsible for market risk management as the first line of defense. The person in charge and the investment manager conduct trades and the front-line risk management within the scope of authorization by means of their extensive experience and in-depth knowledge. They dynamically control the market risk exposures to the securities held by the Company and actively take measures to reduce or hedge against such risks when the exposures are high. The risk management department, which is independent from the business departments, is headed by the chief risk management officer, who uses professional risk management tools and methods for controlling, evaluating and managing different levels of market risk from investment strategy, business departments and business lines and the Company. The report is delivered on a daily, monthly or quarterly basis to the responsible officers of the business departments and business lines and operation management of the Company. When risk level is approaching or exceeds the threshold values, the risk management department will issue warning to the operation management as well as the relevant management officers and respective business management officers in advance. Depending on the opinions from the management and committee based on their review and approval, the business departments will be urged to take corresponding measures. The relevant monitoring personnel from the risk management department will continuously cooperate and communicate directly with the respective business departments and business lines with regard to information on risk exposures, and discuss the status of risk portfolios and the losses in extreme situations.

(4) Measurement of market risk

The Company uses a series of risk measurement approaches to measure and analyze potential market risk losses under different market situation. The Company mainly employs VaR as the risk management instrument to measure potential losses from regular fluctuation in the short-term market. Stress test is also used to assess possible losses under extreme circumstances.

① VaR

VaR analysis is a statistical technique that estimates the potential losses that could occur on portfolio positions due to movements in market prices over a specified time period and at a given level of confidence. Potential losses from regular fluctuation in the short-term market can be effectively measured through VaR. The Company uses a VaR with a confidence level of 95% and a holding period of one day as a major indicator measuring the market risk. Historic market data is used in the VaR model. It also takes into account the impact of relevant risk factors in various risk types such as equity, interest rate, commodity and foreign exchange on the portfolio position of the Company. In this way, movement in the market risk arising from changes in securities prices, interest rate, commodity prices and exchange rate, etc can be measured and the diversified effects of the portfolio are also considered.

With ongoing expansion of the businesses, the Company continued to refine the VaR model including adding risk factors in the new market and optimizing the computation. In addition, the Company examined the accuracy of the VaR computation through methods such as a reverse test.

② Stress test

Stress test is an integral and complementary instrument in the VaR risk measurement. Stress test mainly measures potential losses under extreme circumstances, which include macroeconomic downturn, materially adverse movement in major markets and exceptional risk events. As an essential part of the market risk management of the Company, the stress test is divided into comprehensive and specific stress test. The Company has set up a series of macroeconomic and market scenarios in the stress test to measure potential losses on all or specific investment portfolio position under single or multiple scenarios. Potential losses on the portfolio position under extreme circumstances were evaluated through stress test. Potential losses from single risk factor or specific stressful circumstance were also assessed. Through analysis of risks and return, the Company examined the compliance of various key regulatory indicators as well as the bearing on the Company. For non-linear futures portfolios, the Company established a stress test matrix based on the subject and the fluctuation ratio and conducted daily stress test so as to control significant tail risks.

③ Sensitivity analysis

The Company has adopted appropriate level of sensitivity analysis, meaning that the assets value invested is reduced under certain proportion to forecast potential effect, on certain particular investment portfolio such as equity investment of the Company including equity direct investment, equity funds investment and structured equity investment, as VaR was not considered most effective measures for risk calculation.

(5) Market risk limit management system

The Company has already established relevant risk limit management system in departments, business lines and even trading strategies, in order to control the fluctuation of profit and loss and market risk exposure. The risk limit of the Company is determined with reference to the risk appetite and risk tolerance after taking into account the investment features, risks and effects on overall risk exposures of different operations. The risk limit is adjusted based on the market environment, business development and risks of the Company.

The risk limit of the Company mainly comprises size, concentration ratio, quantitative risk value (including VaR and Greeks), stop-loss and other indicators. The Company has implemented separate review system and different sub-limit indicators within risk limit are applied to different departments, business lines and investment managers. The management is able to effectively manage the overall risk exposure of the Company with overall risk indicators at the overall company level. Business departments, business lines and investment managers are able to enter into transaction effectively within the scope of indicators with the sub-limit indicators. Sub-risk limit indicators, therefore, do not serve as risk tolerance of business but a mechanism which reports any increasing risks in risk management when certain conditions are fulfilled.

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Risk management department monitors each risk limit independently of the Company on a daily basis. The department will warn the management, relevant business departments and business lines if the risk limit is reached or exceeded. Such business departments and lines will issue analysis reports and take appropriate measures and the risk management department will issue evaluation report. Relevant leaders of the Company and committees will review the report and reduce risk exposures or increase risk limit based on the situation. Risk management department is responsible for monitoring the implementation of such measures.

The Company further optimized risk limit system and further enriched risk limit system for the Company, business departments, business lines and trading strategies based on the development and risk management of the Company. Specific rules or guidelines have been set up and the limit system was further optimized.

3. Credit risks and corresponding measures

(1) Profile

The credit risk of the Company refers to the risk of economic loss caused by the failure of the borrower or the counterparty to fulfill their contractual obligations. Our credit risk arises primarily from the following four businesses:

- ① businesses such as the margin financing and securities lending, securities-based lending or the stock repurchase business in which clients breach the contract and cannot repay the debts owed to us;
- ② investment in bonds, trusts or other credit products in which the issuer or the borrower breaches the contract, generating the risk that the principal and the interest cannot be paid;
- ③ business such as an equity return swap, an interest rate swap and an OTC option in which the counterparties fail to fulfill their payment obligation;
- ④ brokerage business in which clients default due to a lack of funds on the settlement date after brokers trade securities, futures and other financial products on behalf of the clients.

(2) Management of credit risk

In order to effectively control credit risk, we have adopted the following measures:

- ① Prudent and proactive credit risk management;
- ② An institutional system covering all stages and a risk policy system based on risk limits;
- ③ Industry-leading credit risk management quantitative tools;
- ④ An internal credit rating system with the best practice in the industry;
- ⑤ Full coverage of the substantive assessment of credit risk.

The Company has adopted the following measures including credit risk limit, internal credit rating, quantitative management of collateral and credit risk model to manage credit risk:

① Credit risk limit

The Company has adopted a classified credit risk limit system to control risk exposure in accordance with the risk preference and risk tolerance indicators set by the Board of the Company. The risk management department has monitored, reported and issued warning on each limit implementation subject to the limit indicators including business scale limit, low-risk bonds investment ratio, the value of margin financing granted to a single customer, the market value to a single collateral to total market value ratio and the relevant adjustments based on credit features, market condition, business development and risk profile of the Company.

② Internal credit rating

The Company has established an internal credit rating system to review the assets and liabilities profile of its borrower or bonds issuer. In tandem with the external credit rating, the internal credit rating system has become an effective assessment policy for credit business policy and risk management. The Company has developed several internal credit rating models and comprehensive internal credit rating systems based on the characteristics from different industries and target customers, internal credit rating results are gradually employed in grant of credit to business, limit forecast, limit approval, risk monitoring, asset quality management and etc.

③ Quantitative management of collaterals

The Company has paid great attention to how the quality of collateral guarantees can protect our rights as a creditor. We have strengthened collateral management by establishing negative list models for collaterals and collateral conversion rate models and adjusting collateral types and conversion rate. The adjustment mechanism on conversion rate are determined based on intrinsic value (financial statement) and market factors (market price fluctuation, increase and etc.). The Company has also found a centralized collateral monitoring mechanism and collateral-related assessment mechanism.

④ Credit risk model

The Company has taken into account each credit transactions with factors such as client mix, single liabilities amount, duration of borrowing, guarantee coverage and concentration of collaterals when conducting credit rating, borrower qualification assessment and collateral quantitative management on its counterparties. The aforementioned factors will be reflected as parameters such as probability of default (PD), loss given default (LGD) and maturity (M) to calculate the possible default loss for each credit transaction. The credit risk model reflects the aggregate credit risk of the Company and is adjusted based on risk calculation by stress testing and sensitivity analysis.

(3) Responsibility for managing credit risk

The Risk Management Committee of the Board is responsible for the review and approval of credit risk appetite. The Risk Management Committee of the Company is responsible for the review of overall risk management on credit business and development on high-risk and innovative credit business. The Risk Management Committee of the Company and its credit risk committee are responsible for the approval of the loan provision policy and high-risk credit business. All business departments of the Company are responsible for the particular operation, management and monitoring of credit related business. The risk management department of the Company is responsible for the research and establishment of credit risk management system, the establishment of credit risk management preference and tolerance, loan provision policy of the Company and independent monitoring and warning system on credit risk.

(4) Credit risk management on principal businesses

In respect of margin financing and securities lending, securities-backed lending, stock repurchase business and other financing businesses, the Company has established a multi-faceted business approval management system and a sound full-process risk management system covering the stages in advance of, during and after the event covering the whole process through client due diligence, credit approval, post-loan evaluation, approval of and dynamic adjustment to collaterals, mark-to-market system, forced liquidation and disposal on default.

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For debt securities investment business, the Company has developed an internal credit rating system to assess the credit rating of issuers and counterparties. The Company kept track of credit ratings of issuers and counterparties by means of minimum rating requirements for various types of investments and counterparties through a business authorization system, concentration limits, monitoring and risk examination, etc. Risky bonds were enhanced through subsequent disposal to manage the credit risk of bond investment business.

For OTC derivatives trading business, we have formulated a set of management measures and rules in relation to the appropriateness of investors, client due diligence, credit extension to counterparties, conversion rate of securities, effective monitoring of gearing ratio, management of collaterals and follow-up on default of clients, in order to strengthen the management before, during and after trading.

For brokerage business, the securities trading for domestic customers of whom we are an agent are settled by margin in full. With regard to the trading of securities and other financial products for overseas customers, we have effectively controlled the relevant credit risk by strengthening the management over credit grant and customer deposits.

(5) Risk exposure of the Company's investment in domestic and overseas bonds at the end of the Reporting Period

Unit: RMB10,000

	As at December 31,	
	2016	2015
Issuers in Mainland China		
PRC sovereign bonds	874,822	1,196,933
AAA	648,991	989,242
AA+	452,927	854,897
AA	186,125	291,508
AA-	—	—
Below AA-	—	—
A-1	—	85,933
Non-rated	698,373	759,149
Sub-total	2,861,238	4,177,662
Issuer in Hong Kong and other regions		
A	8,267	2,358
B	153,538	49,234
C	43,470	126,535
D	—	—
Non-rated	31,013	88,948
Sub-total	236,288	267,075
Total	3,097,526	4,444,737

Note 1: The above data is provided on a consolidated basis;

Note 2: PRC sovereign bonds represent the rating of bonds issued by the government of PRC. AAA–A rating represents the bonds with maturity over 1 year, which AAA rating is representing the highest rating. A-1 rating represents the highest-rated bonds with maturity within 1 year. Non-rated represents the bonds are not rated by independent rating agencies.

Credit rating of the bonds issued in Hong Kong and other regions were derived from the lowest of Moody's, Standard & Poor's and Fitch Rating, if any. The bonds, which are not rated by the above agencies, are classified as non-rated. Including in A rating are the bonds comprising Aaa~Aa3 rating of Moody's, AAA~AA- rating of Standard & Poor's and AAA~AA- rating of Fitch; and including in B rating are the bonds comprising A1~Baa3 rating of Moody's, A+~BBB- rating of Standard & Poor's and A+~BBB- rating of Fitch; including in C rating are the bonds comprising Ba1~B3 rating of Moody's, BB+~B- rating of Standard & Poor's and BB+~B- rating of Fitch; and including D rating are the bonds comprising Caa1~D rating of Moody's, CCC+~C rating of Standard & Poor's and CCC+~C- rating of Fitch.

4. Operational Risk Management and Corresponding Measures

(1) Overview

Operational risk refers to the risk arising from imperfect or problematic internal procedures, employees, systems or external events.

Operational risk events mainly include internal fraud, external fraud, employment policy and safety of working environment, customers, products and business activities, damage of physical assets, interruption of business operation and shutdown of IT system, execution, settlement and process management.

(2) Operational Risk Management

Operational risk management has been the focus among all types of risk management. Through development of mechanisms such as prior coordination, whole process monitoring and information collection after loss from operational risks, a refined operational risk management cycle has been established. In order to effectively manage operational risk, the Company has adopted the following measures:

- ① We have established comprehensive systems for operational risk mitigation and management in accordance with the New Basel Accord and our strategic development needs, and we effectively lead the operation of various businesses through measurement and allocation of operational risk-based economic capital;
- ② We have established an integrated, scientific and hierarchical system on the basis of operational risk appetite, tolerance and management policy. We improved the operational risk governance structure in a dynamic way by conducting gap analysis on the basis of continuous tracking and assessment of the current management status;
- ③ We have utilized operational risk management tools in a scientific and refined way by using operational risk and self-assessment management tools, progressively establishing a structure categorizing procedures, operational risks and control measures, and applying quantitative and qualitative operational risk exposure assessment methods;
- ④ We have actively promoted the compilation of an operational risk manual for all business units. With such procedures as the focus and with each department or branch as a unit, we have written operational risk manuals that cover all of our businesses. On top of basic risk calculation and assessment functions, we further included following-up improvement and tracking, leading to a continuous improvement of the operational risk manuals;
- ⑤ By using operational risk events and loss data collection management tools, we collected and summarized the important internal and external operational risk events encountered by each of our businesses. Additionally, we identified areas with risk exposure and their impacts. This has allowed our operational risk management to transition towards pre-event forecasting based on large volumes of data;
- ⑥ A pilot scheme was established for development of a system for key indicators of operational risk. By formulating measurements for control and management targets of all businesses and carrying out dynamic monitoring of operational risk, we further enhanced the precautions against operational risk;

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- ⑦ We improved the standard measurements for risk capital. Measurement and verification procedures for operational risk-based economic capital which were applicable for the current risk tolerance level were established. Through controlling the total amount of operational risk-based economic capital, we ensured a reasonable balance between the scale of various business and their respective risk tolerance capability;
- ⑧ We paid great attention to promoting operational risk management consciousness. We emphasized the importance of conducting risk identification and control before introducing innovative products and innovative businesses. This helps operational risk management cover all the departments and branches in our front, middle and back offices, and in turn effectively strengthens our ability to control in advance, monitor during and improve after the occurrence of such events.

5. Liquidity Risks and corresponding measures

(1) Overview

The Company's exposure to liquidity risk mainly arises from failure to obtain sufficient funds at reasonable costs and in a timely manner to repay due debts, perform other payment obligations and satisfy other capital needs for normal business operation. If there are material and adverse changes in operating condition in the future and the Company is not able to maintain its gearing ratio at a reasonable level, and its operation experiences unusual changes, it may not be able to repay the principal of, or interest on, relevant debts in full when due.

Possible liquidity risk events and factors of the Company include cash flow strains, persistent high financing costs, downgraded regulatory rating, blocked financing channels and difficulties in servicing concentrated mature debts.

(2) Duties of liquidity risk management

The financial management committee under the office of the President is responsible for formulating the liquidity policy for management. A treasure operating mechanism for centralized management and control of liquidity risk has been established, and the financial department is responsible for liquidity management. The financial management committee of the Company convenes quarterly meetings to determine the funding for each business and formulate financing plans by taking into account of factors such as liabilities and business development of the Company as well as the market condition.

(3) Management measures for liquidity risk

In order to prevent liquidity risk, the Company has adopted the following measures:

- ① The Company has established high-quality current asset reserves and a minimum excess reserve quota system. It has formulated liquidity contingency plans to store minimum excess reserve in the capital plan and reserved treasury bonds, Central Bank bills and other highly liquid assets which can be liquidated at any time under extreme circumstances to cover unexpected expenses;
- ② The Company has actively developed management for financing gaps. By using management tools such as a cash flow gap, sensitivity analysis and stress testing, it can identify potential risks at an early stage and to arrange financing or adjust the pace of fund usage for business purposes in advance so as to effectively manage the payment risk;
- ③ The Company has continuously expanded its financing channels and balanced the distribution of debt maturity so as to avoid the payment risk caused by a single financing channel or servicing mature debts;
- ④ The Company has established an internal risk reporting system to promptly monitor the liquidity risk in the operation of each business and at each branch. In addition, it has taken measures to promote the safety, soundness and sustainability of the aforementioned operations.

6. Other major risks and response measures

Other major risks faced by the Company during the course of its operation include risks associated with macro policies and competition in the industry. Macroeconomics is of fundamental importance to the capital market, and any unusual fluctuation or downturn in macroeconomics may materially affect the liquidity, profitability, market valuation and investment expectation of investors in the capital market, which could in turn reduce the profitability of securities companies. Changes in economic policies and industrial laws and regulations will directly affect the growth pattern, business and profit model of securities companies. The competitiveness and profitability of the Company will be materially affected if it is unable to timely adjust the business development model in response to the changes in regulatory policies. In addition, the competition in the securities industry is increasingly intensified. The gradual deregulation in the industry may encourage more new competitors seeking to enter the market, and existing competitors may expand their businesses. If the Company fails to capture the new opportunities brought by the reform and transformation of the industry in advance and enhance its core competitiveness, its market position and profitability may be exposed to significant challenges. To cope with the aforementioned risks, the Company has adhered to the development strategy of steady growth through studying the changes in policy and latest trend of the industry, and adjusting the operating strategies and risk management system and procedures timely based on the changes in external condition. The Company closely follows the latest industry development trend to facilitate business and management innovation and speed up the progress of transformation, in order to enhance the core competitiveness of principal businesses. By proactively dealing with the challenges brought by macro-economic changes and competition within the industry, the Company strives to become a full-service investment bank featuring economies of scale, leading innovation and prominent core competitiveness with comprehensive development in both on-shore and off-shore businesses.

(V) Establishment of dynamic supervision for risk control indicators and replenishment mechanism

In strict compliance with relevant requirement of regulatory authorities, the Company has established dynamic supervision for risk indicators such as net capital and liquidity through construction of systems, formulation of rules and allocation of staff as well as a replenishment mechanism. Details are set forth below:

The Company has established a supervisory system for risk indicators such as net capital and liquidity with on-going improvement in accordance with the latest requirement of regulatory authorities. The system serves to dynamically supervise various risk control indicators. The system operated properly during the Reporting Period;

The Company has formulated and issued the Administrative Measures for Dynamic Supervision of Net Capital Risk Control Indicator (《淨資本風險控制指標動態監控管理制度》), the Contingency Plan for Net Capital (《淨資本應急處理預案》) and the Administrative Measures for Stress Tests (《壓力測試管理辦法》), which specify the duties of each department in relation to dynamic supervision on net capital, contingency and stress testing, and regulate the dynamic supervision of risk control indicators such as net capital and liquidity as well as the procedures of net capital replenishment. In particular, in respect of risk control indicators, sensitivity analysis and stress tests shall be conducted before the occurrence of risks, warning and regular reports shall be issued during the course of monitoring, and net capital replenishment measures and other follow-ups shall be promptly carried out after the identification of relevant risks.

During the Reporting Period, all risk control indicators such as net capital and liquidity of the Company were in compliance with regulatory requirements and there was no non-compliance with regulatory standards.

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IV. CONNECTED TRANSACTIONS

During the Reporting Period, the following continuing connected transactions of the Company were subject to the reporting, annual review and announcement requirements under Chapter 14A of the Hong Kong Listing Rules.

We entered into a Securities and Financial Products, Transactions and Services Framework Agreement with China Merchants Group on September 21, 2016 (the “Framework Agreement”) for a term commencing from the listing date of H Shares to December 31, 2018. Pursuant to the Framework Agreement, we and China Merchants Group and/or its associates¹ agreed to conduct securities and financial transactions with one another, and provide securities and financial products as well as financial services to one another, in our respective ordinary and usual course of business based on normal commercial terms and market practices at prevailing market prices or rates.

A. Securities and financial products and transactions

Reasons for the transactions

We conduct securities and financial transactions with China Merchants Group and/or its associates in our ordinary course of business from time to time. We select the most suitable securities and financial products provided by different suppliers (including China Merchants Group and/or its associates, which are our connected persons, and independent third parties) based on our internal evaluation system and procedures after taking into consideration various factors including the cost, market condition and our risk exposure, business needs and development requirements. The estimated annual caps of the total inflow amount and total outflow amount of the securities and financial products and transactions contemplated under the Framework Agreement for the three years ending December 31, 2018 are as follows:

Securities and financial products and transactions	RMB million		
	2016	2017	2018
Inflow	96,000	115,500	140,000
Outflow	96,000	115,500	140,000

- (1) “Inflow” means our total cash inflow arising from the sale of fixed income products and equity products to, transactions of derivative products with, and/or borrowing/repurchase from financing transactions with, China Merchants Group and its associates.
- (2) “Outflow” means our total cash outflow arising from the purchase of fixed income products and equity products from, transactions of derivative products with, and/or lending/resale from financing transactions with, China Merchants Group and its associates.

¹ According to the announcement of China Merchants Bank dated October 25, 2016, China Merchants Group holds 29.97%, instead of 30.06%, equity interests in China Merchants Bank. Therefore, China Merchants Bank does not constitute a connected person of the Company under the Hong Kong Listing Rules.

Historical figures

For the year ended December 31, 2016, the Group had securities and financial products trading transactions with China Merchants Group and/or its associates. The Group had total cash inflow of RMB6.976 billion from the sales of fixed income products, and total cash outflow of RMB4.309 billion for the purchase of fixed income products.

For the year ended December 31, 2016			
Inflow/outflow	Fixed income products		Total
	Asset management products of the Group	Funds and asset management products of connected parties	Aggregate amount
	RMB million		
Inflow	1,551.67	5,423.90	6,975.56
Outflow	2,856.50	1,452.50	4,309.00

B. Financial services

Reasons for the transactions

In our ordinary course of business, we provide various financial services to our clients, which include China Merchants Group and its associates. Due to their business needs and our expertise and professional capabilities, we had been engaged by China Merchants Group and its associates to provide financial services including (but not limited to) underwriting, sponsoring, financial advisory and financial products agency sale services from time to time. The estimated annual caps of the financial services (insofar as an annual cap is required to be set for that service) to be provided under the Framework Agreement for the three years ending December 31, 2018 are as follows:

Financial services	RMB million		
	2016	2017	2018
Revenue to be generated	1,025	1,535	2,300
Fees payable	440	660	890

Chapter 4: Report of the Board of Directors

Historical figures

As at December 31, 2016, the Group provided securities and financial services to China Merchants Group and/or its associates and generated revenues of RMB29.31 million, which was below the annual cap of 2016. The Group received securities and financial services from China Merchants Group and/or its associates and paid fee of RMB0, which was below the annual cap of 2016. The figures are set out in the table below:

As at December 31, 2016	
	RMB million
Revenues generated by us (total)	29.31
Other investment banking services	2.62
Financial products agency sale services	1.04
Leasing of trading seats	25.65
Fees paid by us	0

Details of the above connected transactions are set out in note 62 to the consolidated financial statements in this report.

Confirmation of independent non-executive Directors

The independent non-executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that:

- (1) the above continuing connected transactions are entered into during the ordinary and usual course of the business of the Company;
- (2) the above continuing connected transactions are entered into on normal commercial terms or more favorable terms; and
- (3) the above continuing connected transactions are executed according to the relevant governing agreements, and the terms of which are fair and reasonable and are in the interests of the shareholders of the Company as a whole.

Confirmation of independent auditor

The independent auditor of the Company has reviewed the above continuing connected transactions and confirmed that:

- (1) they are not aware of any matters that would make them believe that the continuing connected transactions disclosed have not been approved by the Directors;
- (2) in respect of the continuing connected transactions involving the provision of services by the Company, they are not aware of any matters that would make them believe that the transactions are not executed in accordance with the pricing policy of the Company in any material aspects;

- (3) they are not aware of any matters that would make them believe that the transactions are not entered into in accordance with the relevant agreements in any material aspects; and
- (4) in respect of the aggregate transaction amount of each continuing connected transaction, they are not aware of any matters that would make them believe that the continuing connected transactions disclosed have exceeded the annual caps determined by the Company.

Save as disclosed above, there is no related party transaction or continuing related party transaction set out in Note 62 to the consolidated financial statements that falls into the category of connected transactions or continuing connected transactions that need to be disclosed under the Hong Kong Listing Rules. Save as disclosed in this report, during the period from the listing date of H Shares of the Company to December 31, 2016, the Company has no connected transactions which are required to be disclosed under Chapter 14A of the Hong Kong Listing Rules.

For details of other related party transactions subject to listing rules for A shares, please refer to the Announcement on the Contemplated Ordinary Related Party Transactions of the Company for 2017 posted on the SSE website, China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily.

V. Use of funds raised

Upon the approval of the second extraordinary general meeting for 2015 of the Company on June 11, 2015, and pursuant to the Approval for the Issuance of Overseas Listed Foreign Shares by China Merchants Securities Co., Ltd. (《關於核准招商證券股份有限公司發行境外上市外資股的批覆》) (Zheng Jian Xu Ke [2016] No. 1735) issued by the CSRC, as at October 7, 2016, the Company completed the public issuance of overseas listed foreign shares (H Shares) with a nominal value of RMB1.00 each at an offer price of HK\$12.00. A total of 891,273,800 shares were issued, raising total proceeds of HK\$10,695,285,600.00. After deducting the offering expenses of RMB260,880,864.89, the net proceeds amounted to RMB8,947,439,178.14, including an additional of paid-in capital (share capital) of RMB891,273,800.00 and capital reserves of RMB8,056,165,378.14.

As at December 31, 2016, the Company received interest income accrued on the net proceeds from the issuance of H Shares amounting to RMB8,077,351.81, including interest incomes of HK\$2,327,809 and RMB5,996,180, net of bank charges of HK\$980 and RMB200.

As at December 31, 2016, a total of RMB5,840,000,000 of the proceeds from issuance of H Shares was utilized by the Company. As at December 31, 2016, the balance of the special account for such proceeds amounted to HK\$2,629,154,282.15 and RMB1,046,225,980.14. Based on the central parity rate of HKD/RMB, the aggregate sum of the above balances denominated in HK dollars and RMB in the special account was RMB3,398,030,777.07 (including a portion of the payable offering expenses).

According to the details regarding the use of proceeds from the global offering set out in the H Share prospectus, the Company intends to use the proceeds from the global offering based on the proportion set out therein. As at December 31, 2016, the actual usage of proceeds was consistent with the commitment disclosed by the Company. For details, please see the table below and the Report on the Deposit and Usage of Proceeds from Issuance of H Shares in 2016 (《關於2016年度H股募集資金存放與使用情況報告》).

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Total amount of funds raised (RMB million)				894,743.92		Amount invested for the year (RMB million)				584,000.00			
Total amount of funds with changed usage				—		Total funds invested (RMB million)				584,000.00			
Percentage of total amount of funds with changed usage				—									
Projects committed	Changed projects (include partial change, if any)	Total amount of funds committed		Adjusted total commitment	Commitment as at the end of the Reporting Period ⁽¹⁾ (RMB10,000)	Investment for the year (RMB10,000)	Total investment as at the end of the Reporting Period ⁽²⁾ (RMB10,000)	Difference between total investment and commitment as at the end of the Reporting Period ⁽³⁾⁼⁽²⁾⁻⁽¹⁾ (RMB10,000)	Percentage of investment as at the end of the Reporting Period (%) ^{(4)=(2)/(1)}	Scheduled date of completion for use	Revenues for the year	Is the expected revenues achieved	Is there significant change in feasibility
		10,000 HKD	Equivalent to RMB10,000										
Brokerage and wealth management business development	—	259,806.94	223,685.98	—	223,685.98	223,000.00	223,000.00	-685.98	99.69	N/A	N/A	N/A	No
Development of institution clients services, investment and trading	—	259,806.94	223,685.98	—	223,685.98	225,000.00	225,000.00	1,314.02 (Note 1)	100.59	N/A	N/A	N/A	No
Expansion of overseas business of CMS International through capital investment	—	259,806.94	223,685.98	—	223,685.98	0.00	0.00	-223,685.98	0.00	N/A	N/A	N/A	No
Funding of subsidiaries, associated companies and establishment of new subsidiary	—	207,845.55	178,948.78	—	178,948.78	90,000.00	90,000.00	-88,948.78	50.29	N/A	N/A	N/A	No
Replenishment of working capital of the Company	—	51,961.38	44,737.20	—	44,737.20	46,000.00	46,000.00	1,262.80 (Note 1)	102.82	N/A	N/A	N/A	No
Total	—	1,039,227.75	894,743.92	—	894,743.92	584,000.00	584,000.00	-310,743.92 (Note 2)	65.27	N/A	N/A	N/A	No
Projects behind schedule or revenues below expectation (by projects)						N/A							
Explanation on the significant change in feasibility						N/A							
Initial investment and displacement of fund raising projects						N/A							
Temporary replenishment of working capital by idle funds						N/A							
Balance of funds and reasons thereof from the projects						N/A							
Application of the balance of the funds						Purposes of funds which have not been used are to increase capital to subsidiaries and expand overseas business							
Problems or other circumstances in using funds						NIL							

Note 1: The difference between accumulated investment and undertaken investment amount as at the end of the Reporting Period is due to the change in exchange rate;

Note 2: The difference between accumulated investment and undertaken investment is less than that and balance of funds in the end of the year because balance of funds in the end of the year includes the effect of actual exchange settlement and change in exchange rate on the funds, and partial unpaid issuance cost.

VI. Major customers and suppliers

The Company provides various businesses and services to meet the different demands of enterprises, individuals and institutions. Its customers are primarily located in China. The Company serves individual, institutional and corporate customers across a spectrum of sectors. More services will be provided to overseas customers as the internationalization of the Company proceeds and our overseas business expands. The Company expects to serve more overseas customers, as it seeks to further expand our business internationally in the future.

In 2016, revenue attributable to the five largest customers accounted for less than 30% of our total revenue.

To the knowledge of our Directors, none of our Directors, Supervisors and their respective associates or any shareholders holding more than 5% of our issued share capital had any interests in any of our five largest customers.

The Company has no major suppliers due to the nature of its business.

VII. Important laws and regulations

The Company has always persisted in maintaining lawful operation. Its operation has complied with all the laws and regulations as well as the rules and administrative documents issued by the regulatory authorities. In 2016, the Company formulated and revised a number of internal management systems to improve internal control and enhance the compliance management system in accordance with the regulatory requirements and the operation needs of the Company. The Company has also formulated and improved operation management system and procedures so as to incorporate the requirements of the regulatory authorities and self-regulatory organization into our operation. The Company further promote the compliance of our operation and provide necessary training to prevent incompliance of our operation. The compliance of our operation is satisfactory in general. The compliance management system is effective and no material systematic compliance risks are found.

VIII. Environmental policy and performance

Please refer to the Environment, Social and Governance Report and the 2016 Social Responsibility Report of China Merchants Securities Co., Ltd. (《招商證券股份有限公司2016年度社會責任報告》) as otherwise disclosed.

IX. Miscellaneous

Particulars of the Directors, major businesses, permitted indemnity provision, details of material events occurred after the end of 2016 which have effects on the Group, donations made by the Company, share issuance, bond issuance, profit distribution proposal, and interests of Directors and Supervisors in significant transactions, arrangement or contracts are set out in “Chapter 3 Summary of Operation”, “Chapter 5 Major Events”, “Chapter 6 Changes in Ordinary Shares and Shareholders”, “Chapter 7 Directors, Supervisors, Senior Management and Employees” and “Chapter 9 Corporate Bonds”. These sections form a part of this Report of the Board of Directors.

Chapter 5: Major Events

I. PROPOSALS ON PROFIT DISTRIBUTION FOR ORDINARY SHARES OR CONVERSION OF CAPITAL RESERVE

(I) Formulation, implementation or adjustment of cash dividend policy

While striving to achieve sustainable growth and development, the Company also attached great importance to provide reasonable, steady and constant returns to investors.

During the Reporting Period, the Company formulated and implemented the 2015 annual profit distribution plan and 2016 interim profit distribution plan in accordance with the requirements on the policy, decision-making process and arrangement of dividend under the Plan on Shareholders' Returns of China Merchants Securities Co., Ltd. (2015-2017) (《招商證券股份有限公司股東回報規劃 (2015年-2017年)》) and the Articles of Association of China Merchants Securities Co., Ltd. (《招商證券股份有限公司章程》).

According to the profit distribution plan of the Company for 2015, a cash dividend of RMB2.47 (tax inclusive) was distributed for every 10 shares based on a total share capital of 5,808,135,529. The total cash dividend amounted to RMB1,434,609,475.66.

According to the interim profit distribution plan of the Company for 2016, a cash dividend of RMB1.54 (tax inclusive) was distributed for every 10 shares based on a total share capital of 5,808,135,529. The total cash dividend amounted to RMB894,452,871.47.

The profit distribution plans were reviewed by the Company's independent Directors and were approved by the Board before they were submitted to the shareholders' general meeting for approval. The proposals were considered and passed by the shareholders' general meeting, where the votes by minority shareholders were counted separately.

The profit distribution policy adopted by the Company is in compliance with laws, regulations and stipulations, the Plan on Shareholders' Returns of China Merchants Securities Co., Ltd. (2015-2017) (《招商證券股份有限公司股東回報規劃 (2015年-2017年)》) and the Articles of Association. The dividend distribution standard and ratio were specified and clear, and the relevant decision-making process and arrangement are complete. The independent Directors of the Company have fully performed their responsibilities in the course of profit distribution and the legitimate rights and interests of minority shareholders were safeguarded.

The 2015 annual profit distribution plan and 2016 interim profit distribution plan of the Company were successively implemented on June 17, 2016 and September 29, 2016, respectively.

(II) Tax Reduction

A Shareholders

Pursuant to the Notice on Issues Regarding Differentiated Individual Income Tax Policy for Dividends and Bonuses of Listed Company (Cai Shui [2015] No. 101) (《關於上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2015]101 號)) and the Notice on Issues Regarding the Implementation of Differentiated Individual Income Tax Policy for Dividends and Bonuses of Listed Company (Cai Shui [2012] No. 85) (《關於實施上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2012]85 號)) jointly issued by the Ministry of Finance, the State Administration of Taxation and the CSRC, for individual shareholders, if the term of shareholding (a period from the date of acquisition of the listed shares on public offering and transferring markets by the individual to the date one day before the shares are transferred and settled) is within one month (inclusive), all the dividend and bonus incomes thereof are counted as taxable income at the effective tax rate of 20%. If the term of shareholding is between one month and one year (inclusive), temporarily, 50% of the dividend and bonus incomes are counted as taxable income at the effective tax rate of 10%. If the term of shareholding is over one year, temporarily, the dividend and bonus

incomes are exempted of individual income taxes. When dividends and bonuses are distributed by a listed company, such company, temporarily, shall not withhold or pay any individual income taxes on behalf of the individuals whose term of shareholding is within one year (inclusive), instead, the taxable incomes shall be calculated by the securities registration and settlement company based on the term of shareholding when the individual transfers those shares and the company shall withhold and pay the taxes through the securities registration and settlement company. For dividend and bonus incomes obtained by securities investment funds from listed companies, the individual income taxes thereof are calculated and levied pursuant to the provisions in the document of Cai Shui [2015] No. 85 (財稅[2012]85號文).

For Qualified Foreign Institutional Investors (QFII), pursuant to provisions in the Notice on Issues Regarding Withholding and Payment of Corporate Income Taxes when PRC Resident Enterprises Distribute Dividends, Bonuses and Interests to the QFII (Guo Shui Han, [2009] No. 47) (《關於中國居民企業向QFII 支付股息、紅利、利息代扣代繳企業所得稅有關問題的通知》(國稅函[2009]47 號)) issued by the State Administration of Taxation, corporate income taxes are withheld and paid by the listed company at the uniform tax rate of 10%. If the QFII shareholder intends to claim the preferential treatment as stipulated in tax treaties (arrangements) after obtaining dividend and bonus incomes, application for tax refund can be submitted to the governing tax authority after obtaining such dividends and bonuses in accordance with the regulations.

Pursuant to the Notice on Tax Policy Regarding Shanghai-Hong Kong Stock Connect Pilot Programs (Cai Shui [2014] No. 81) (《關於滬港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[2014]81號)) issued by the Ministry of Finance, the State Administration of Taxation and the CSRC, for dividend and bonus incomes obtained by investors (including enterprises and individuals) in the Hong Kong market from investing in A shares listed on the SSE, the implementation of differentiated taxation is suspended before the Hong Kong Securities Clearing Co. Ltd. meets the conditions of providing identification, term of shareholding and other specific data of investors to the CSDC; the income taxes thereof are withheld and paid by the listed company at the rate of 10%, which should be duly declared to the governing taxation authority. For Hong Kong investors who are tax residents of foreign countries that have entered into a tax treaty with the PRC specifying an income tax rate for dividend and bonus incomes below 10%, the investing enterprises or individuals may by themselves or entrust a withholding agent on their behalf to apply to the governing tax authority of the listed company to claim the preferential treatment as stipulated in such tax treaties. Upon the verification and approval of the governing tax authority, taxes shall be refunded based on the discrepancy between the levied taxes and the taxes payable pursuant to the tax rate of the tax treaty.

For institutional investors, the taxes on their dividend and bonus incomes shall be paid by themselves.

H Shareholders

Pursuant to the Notice of the State Administration of Taxation on Matters Concerning the Levy and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No.045 (Guo Shui Han [2011] No.348), dividend and bonus income received by overseas resident individual shareholders who hold shares issued by domestic non-foreign invested enterprises in Hong Kong is subject to the payment of individual income tax according to the items of "interests, dividend and bonus income", which shall be withheld and paid by the withholding agents according to relevant laws. The overseas resident individual shareholders who hold shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries where they reside and China and the tax arrangements between Mainland and Hong Kong (Macau). The tax rate for dividends 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, generally withhold individual income tax at the rate of 10%, and are not required to file an application. If the tax rate for dividends is not equal to 10%, the following

Chapter 5: Major Events

provisions shall apply: (1) for citizens from countries which have entered into tax agreements stipulating a tax rate of lower than 10%, the withholding agents can file applications on their behalf to claim the relevant agreed preferential treatments, and upon approval by the governing tax authorities, the excess tax amounts withheld will be refunded; (2) for citizens from countries which have entered into tax agreements stipulating a tax rate of higher than 10% but lower than 20%, the withholding agents will withhold the individual income tax at the agreed-upon effective tax rate when distributing dividends, and are not required to file an application; (3) for citizens from countries without tax agreements or under other situations, the withholding agents will withhold the individual income tax at a tax rate of 20% when distributing dividends.

Pursuant to the Circular on Questions Concerning Withholding of Enterprise Income Tax for Dividends Distributed by Resident Enterprises in China to Non-resident Enterprises Holding H Shares of the Enterprises (Guo Shui Han [2008] No. 897) (《國家稅務總局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 and pay enterprise income tax at a flat rate of 10%.

Under the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by us.

Shareholders of the Company shall pay the relevant taxes and/or be entitled to the tax relieves in accordance with the above provisions.

(III) Plan or proposal for distribution of dividend for ordinary shares or conversion of capital reserve into share capital of the Company for the last three years (including the Reporting Period)

Unit: RMB Currency: RMB

Year	Bonus share for every 10 shares (share)	Dividend for every 10 shares (RMB) (tax inclusive)	Conversion into share capital for every 10 shares (share)	Cash dividends (tax inclusive)	Net consolidated profit attributable to holders of ordinary shares of the Company for the year as stated in the consolidated financial statements	Percentage of net consolidated profit attributable to holders of ordinary shares of the Company as stated in the consolidated financial statements (%)
2016	—	1.89	—	1,266,190,816.78	5,403,450,595.57	39.99
2015	—	2.47	—	1,434,609,475.66	10,908,748,759.12	13.15
2014	—	2.65	—	1,539,155,915.19	3,850,672,721.41	39.97
2016 interim	—	1.54	—	894,452,871.47	2,241,825,030.22	39.90
2015 interim	—	5.04	—	2,927,300,306.62	7,314,665,463.76	40.02
2014 interim	—	1.53	—	888,644,735.94	1,364,502,449.64	65.13

Note:

- The 2016 annual and interim cash dividend of the Company amounted to RMB2,160,641,234.65 in aggregate, representing 39.99% of the net consolidated profit attributable to the owners of the parent company for 2016;
- The 2015 annual and interim cash dividend of the Company amounted to RMB4,361,909,782.28 in aggregate, representing 39.99% of the net consolidated profit attributable to the owners of the parent company for 2015;
- In early 2014, the Company did not distribute profit for 2013 in order to facilitate the private placement of its shares. After the completion of the private placement, the Company distributed 40% of the net profit attributed to the shareholders of the Company for 2013 as cash dividend in the middle of 2014.

II. PERFORMANCE OF UNDERTAKINGS

(I) Undertakings of obligors, including the de facto controller of the Company, shareholders, related parties, acquiror and the Company during or subsisting at the time of the Reporting Period

Background	Type	Party(ies)	Details	Effective time and validity period	Whether the undertakings have a performance deadline	Whether the undertakings have been strictly performed in a timely manner	Reason for not performed in a timely manner	Follow-up actions, in case of undertakings not performed in a timely manner
Undertaking related to the initial public offering	Prevention of competition	Jisheng Investment	Pursuant to the Non-competition Undertaking Letter in favor of the Company, Jisheng Investment has undertaken that it will not engage in any business which competes directly with the existing principal businesses of the Company and its subsidiaries (whether wholly-owned or not) in accordance with laws and administrative regulations.	Upon the public offering and listing of the A Shares of the Company, and as long as Jisheng Investment is a shareholder of the Company.	Yes	Yes	—	—
Undertaking related to the initial public offering	Prevention of competition	China Merchants Group	Pursuant to the Non-competition Undertaking Letter in favor of the Company, China Merchants Group has undertaken that it and the legal entities beneficially controlled by it will not establish new securities companies or control other securities companies through acquisition in the PRC. For businesses of the same or similar nature to securities companies engaged by the non-securities companies controlled by China Merchants Group, it will make sufficient disclosure in accordance with laws upon the public offering of the shares of the Company. China Merchants Group shall not harm the interests of the Company and other shareholders by virtue of its role of de facto controller of the Company.	Upon the public offering and listing of the A shares of the Company, and as long as China Merchants Group is the de facto controller of the Company.	Yes	Yes	—	—
Undertakings related to initial public offering	Lock-up of shares	China Merchants Group	H Shares subscribed under the Global Offering shall be locked up for three years commencing from the listing date of H Shares of the Company.	Three years from the listing date of H Shares of the Company	Yes	Yes	—	—
Undertaking related to initial public offering	Lock-up of shares	Cornerstone investors of H Shares of the Company (note)	The cornerstone investors of H Shares of the Company have undertaken that they will not sell, directly or indirectly, any H Shares purchased under the relevant cornerstone investment agreement and any resulting shares or other securities of the Company within the six months upon listing of the H Shares of the Company on October 7, 2016 without the prior and written consent of the Company and China Merchants Securities (HK) Co., Limited.	Six months	Yes	Yes	—	—

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Background	Type	Party(ies)	Details	Effective time and validity period	Whether the undertakings have a performance deadline	Whether the undertakings have been strictly performed in a timely manner	Reason for not performed in a timely manner	Follow-up actions, in case of undertakings not performed in a timely manner
Undertakings related to re-financing	Lock-up of shares	CM Finance Investment	No transfer of A Shares subscribed in the non-public offering is allowed within 60 months from the date of completion of the non-public offering of A Shares in May 2014.	60 months	Yes	Yes	—	—
Undertakings related to re-financing	Lock-up of shares	China Ocean Shipping (Group) Company and Hebei Port Group Co., Ltd.	No transfer of A Shares subscribed in the non-public offering is allowed within 36 months from the date of completion of the non-public offering of A Shares in May 2014.	36 months	Yes	Yes	—	—
Other undertakings to minority shareholders	Others	China Merchants Group and China Ocean Shipping (Group) Company	When there is unusual price movement in the shares of the Company, they will not reduce their shareholdings in the Company and will increase their shareholdings in accordance with laws when appropriate.	When there is unusual price movement in the shares of the Company	Yes	Yes	—	—

Note: List of the cornerstone investors of H Shares of the Company is set out in the Announcement of the Results of Offering of H Shares (《H股發售結果公告》) published on the websites of the Hong Kong Stock Exchange website and the Company's website.

III. APPROPRIATION AND RECOVERY OF FUNDS DURING THE REPORTING PERIOD

Applicable Not Applicable

IV. EXPLANATION ON THE "QUALIFIED AUDIT REPORT" OF THE ACCOUNTING FIRM

Applicable Not Applicable

V. EXPLANATION ON THE REASONS FOR AND EFFECTS OF CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR CORRECTION TO MATERIAL ACCOUNTING MISTAKES

(I) Explanation on the reasons for and effects of changes in accounting policies and accounting estimates

Financing business of the Company includes margin financing and securities lending, securities-backed lending, stock repurchase business and other financing businesses. Originally, the allowance for impairment of the above financing businesses was made on the following basis: "in respect of margin financing and securities lending and financial assets held under resale agreement, outstanding amounts overdue or amounts with impairment indication shall be transferred to receivables, and provision for bad debt shall be provided based on specific identification; in respect of customers' accounts subject to forced liquidation or disposal on default, or accounts with maintenance margin ratio/collateral coverage ratio below 100% as at the end of the period, provisions for bad debts shall be recognized in full on the difference between the amount of debts and the carrying amount of the assets of customers".

In order to reflect the changes in the recoverability and risk profile of the assets under the financing business of the Company more timely and objectively, pursuant to the decisions made at the 35th meeting of the fifth session of the Board of the Company on April 29, 2016, the impairment indicators of the financing business of the Company were adjusted as follows:

The Company shall determine whether there is any indication of impairment for relevant financing businesses based on factors including the credit status of customers, securities pledged, collateral ratio, and ability and willingness of repayment.

1. In respect of assets under financing businesses with impairment indication, impairment test shall be conducted and allowance for impairment shall be recognized on an individual basis.
2. For other assets under financing businesses, allowance for impairment shall be recognized based on a certain percentage for each group of assets with similar risk characteristics.

The above change in the percentage of allowance for bad debts regarding financing business constitutes a change in accounting estimation. According to the Accounting Standards for Enterprises No. 28 – Changes in Accounting Policy and Estimation and Correction of Errors (《企業會計準則第28號 — 會計政策、會計估計變更和差錯更正》), such change will be adopted prospectively, without any retrospective adjustment to the financial information disclosed previously, and there is no impact on the financial position and operating results of the Company for the previous years.

(II) Analysis of reasons and impacts of corrections of major accounting errors of the Company

The Company does not have any major accounting errors.

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VI. Appointment and Removal of Accounting Firms

Unit: RMB10,000 Currency: RMB

	Current appointment
Name of domestic accounting firm	ShineWing Certified Public Accountants LLP
Remuneration	206.5
Term of appointment	5 years
Name of international accounting firm	SHINEWING (HK) CPA Limited
Remuneration	100
Term of appointment	1 year

	Name	Remuneration
Accounting firm for internal control and auditing	ShineWing Certified Public Accountants LLP	45

Appointment and removal of accounting firms

The Company has reappointed ShineWing Certified Public Accountants LLP as the auditor of the Company for 2016. ShineWing Certified Public Accountants LLP has been providing annual auditing service to the Company for 5 consecutive years since 2012.

SHINEWING (HK) CPA Limited is the Hong Kong branch of ShineWing Certified Public Accountants LLP, responsible for providing relevant auditing service to the Company based on IFRSs.

VII. RISKS OF SUSPENSION OF LISTING

During the Reporting Period, the Company was not exposed to any risk which would result in suspension of listing.

VIII. TERMINATION OF LISTING AND REASONS

During the Reporting Period, the Company did not encounter any situations or reasons that would result in termination of listing.

IX. BANKRUPTCY AND RESTRUCTURING

During the Reporting Period, the Company did not have any matters related to bankruptcy and restructuring.

X. MATERIAL LITIGATION OR ARBITRATION

The Company did not have any material litigation or arbitration during the Reporting Period.

XI. PUNISHMENT AND REMEDIAL MEASURES OF THE LISTED COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, DE FACTO CONTROLLER AND PURCHASER

On April 8, 2016, CSRC Guangxi Office issued the Decision of CSRC Guangxi Office regarding the Order of Rectification against the Minzu Boulevard Branch in Nanning of China Merchants Securities Co., Ltd. ([2016] No.7) (《廣西證監局關於對招商證券股份有限公司南寧民族大道證券營業部採取責令改正措施的決定》[2016]7號), which ordered the Company to take rectification measures within prescribed period regarding the procedural deficiencies in customer due diligence, and the failure in handling the use of a credit securities account by a non-account holder invited by a certain account holder according to the relevant operating rules and reporting the same to competent authority. The Company completed the rectification within the prescribed period and submitted the rectification report to the regulatory authority. The measures adopted included: enhancing follow-up measures and quality of client identity verification procedures when opening new accounts and providing subsequent services of margin financing and securities lending in order to keep track of clients' identity effectively; and strict compliance with the reporting system in relation to securities accounts should non-compliant conduct be identified when providing customer services.

XII. INTEGRITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLER DURING THE REPORTING PERIOD

During the Reporting Period, the Company and its de facto controller were not subject to any outstanding court order or large amount of overdue liabilities.

XIII. SHARE INCENTIVE SCHEME, EMPLOYEE STOCK OPTION PLAN OR OTHER EMPLOYEE INCENTIVE PLAN AND THEIR INFLUENCES

During the Reporting Period, the Company did not have any share incentive scheme, employee stock option plan or other employee incentive plan.

XIV. MATERIAL CONTRACTS AND THEIR PERFORMANCE

(I) Custody, contracting and leasing

During the Reporting Period, the Company did not enter into any material custody, contracting or leasing.

Chapter 5: Major Events

(II) Guarantees

Unit: RMB Currency: RMB

Guarantees provided by the Company (excluding guarantees for subsidiaries)													
Guarantor	Relationship between the guarantor and the listed company	Guarantee	Amount of guarantee	Date of guarantee (date of agreement)	Effective date of guarantee	Expiry date of guarantee	Types of guarantee	Completion of guarantee	Guarantee overdue	Outstanding amount of guarantee overdue	Counter-guarantee	Guarantee for related parties	Relationship
—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total guarantees provided during the Reporting Period (excluding guarantees for subsidiaries)													0
Balance of guarantees as at the end of the Reporting Period(A) (excluding guarantees for subsidiaries)													0
Guarantees for subsidiaries by the Company and its subsidiaries													
Total guarantees provided for subsidiaries during the Reporting Period													2,440,138,994.02
Balance of guarantees for subsidiaries as at the end of the Reporting Period													6,718,214,983.05
Total guarantees (including guarantees for subsidiaries)													
Total guarantees													
% of net assets of the Company													11.23
Including:													
Guarantees for shareholders, de factor controller and their related parties (C)													0
Debt guarantee provided directly or indirectly for companies with gearing ratio over 70% (D)													0
Amount of guarantees in excess of 50% of the net assets (E)													0
Total amount of the above three items of guarantees (C+D+E)													0
Outstanding guarantees subject to joint and several liabilities													—
Details of guarantees							<p>As at the end of the Reporting Period:</p> <ol style="list-style-type: none"> On February 13, 2015, the Resolution regarding the Provision of Guarantee or Counter Guarantee in favour of China Merchants Securities International Company Limited and its Wholly-Owned Subsidiaries was passed at the first extraordinary shareholders' meeting of 2015, which approved the provision of guarantee or counter guarantee of up to HKD5 billion (or its USD equivalent) in aggregate in favour of CMS International and its subsidiaries for loans or application of credit lines from overseas banks for a term of 5 years, with the letters of guarantee or counter guarantee (or other document with equivalent force) to be issued in tranches. Pursuant to the above resolution, on May 29, 2015, the Company provided a counter-guarantee of RMB1.5 billion to the Bank of China for the benefit of CMS International, a wholly-owned subsidiary of the Company, to secure a foreign bank credit; Pursuant to the above resolution, on July 23, 2015, the Company provided a counter-guarantee of RMB170 million to China Merchants Bank for the benefit of CMS International, a wholly-owned subsidiary of the Company. The guarantee expired on June 20, 2016; The provision of guarantees in an amount of RMB2,718,214,983.05 for bank loans of China Merchants Securities (HK) Co., Limited and China Merchants Securities (UK) Limited, wholly-owned subsidiaries of the Company, were approved by the board of directors of CMS International between January 2013 to October 2016; The provision of guarantees in favour of the transaction counterparties under the respective ISDA Agreement, CSA Agreement and other purchase and sales agreements entered into by China Merchants Securities Investment Management (HK) Co., Limited and China Merchants Securities (UK) Limited, wholly-owned subsidiaries of the Company, were approved by the board of directors of CMS International between October 2013 to July 2016; The provision of guarantees for China Merchants Futures (HK) and China Merchants Securities (UK) Limited, wholly-owned subsidiaries of the CMS International, under the Master Clearing Agreement were approved by the board of directors of CMS International between September 2013 to April 2015; On January 20, 2014, the Resolution regarding the Provision of Net Assets Guarantee for an Asset Management Subsidiary to be Established by the Company was approved at the first extraordinary meeting of the fourth session of the Board in 2014, which allowed the Company to provide net assets guarantee of up to RMB500 million for an asset management subsidiary, CMS Asset Management. On September 27, 2016, the Resolution regarding the Increase in Commitment for Net Assets Guarantee in favour of the Asset Management Subsidiary by the Company was approved at the 42th meeting of the fifth session of the Board in 2014, which allowed the Company to increase the net assets guarantee in favour of CMS Asset Management by no more than RMB3 billion in stages (together with the original guarantee of RMB500 million, the maximum amount shall be no more than RMB3.5 billion), and authorized the management of the Company to perform in stages, or terminate, such net assets guarantee within the above limit based on the actual operating condition of CMS Asset Management. In 2016, the Company provided an additional of RMB2 billion of net assets guarantee for CMS Asset Management, a wholly-owned subsidiary, and the balance of net assets guarantee provided for CMS Asset Management as at the end of 2016 amounted to RMB2.5 billion. 						

(III) Other material contracts

During the Reporting Period, the Company did not have any other material contracts.

XV. OTHER MAJOR EVENTS

(I) Changes in qualification of each line of business during the Reporting Period

For details of changes in qualification of each line of business during the Reporting Period, please see “Business Qualifications of the Company” under “Chapter 2 Corporate Profile and Key Financial Indicators” in this report.

(II) Issue of H Shares of the Company and Listing on the Hong Kong Stock Exchange

For details, please see “Notes on changes in ordinary shares” in chapter 6 of this report.

(III) Changes in Directors and senior management

For details, please see “Chapter 7 Directors, Supervisors, Senior Management and Employees” in this report and the announcement of the Company on the SSE website.

(IV) Relationship with investors during the Reporting Period

During the Reporting Period, the Company had one-on-one and one-on-many contacts with 296 local and international institutional investors on 39 occasions at investment strategy seminars and forums organized by domestic and foreign securities firms. We had communicated with more than 122 investors via email, telephone and shareholders’ general meeting.

In face of the unfavourable global capital market with severe fluctuation, the Company introduced the unique investment merits of China Merchants Securities to more than 100 prominent investment companies face-in-face in Asia, Europe, America and the Middle East through three global non-trading and official roadshows to enhance their understanding of the Company. We attracted 11 quality cornerstone investors, including PICC Life Insurance, Chow Tai Fook Enterprise of the CHENG Yu-tung family, the China Life Insurance Company and Mr. MA Huateng, the founder and president of Tencent. Since the issue of the Company’s H Share prospectus on September 27, 2016, the Company has been keen in communicating with analysts and investors in respect of our future internationalization strategies and the establishment of a corporate governance meeting international standard to fully demonstrate the investment value of the Company.

(V) Account management

The Company manages the accounts in accordance with the CSRC and the CSDC, and further enhanced our account management mechanism.

According to the statistics of the internal data centre of the Company, as at December 31, 2016, there were 6,230 unqualified capital accounts, 6,362 unqualified securities accounts, 1,079,886 dormant capital accounts, 1,653,989 dormant securities accounts, 53 securities accounts under freezing order, 1,258 securities accounts under freezing order, 570 risk disposal capital accounts (including dormant accounts of companies to be disposed of), 2,761 risk disposal securities accounts (including dormant accounts of companies to be disposed of) and 69,879 capital accounts under the A share capital accounts and securities accounts of the Company.

The Company will further enhance the management on accounts by adopting effective management measures in relation to the supervision and inspection of accounts of the branches. The Company will also strictly implement the accountability system to effectively manage accounts.



Chapter 5: Major Events

(VI) Important matters after the Balance Sheet Date

1. *Issuance of perpetual subordinated bonds*

From January 2017 to the date of this report, the Company issued tranch I and tranch II of 2017 perceptual subordinated bonds of RMB4 billion and RMB5 billion with the coupon rates of 5.18% and 5.15%, respectively, both attached with an option to renew upon the expiry of the fifth year exercisable by the issuer.

2. *Profit distribution*

On March 28, 2017, the 47th meeting of the fifth session of the Board of the Company considered and approved the proposal on the profit distribution plan of the Company for 2016: a cash dividend of RMB1.89 (tax inclusive) for every 10 shares. Such resolution is subject to approval at the shareholder's general meeting of the Company.

3. *Issuance of securities company short-term corporate bonds*

From January 2017 to the date of this report, the Company completed the issues of tranch I, tranch II and tranch III of 2017 securities company short-term corporate bonds of RMB3.8 billion, RMB3.0 billion and RMB2.0 billion, respectively. The maturities of the bonds are four months, 100 days and five months, and coupon rates are 3.98%, 4.48% and 4.60%, respectively.

4. *Exercise of redemption option of subordinated bonds*

On March 20, 2017, the Company exercised the redemption option of subordinated bonds "15 China Merchants 01(15招商01)". Upon completion, "15 China Merchants 01(15招商01)" was delisted from the Electronic Platform of Fixed-income Securities of the SSE. On March 1, 2017, the Company published the Reminder regarding the Exercise of Redemption Option by the Issuer for Subordinated Bonds "15 China Merchants 03" (《關於行使「15招商03」次級債券發行人贖回選擇權的提示性公告》) on the Shanghai Stock Exchange website, informing the holders of "15 China Merchants 03 (15招商03)" regarding the details of redemption. The Company will exercise the redemption option on April 13, 2017.

5. *Capital increase of subsidiary*

On February 10, 2017, the 46th meeting of the fifth session of the Board of the Company considered and approved the proposal regarding the capital injection of HK\$2.6 billion (or RMB equivalent) by the Company to its wholly-owned subsidiary, CMS International, and the capital injection of HK\$2.0 billion by CMS International to its wholly-owned subsidiary, China Merchants Securities (HK) Co., Limited. Pursuant to which, the Company was allowed to inject capital of HK\$2.6 billion (or RMB equivalent) to CMS International, while CMS International was allowed to inject capital of HK\$2.0 billion to China Merchants Securities (HK) Co., Limited, and the operation management of CMS International was authorized to handle matters related to such capital increase pursuant to the relevant provision.

XVI. FULFILLMENT OF SOCIAL RESPONSIBILITIES

(I) Poverty alleviation

1. Targeted poverty alleviation

Pursuant to the “Decision of the PRC State Council on Poverty Alleviation” (Zhong Fa [2015] No. 34) (《中共中央國務院關於打贏脫貧攻堅戰的決定》(中發[2015] 34號)) and the objectives of the working conference of the central committee on poverty alleviation through development, the party committee of the CSRC has formulated general working plans. In active response to the appeal of the government and the CSRC, the Company has made full use of the characteristics of the securities industry and carried out targeted poverty alleviation.

In order to enhance the quality of poverty alleviation work, the Company has conducted thorough research and inspection of the nation’s most impoverished counties to understand their actual conditions and needs, and made initial selections based on the situation of the Company. Pursuant to the decisions made by the President’s Office, the Company entered into poverty alleviation agreements with two counties, namely, Neixiang County in Nanyang of Henan Province and Shitai County in Chizhou of Anhui Province, on November 10, 2016, to confirm their status as the targets of the Company’s poverty alleviation work.

Adhering to the principle that “a man shall be taught how to fish instead of being given fish”, the targeted poverty alleviation of the Company is designed to help the impoverished counties to rebuild their own growth momentum and strengths through assistance in the development of industry, finance, consumption and education. Based on the specific needs of these counties, the Company has fully utilized its professional advantages in financial services and allocated resources in terms of capital, projects, information, management, techniques and intellect to improve the economic conditions of such counties in a creative manner.

To ensure an orderly implementation of poverty alleviation, the Company has established relevant mechanism and set up a leading panel to regularly examine the achievement and push for progress of the poverty alleviation works. Under the guidance of the President’s Office, a project team comprising personnel from various departments has been established for each impoverished county to effectively coordinate resources from relevant departments in response to the needs of poverty alleviation and accomplish the mission of poverty alleviation. In addition, poverty alleviation has been incorporated into the KPI assessment on the participating departments and personnel to ensure effective performance of works related to poverty alleviation.

2. Summary of poverty alleviation works of the year

(1) Establishment of poverty alleviation mechanism

- ① Internal poverty alleviation work conferences were held and all employees of the Company took part in poverty alleviation;
- ② A leading panel and a working group were set up, and temporary project teams were set up for each of the impoverished counties to ensure orderly implementation of poverty alleviation;
- ③ KPIs based on the poverty alleviation work done by relevant departments were formed in order to motivate their enthusiasm in poverty alleviation.

Chapter 5: Major Events

(2) Current poverty alleviation activities

① Finance:

- A. Shanghai Jiajie Eco-Technology Co., Ltd. (上海嘉潔生態設計研究有限公司) has been invited to set up a branch in Shitai and provided with training services in relation to listing and stock underwriting. Currently, the Company has entered into a master service agreement with Shanghai Jiajie Eco-Technology Co., Ltd., and preliminary due diligence investigation has commenced, which is expected to be filed in 2018. The details regarding size of funds to be raised and other issues have not been finalized yet.
- B. The Company has planned to establish a securities branch in Neixiang. At present, approval for the opening of new branch has been obtained with site selection completed. The construction of branch is in progress.

② Education:

- A. The Company has assigned a business team to conduct operational review and organize relevant financial trainings for 18 enterprises in Shitai. Trainings in respect of the capital market were organized in Shanghai for the leaders of the general office and financial office of Neixiang county government. The topics of trainings include coaching on capital operation for listed companies.
- B. The Company has made donation to construct 14 classrooms in the above two counties with literacy education courses and teacher training programs. In 2016, RMB2.1 million of charity funds was donated. The Company will embark on the construction and operation in 2017.

- ③ Industrial development: the Company has introduced procurement channel for the 100,000 mu of chrysanthemum in Neixiang by recommending it to Bao He Tang (保合堂) as a production base for medically-used chrysanthemum.

For details of the poverty alleviation work of the Company in 2016, please see the relevant disclosures contained in the 2016 Social Responsibility Report of China Merchants Securities Co., Ltd. (《招商證券股份有限公司2016年度社會責任報告》) published by the Company on the same date of this report on the SSE website.

3. Breakdown of the targeted poverty alleviation activities in 2016

Unit: RMB10,000 Currency: RMB

Indicators	Amounts and Details
I. Total	—
Including: Fund	233.4
II. By category	—
Education	—
Including: Total subsidies to students in need	23.4
Number of students subsidized	30
Funds used for improvement of educational resources in the impoverished areas	210

4. *Subsequent plans on targeted poverty alleviation*

The plan for targeted poverty alleviation in Neixiang and Shitai of the Company in 2017 is as follows:

(1) Tourism

- ① The Company will assist Shitai in applying for the “Beautiful Villages (美麗鄉村)” project of the China Foundation for Poverty Alleviation, and provide professional services to completely reform the administrative villages in Shitai in order to promote the development of featured tourism.
- ② The Company will utilize its own media resources to promote the tourism resources of Shitai and Neixiang in order to attract more tourists.

(2) Agriculture

- ① Through cooperation with “Pagoda (百果園)” and other sales channels, sales channels will be developed for agricultural products in Neixiang and Shitai with improvement in quality and selling price.
- ② By coordinating with “Shanpingongshe (善品公社)” in packing and promoting the low-yield agricultural products of Shitai and Neixiang, the fame of these counties will be enhanced through charitable activities.
- ③ Through cooperation with Jinhe Tech (金禾天成) and other enterprises engaging in hi-tech development of agriculture, the production volume and quality of Shitai and Neixiang will be improved.

(3) Finance and introduction of investment

- ① Research will be conducted to identify potential enterprises that can be relocated and corresponding relocation plans will be implemented upon feasibility study.
- ② Training will be organized for enterprises in Shitai and Neixiang to facilitate their listing process on the NEEQ.
- ③ Business seminars on the development of different characteristic industries in the two counties, such as the eco-environmental protection industry in Shitai and the aquaculture and animal husbandry in Neixiang, will be organize to attract corporate investments and establishment of new plants.

(4) Education and Training

- ① 7 dream centers will be constructed in each of Neixiang and Shitai with literacy education courses and teacher training programs.
- ② Tailor-made training programmes will be designed for county-level government officials and employees in enterprises in Neixiang and Shitai.

(II) Performance of social responsibilities

Please refer to the 2016 Corporate Social Responsibility Report of China Merchants Securities Co., Ltd. (《招商證券股份有限公司2016年度社會責任報告》) published by the Company on the same date of this report on the SSE website.

Chapter 5: Major Events

(III) Donation

In 2016, the charity donation of the Company amounted to RMB10 million.

(IV) Environmental protection of companies and subsidiaries categorized as key pollutant discharging units announced by environmental protection authorities

During the Reporting Period, the Company was not a key pollutant discharging unit as announced by environmental protection authorities.

XVII. CONVERTIBLE CORPORATE BONDS

During the Reporting Period, the Company did not have any convertible corporate bonds.

XVIII. OTHER DISCLOSURES

(I) Sufficiency of public float of H Shares

As of the latest practicable date prior to the printing of this report, based on the information publicly available and to the best knowledge of the Directors, the Directors believe that the public float of the Company satisfied the minimum public float requirement prescribed by the Hong Kong Stock Exchange, i.e. 13.62% of the total issued share capital of the Company.

(II) Directors' interests in business competing with the Company

As of the latest practicable date prior to the printing of this report, none of the Directors had any interest which competes or is likely to compete, either directly or indirectly, with the business of the Company.

(III) Directors' and Supervisors' service contracts

None of the Directors or Supervisors had a service contract with the Company or its subsidiaries which is not terminable by the employer within one year without payment of compensation (other than statutory compensation).

(IV) Directors' and Supervisors' interests in transactions, arrangements or contracts of significance

During the Reporting Period, none of the Directors, Supervisors or any entity connected with any Director or Supervisor of the Company had any material interests, whether directly or indirectly, in any transaction, arrangement or contract of significance entered into by the Company or its subsidiaries.

(V) Permitted indemnity provision

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the Reporting Period. The Company has arranged appropriate insurance coverage for potential legal actions and liabilities against the Directors, the Supervisors and the senior management.

(VI) Pre-emptive share option arrangement

Pursuant to the PRC laws and Articles of Association, shareholders of the Company are not entitled to any pre-emptive share option.

(VII) Directors' responsibility statement of risk management, internal control and compliance management

The Board shall assume ultimate responsibility of the risk management, internal control and compliance management of the Group, and shall be responsible for assessing the effectiveness of such systems. Given that the objectives of such risk management and internal control systems are to manage, rather than eliminate, the risk of failure to achieve the business objectives, the Board may only provide reasonable instead of absolute assurance that such systems and internal control can prevent any material misstatement or loss. For details regarding the risk management of the Group, please see "Risk Management" under "Chapter 4 Report of the Board of Directors" in this report.

Chapter 6: Changes in Ordinary Shares and Shareholders

I. Changes in Ordinary Share Capital

(I) Table of changes in ordinary shares

1. Table of changes in ordinary shares

Unit: share

	Before		Changes (+,-)					After	
	Number of shares	Percentage (%)	New issue	Bonus shares	Shares transfer from reserve	Others	Subtotal	Number of shares	Percentage (%)
I. Restricted shares	1,005,035,700	17.30	—	—	—	—	—	1,005,035,700	15.00
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned legal person shares	1,005,035,700	17.30	—	—	—	—	—	1,005,035,700	15.00
3. Other domestic shares	—	—	—	—	—	—	—	—	—
Including: Domestic non-state-owned legal person shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	—	—	—	—	—	—	—	—	—
4. Foreign shares	—	—	—	—	—	—	—	—	—
Including: Overseas legal person shares	—	—	—	—	—	—	—	—	—
Overseas natural person shares	—	—	—	—	—	—	—	—	—
II. Tradable unrestricted shares	4,803,099,829	82.70	891,273,800	—	—	12,982	891,286,782	5,694,386,611	85.00
1. Ordinary shares denominated in RMB	4,803,099,829	82.70	—	—	—	-89,114,398	-89,114,398	4,713,985,431	70.37
2. Domestic listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas listed foreign shares	—	—	891,273,800	—	—	89,127,380	980,401,180	980,401,180	14.63
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of ordinary shares	5,808,135,529	100.00	891,273,800	—	—	12,982	891,286,782	6,699,422,311	100.00

Note: The above data is the changes in shares of the Company for 2016.

2. Notes on changes in ordinary shares

In order to fulfil the capital needs for business development of the Company, facilitate the internationalization strategy and further enhance the corporate governance level, the Company submitted an application to the CSRC for the public offering and listing of overseas listed foreign shares (H Shares) on the Main Board of the Hong Kong Stock Exchange (the "Listing") in April 2016 and received the Notice of the CSRC on the Acceptance of the Administrative Approval Application (No. 160919) (《中國證監會行政許可申請受理通知書》(160919號)) from the CSRC on April 28. Based on its review on the materials of the administrative approval application for the Listing submitted by the Company according to laws, the CSRC was of the view that the application materials were adequate and in a legitimate format and accepted this administrative approval application.

In accordance with the schedule of the Listing, the Company submitted the application for the Listing to the Hong Kong Stock Exchange on May 12, and published the application proof of the Listing on the Hong Kong Stock Exchange website at the night of May 13.

In August, the Company received the Approval for the Issuance of Overseas Listed Foreign Shares by China Merchants Securities Co., Ltd. (Zheng Jian Xu Ke [2016] No.1735) (《關於核准招商證券股份有限公司發行境外上市外資股的批覆》(證監許可[2016]1735號)) from the CSRC. Pursuant to the Approval, the CSRC permitted the Company to issue no more than 1,178,710,900 new overseas listed foreign shares, all of which were ordinary shares with a nominal value of RMB1 each. Upon the completion of the Listing, the Company will be listed on the Main Board of the Hong Kong Stock Exchange.

On September 8, the Listing Committee of the Hong Kong Stock Exchange conducted a listing hearing to review the application of the Company for the issuance and listing of no more than 1,178,710,900 overseas listed foreign shares on the Main Board of the Hong Kong Stock Exchange.

On September 12, in accordance with the schedule of the Listing, the Company published the post hearing information pack on the Hong Kong Stock Exchange website in accordance with relevant requirements.

On September 27, in accordance with the schedule of the Listing, the Company published and distributed the H Share prospectus in Hong Kong.

In accordance with the relevant provisions of the State Council and the requirements stated in the approval of the SASAC of the State Council and the reply letter of the NSSF, 14 state-owned shareholders of our Company (including CM Finance Investment) were required to transfer to the NSSF part of the state-owned shares (A Shares) of the Company held by them, which in aggregate would be equivalent to 10% of the number of H Shares issued. The shares will be converted to H Shares after the A Shares had been cancelled and shall be deposited into the investor account of the NSSF at the Hong Kong Securities Clearing Company Limited before the H Shares of the Company are listed.

The number of shares (prior to the exercise of the over-allotment option) of the Company held by the above state-owned shareholders and subject to transfer was 89,127,380 A Shares in aggregate. In October 2016, 89,114,398 of the A Shares¹ were cancelled in each of their respective A Share accounts in accordance with the requests from the SASAC of the State Council and the NSSF. Such shares were converted to H Shares and deposited into the investor account of the NSSF at Hong Kong Securities Clearing Company Limited before the H Shares of the Company were listed. The Company had 5,808,135,529 A Shares before the transfer of the state-owned shares, and has 5,719,021,131 A Shares after the transfer.

On October 7, 2016, with the approval of the Hong Kong Stock Exchange, 891,273,800 overseas listed foreign shares (H Shares) with a final offer price of HK\$12.00 per share (excluding brokerage commission of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) were listed and commenced trading on the Main Board of the Hong Kong Stock Exchange. The Chinese abbreviation of the H Shares is “招商證券” and its English abbreviation is “CMSC”. The stock code of the H Shares is “6099”. After the listing, the number of shares of the Company increased to 6,699,422,311 shares, including 5,719,021,131 are A Shares (representing 85.37% of the total share capital of the Company) and 980,401,180 are H Shares (representing 14.63% of the total share capital of the Company).

Note 1: Due to a change in the shareholding by Liaoneng Holdings, the deregistration for 12,982 A Shares which should have been transferred by it has not yet completed.

Chapter 6: Changes in Ordinary Shares and Shareholders

According to the capital verification, the Company issued a total 891,273,800 H Shares with a nominal value of RMB1.00 each at an offer price of HK\$12.00 per share, and received a total proceed of HK\$10,695,285,600.00. After deducting the offering expenses of RMB260,880,864.89, net proceeds amounted to RMB8,947,439,178.14, which included an additional of RMB891,273,800.00 paid-up capital (share capital) and capital reserve of RMB8,056,165,378.14.

On March 27, 2017, deregistration for 12,982 A Shares held by Liaoneng Holdings, an original state-owned shareholder of the Company, was completed. Total share capital of the Company was changed to 6,699,409,329 shares, including 5,719,008,149 A Shares and 980,401,180 H Shares, representing 85.37% and 14.63% of the total share capital of the Company, respectively. For details, please see the Announcement on the Replenishment of State-owned Shares for Fulfilment of Transfer Obligation by Liaoning Liaoneng Holdings Co., Ltd., an original State-Owned Shareholders (《關於原國有股東遼寧遼能實業有限公司補充履行國有股轉持義務的公告》) of the Company dated March 27, 2017 published on the SSE website.

3. Impact of changes in ordinary shares on financial indicators including earnings per share and net assets per share in the latest year and in the latest period

In October 2016, upon the completion of the public issue of the H Shares of the Company, the total share capital of the Company increased by 891,273,800 shares. The calculation of the earnings per share during the Reporting Period was based on the weighted average of the total share capital according to the time when changes in shares occurred. No adjustment was needed for calculating the earnings per share for the latest year and the latest period prior to the changes in shares, i.e. 2015 and the third quarter of 2016 respectively. Net assets per share attributable to holders of ordinary shares of the Company as per the consolidated statements as at the end of 2016 amounted to RMB8.93. No adjustment was needed for calculating the net assets per share as at the end of the latest year and the end of the latest period prior to the changes in shares, i.e. as at the end of 2015 and the end of the third quarter of 2016 respectively.

(II) Changes in restricted shares

Applicable Not Applicable

II. Issue and Listing of Securities

(I) Issuance of securities during the Reporting Period

Class of shares and their derivative securities	Date of issue	Offer price (or interest rate)	Issuance amount	Date of listing	Number permitted for listing	Date of closing
Ordinary shares						
H Shares	September 30, 2016	HK\$12.00	891,273,800 shares	October 7, 2016	980,401,180 shares	—
Convertible corporate bonds, bonds with warrants and corporate bonds						
The 2016 first tranche of securities companies short-term corporate bonds of China Merchants Securities Co., Ltd.	December 26, 2016	4.65%	RMB1 billion	January 24, 2017	RMB1 billion	April 15, 2017

Issuance of securities during the Reporting Period (bonds with different interest rates within the effective period shall be separately specified):

1. H Share offer

Please refer to the “Notes on changes in ordinary shares” in this section for details.

2. Issuance of short-term corporate bonds of securities companies

In December 2016, the Company received the No Objection Letter for Securities Companies Short-term Corporate Bonds in 2016 of China Merchants Securities Co., Ltd. Meeting Transfer Conditions of SZSE (Shen Zheng Han [2016] No. 836) (《關於招商證券股份有限公司2016年證券公司短期公司債券符合深交所轉讓條件的無異議函》(深證函[2016]836號)) issued by the SZSE. The SZSE has no objection to the application by the Company for the confirmation that its issuance of securities companies short-term corporate bonds of no more than 60% of its net assets is in compliance with the transfer conditions of the SZSE. On December 26, 2016, the issuance of the 2016 first tranche of security company short-term corporate bonds of China Merchants Securities Co., Ltd. was completed with an issuance scale of RMB1 billion at an interest rate of 4.65% for a term of 110 days.

(II) Number of ordinary shares and changes in the shareholding of the Company and changes in assets and liabilities of the Company

During the Reporting Period, the number of shares of the Company increased from 5,808,135,529 to 6,699,422,311 as a result of the listing of its H Shares. The number of A Shares and H Shares amounted to 5,719,021,131 and 980,401,180, respectively, representing 85.37% and 14.63% of the total share capital of the Company, respectively.

On March 27, 2017, Liaoneng Holdings, an original state-owned shareholder of the Company, fulfilled its obligation in respect of the conversion of state-owned shares and completed the deregistration for 12,982 A Shares held by it. The total share capital of the Company was changed to 6,699,409,329 shares, including 5,719,008,149 A Shares (representing 85.37% of the total share capital of the Company) and 980,401,180 H Shares (representing 14.63% of the total share capital of the Company).

For details of the changes in the assets and liabilities of the Company, see “Chapter 4 Report of the Board of Directors – Analysis on assets and liabilities” of this report.

(III) Shares held by employees

The Company does not have any shares held by employees.

III. Shareholders and Controlling Shareholder

(I) Number of Shareholders

Number of holders of the ordinary shares as of the end of the Reporting Period	114,763
Number of holders of the ordinary shares as of the end of the month preceding the disclosure of the annual report	113,031

Chapter 6: Changes in Ordinary Shares and Shareholders

(II) Shareholdings of the top ten shareholders and the top ten shareholders of tradable shares (or holders of unrestricted shares) at the end of the Reporting Period

Unit: share

Top ten shareholders							
Name of shareholder (in full)	Changes during the Reporting Period	Number of shares	Percentage (%)	Number of restricted shares	Pledged or locked-up		Nature of shareholders
					Status	Number	
China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	-32,996,372	1,402,114,293	20.93	815,308,642	Nil	—	State-owned legal person
Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)	-30,658,869	1,310,719,131	19.56	—	Nil	—	State-owned legal person
HKSCC Nominees Limited (香港中央結算(代理人)有限公司)	979,967,580	979,967,580	14.63	—	Nil	—	Overseas legal person
China Ocean Shipping (Group) Company (中國遠洋運輸(集團)總公司)	-9,098,921	418,948,014	6.25	124,453,374	Nil	—	State-owned legal person
Hebei Port Group Co., Ltd. (河北港口集團有限公司)	-18,712,129	264,063,640	3.94	65,273,684	Nil	—	State-owned legal person
China Communications Construction Company Ltd. (中國交通建設股份有限公司)	-4,898,038	209,399,508	3.13	—	Nil	—	State-owned legal person
China Merchants Steam Navigation Co., Ltd. (招商局輪船股份有限公司)	-4,051,155	173,193,797	2.59	—	Nil	—	State-owned legal person
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	-23,723,817	143,190,739	2.14	—	Nil	—	State-owned legal person
COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運(廣州)有限公司)	33,403,557	83,999,922	1.25	—	Nil	—	State-owned legal person
Central Huijin Asset Management Ltd. (中央匯金資產管理有限責任公司)	—	77,251,600	1.15	—	Nil	—	State-owned legal person

Top ten shareholders of unrestricted shares			
Name of shareholder	Number of tradable unrestricted shares held	Class and number of shares	
		Class	Number
Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)	1,310,719,131	RMB ordinary shares	1,310,719,131
HKSCC Nominees Limited (香港中央結算(代理人)有限公司)	979,967,580	Overseas listed foreign shares	979,967,580
China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	586,805,651	RMB ordinary shares	586,805,651
China Ocean Shipping (Group) Company (中國遠洋運輸(集團)總公司)	294,494,640	RMB ordinary shares	294,494,640
China Communications Construction Company Ltd. (中國交通建設股份有限公司)	209,399,508	RMB ordinary shares	209,399,508
Hebei Port Group Co., Ltd. (河北港口集團有限公司)	198,789,956	RMB ordinary shares	198,789,956
China Merchants Steam Navigation Co., Ltd. (招商局輪船股份有限公司)	173,193,797	RMB ordinary shares	173,193,797
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	143,190,739	RMB ordinary shares	143,190,739
COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運(廣州)有限公司)	83,999,922	RMB ordinary shares	83,999,922
Central Huijin Asset Management Ltd. (中央匯金資產管理有限責任公司)	77,251,600	RMB ordinary shares	77,251,600
Statement on the related relationship or concerted actions among the aforesaid shareholders	<p>Among the above top ten shareholders,</p> <ol style="list-style-type: none"> 1. CM Finance Investment, Jisheng Investment, CM Steam Navigation are all subsidiaries of China Merchants Group, the de facto controller of the Company; 2. China Ocean Shipping (Group) Company and COSCO Shipping (Guangzhou) Co., Ltd. are all subsidiaries of China COSCO Shipping Corporation Limited. 		

Note: For holders of the overseas listed foreign shares (H Shares) of the Company who are not registered shareholders, their shares are held by HKSCC Nominees Limited as an agent.

Chapter 6: Changes in Ordinary Shares and Shareholders

Shareholdings of the top ten shareholders of restricted shares and the restrictions

Unit: share

Number	Name of shareholder	Number of restricted shares held	Listing and trading of restricted shares		Restriction
			Date of being released for listing and trading	Number of additional shares to be listed and traded	
1	China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	815,308,642	May 27, 2019	—	Lock-up period of 60 months after the closing of private offering of shares of the Company in 2014.
2	China Ocean Shipping (Group) Company (中國遠洋運輸(集團)總公司)	124,453,374	May 29, 2017	—	Lock-up period of 36 months after the closing of private offering of shares of the Company in 2014.
3	Hebei Port Group Co., Ltd. (河北港口集團有限公司)	65,273,684	May 29, 2017	—	Lock-up period of 36 months after the closing of private offer of shares in 2014.
Statement on the related relationship or concerted actions among the aforesaid shareholders		Nil			

(III) Strategic investors or ordinary legal persons becoming top ten shareholders after placing of new shares

Applicable Not applicable

(IV) Disclosure of interests

1. Disclosure of interests of Directors and Supervisors

As at December 31, 2016, based on the information available to the Company and to the best of knowledge of the Directors, the following Directors, Supervisors and the chief executives had interest and/or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) (a) which will be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they were taken or deemed to have under such provisions of the SFO); or (b) which will be required, pursuant to section 352 of Part XV of the SFO, to be entered in the register required to be kept by the Company; or (c) which will be required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange:

Number	Name of director	Class of share	Nature of interest	Number of shares held (shares)	Percentage of total number of issued shares of the Company (%)	Percentage of total number of issued A shares/H Shares of the Company (%)	Long positions (Note 1)/short positions (Note 2)/shares available for lending
1.	YANG Jun (楊鈞)	A shares	Beneficial owner	11,800	0.00018	0.00021	Long position

Note 1: A shareholder has a "long position" if it has an interest in shares, including interests through holding, selling or issuing financial instruments (including derivatives) under which such shareholder has the following obligations and liabilities: (i) it has a right to buy the underlying shares; (ii) it is under an obligation to buy the underlying shares; (iii) it has a right to receive money if the price of the underlying shares increases; or (iv) it has a right to avoid or reduce a loss if the price of the underlying shares increases.

Note 2: A shareholder has a "short position" if it borrows shares under a securities borrowing and lending agreement, or if it holds, sells or issues financial instruments (including derivatives) under which such shareholder has the following obligations and liabilities: (i) it has a right to require another person to buy the underlying shares; (ii) it is under an obligation to deliver the underlying shares; (iii) it has a right to receive money if the price of the underlying shares decreases; or (iv) it has a right to avoid or reduce a loss if the price of the underlying shares decreases.

Save as disclosed above, as at December 31, 2016, the Company is not aware of other Directors, Supervisors and chief executive having any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations which would be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they were taken or deemed to have under such provisions of the SFO), or interests which would be required, pursuant to section 352 of Part XV of the SFO, to be entered in the register referred to therein, or required, pursuant to the Model Code to be notified to the Company and the Hong Kong Stock Exchange.

2. Disclosure of interests of substantial shareholders

For information on the persons who have interests or short positions in the underlying shares which would be required to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who will directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at shareholders' general meetings of the Company as at December 31, 2016, see "IV. Details of controlling shareholder" and "V. Corporate shareholders interested in 10% or more of the shares of the Company" under this section of this report.

As at December 31, 2016, based on the information available to the Company and to the best of knowledge of the Directors, the following persons (other than Directors, Supervisors and the chief executives) had interests or short positions in the shares or underlying shares which will be required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Chapter 6: Changes in Ordinary Shares and Shareholders

Number	Name of de facto controller and substantial shareholders	Class of shares	Nature of interest	Number of shares held (shares)	Percentage of total number of issued shares of the Company (%)	Percentage of total number of issued A Shares/H Shares of the Company (%)	Long positions ⁵ /short positions ⁶ / shares available for lending
1	China Merchants Group	A Shares	Interest held by controlled corporations ¹	2,886,027,221	43.08	50.46	Long position
		H Shares	Beneficial owner or other interest ²	67,706,400	1.01	6.91	Long position
2	China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	A Shares	Beneficial owners and interest of corporation controlled by substantial shareholders ³	2,712,833,424	40.49	47.44	Long position
3	Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)	A Shares	Beneficial owner	1,310,719,131	19.56	22.92	Long position
4	China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司)	A Shares	Interest held by controlled corporations ⁴	503,523,470	7.52	8.80	Long position
5	China Ocean Shipping (Group) Company (中國遠洋運輸(集團)總公司)	A Shares	Beneficial owner	418,948,014	6.25	7.33	Long position
6	COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運(廣州)有限公司)	A Shares	Beneficial owner	83,999,922	1.25	1.47	Long position
7	COSCO Shipping Energy Transportation Co., Ltd. (中遠海運能源運輸股份有限公司)	A Shares	Beneficial owner	575,534	0.01	0.01	Long position
8	National Council for Social Security Fund of the PRC	H Shares	Beneficial owner	58,674,780	0.88	5.98	Long position

- China Merchants Group holds 100% of the equity interest in China Merchants Finance Investment Holdings Co., Ltd., Shenzhen Jisheng Investment Development Co., Ltd. and China Merchants Steam Navigation Co., Ltd., and is therefore deemed to be interested in the same number of A shares in which China Merchants Finance Investment Holdings Co., Ltd. (20.93%), Shenzhen Jisheng Investment Development Co., Ltd. (19.56%) and China Merchants Steam Navigation Co., Ltd. (2.59%) are interested in under the SFO.
- China Merchants Group holds 100% of the equity interest in Best Winner Investment Limited, and is therefore deemed to be interested in the same number of H Shares in which Best Winner Investment Limited (1.01%) is interested in under the SFO.
- China Merchants Finance Investment Holdings Co., Ltd. holds 20.93% of the equity interest in the Company, and holds 50% of the equity interest in Shenzhen Jisheng Investment Development Co., Ltd., and is therefore deemed to be interested in the same number of A Shares in which Shenzhen Jisheng Investment Development Co., Ltd. (19.56%) is interested in under the SFO. Thus, China Merchants Finance Investment Holdings Co., Ltd. holds, directly and indirectly, an aggregate of 40.49% of the equity interests in the Company.
- China COSCO Shipping Corporation Limited holds 100% of the equity interest in China Ocean Shipping (Group) Company and China Shipping (Group) Company (中國海運(集團)總公司) and 38.56% of equity interest in COSCO Shipping Energy Transportation Co., Ltd., and is therefore deemed to be interested in the same number of A shares in which China Ocean Shipping (Group) Company (6.25%) and COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運(廣州)有限公司) (1.25%), a wholly-owned subsidiary of China Shipping (Group) Company, and COSCO Shipping Energy Transportation Co., Ltd. (0.01%), a subsidiary of China Shipping (Group) Company, are interested under the SFO.
- A shareholder has a "long position" if such shareholder has an interest in shares, including interests through holding, selling or issuing financial instruments (including derivatives) under which: (i) such shareholder has a right to purchase the underlying shares; (ii) such shareholder is under an obligation to purchase the underlying shares; (iii) such shareholder has a right to receive money if the price of the underlying shares rises; or (iv) such shareholder has a right to avoid or reduce loss if the price of the underlying shares rises; and
- A shareholder has a "short position" if such shareholder borrows shares under a securities borrowing and lending agreement, or holds, sells or issues financial instruments (including derivatives) under which: (i) such shareholder has a right to require another person to subscribe for the underlying shares; (ii) such shareholder is under an obligation to deliver the underlying shares; (iii) such shareholder has a right to receive money if the price of the underlying shares declines; or (iv) such shareholder has a right to avoid or reduce loss if the price of the underlying shares declines.

IV. Details of controlling shareholder

1 Legal person

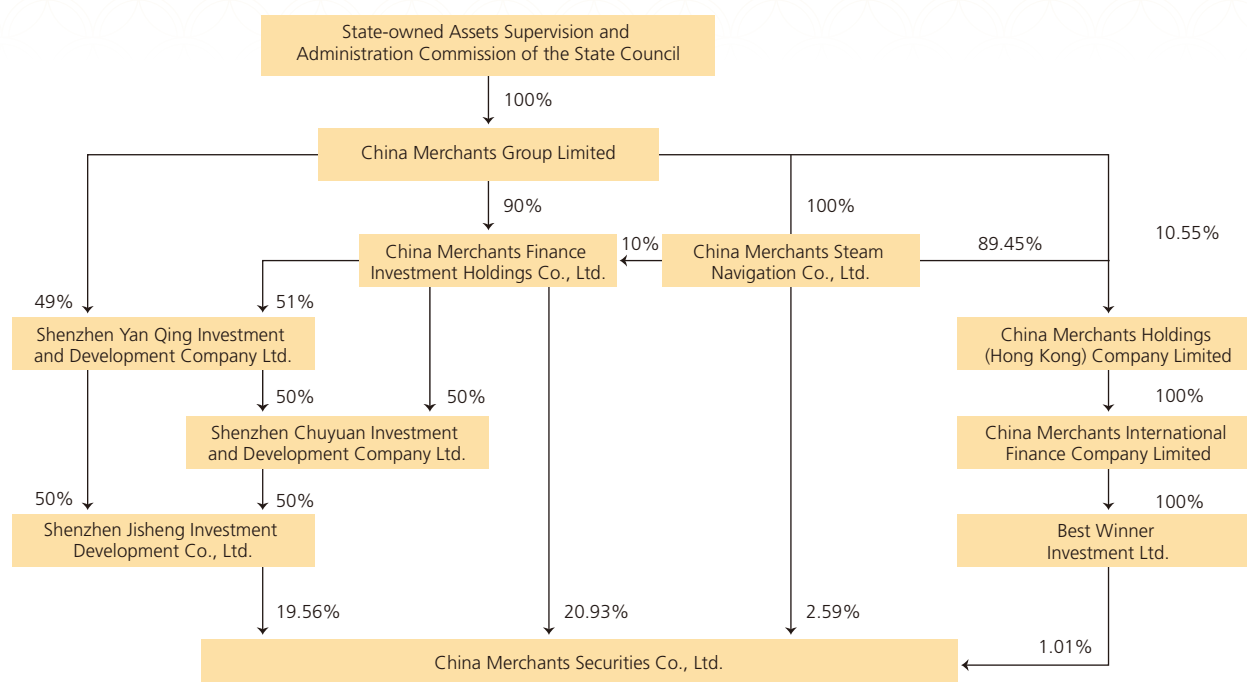
Name	China Merchants Group Limited
Person in charge or legal representative	LI Jianhong (李建紅)
Date of incorporation	October 14, 1986
Principal business	Sea and land transportation and agency of goods, leasing and agency of sea and land transportation tools and equipment, investment in and management of port and warehouse businesses; sea rescue, salvage, towing; manufacturing; building, repair, inspection and sale of vessels and offshore oil drilling equipment; repair and inspection of oil rigs and containers; contracting and construction of and back office services for sea and land construction projects and offshore oil exploitation projects; procurement, supply and sale of sea and land transportation equipment and relevant supplies; import and export transportation businesses; investment in and management of businesses in the financial, insurance, trust, securities and futures industries; investment in and management of businesses in the tourism, hotel, catering and relevant services industries; real estate development and property management and consultancy business; investment in and management of petrochemical business; investment in and operation of transportation infrastructure; operation of offshore assets; development, operation and management of Shekou Industrial Zone in Shenzhen and Zhangzhou Development Zone in Fujian (operations that require prior approvals according to laws can only be conducted after obtaining approvals from the relevant authorities).
Control and shareholdings in other domestic or overseas listed companies during the Reporting Period	See the table below
Others	Nil

Chapter 6: Changes in Ordinary Shares and Shareholders

List of the major listed companies in which China Merchants Group is interested as at the end of 2016

Number	Name of the company	Shareholding ratio
1	China Merchants Land Limited	74.35%
2	China Merchants Shekou Industrial Zone Holdings Co., Ltd	72.36%
3	Sinotrans Shipping Ltd.	68.75%
4	Sinotrans Air Transportation Development Co., Ltd.	60.95%
5	Sinotrans Limited	55.75%
6	China Merchants Energy Shipping Co., Ltd.	47.66%
7	China Merchants Securities Co., Ltd.	44.09%
8	Shenzhen Chiwan Wharf Holdings Limited	33.58%
9	China Merchants Port Holdings Company Limited	32.97%
10	China Merchants Bank Co., Ltd.	29.97%
11	Anhui Expressway Company Limited	29.94%
12	China Merchants China Direct Investments Limited	27.59%
13	Huabei Expressway Co., Ltd.	26.82%
14	China International Marine Containers (Group) Co., Ltd.	24.53%
15	Shanghai International Port (Group) Co., Ltd.	24.05%
16	Sichuan Expressway Company Limited	23.15%
17	Dalian Port (PDA) Company Limited	21.05%
18	Hubei Chutian Expressway Co., Ltd	18.08%
19	Fujian Expressway Development Co., Ltd. (福建發展高速公路股份有限公司)	17.75%
20	Heilongjiang Transport Development Co., Ltd.	16.52%
21	Shangdong Hi-Speed Company Limited	16.02%
22	Jilin Expressway Co., Ltd.	15.63%
23	Henan Zhongyuan Expressway Co., Ltd.	15.43%
24	Guangxi Wuzhou Communications Co., Ltd.	13.86%
25	Jiangsu Expressway Company Limited	11.69%
26	Shenzhen Expressway Company Limited	4.00%
27	Ningbo Zhoushan Port Co., Ltd. (寧波舟山港股份有限公司)	3.50%
28	Qingdao Port International Co., Ltd.	3.21%

2 Diagram of ownership and relationship between the Company and the controlling shareholder



As at December 31, 2016, the controlling shareholder of the Company is China Merchants Group which indirectly holds 44.09% of the shares of the Company through its subsidiaries including CM Finance Investment, Jisheng Investment, CM Steam Navigation and Best Winner Investment Ltd.. See the above diagram for the shareholdings and relationship.

On February 24, 2017, the Company received a notice from the controlling shareholder, China Merchants Group, as follows: According to the relevant agreement entered into between China Merchants Group and CM Steam Navigation on February 24, 2017, China Merchants Group transferred its 90% equity interest in CM Finance Investment, 49% equity interest in Shenzhen Yan Qing Investment and Development Company Limited and 10.55% equity interest in China Merchants Holdings (Hong Kong) Company Limited to CM Steam Navigation at nil consideration. As a result, China Merchants Securities, which was held by CM Finance Investment and its subsidiary, Jisheng Investment, would be indirectly held by CM Steam Navigation (the "Change of Equity Interest"). Upon the completion of the Change of Equity Interest, 173,193,797 shares of China Merchants Securities will be directly held by CM Steam Navigation, representing approximately 2.59% of the total share capital of China Merchants Securities. A total of 2,780,539,824 shares of China Merchants Securities will be indirectly held by CM Steam Navigation through CM Finance Investment, Jisheng Investment and Best Winner Investment Ltd., which are controlled by CM Steam Navigation, representing approximately 41.50% of the total share capital of China Merchants Securities. Hence, a total of 2,953,733,621 shares of China Merchants Securities will be directly and indirectly held by CM Steam Navigation, representing approximately 44.09% of the total share capital of China Merchants Securities. Upon the completion of the Change of Equity Interest, there is no change of the de facto controller of the Company. For details, see the Announcement on the Change of Equity Interest of Shareholders (《關於股東權益變動的提示公告》) disclosed on the SSE website on February 25, 2017.

Chapter 6: Changes in Ordinary Shares and Shareholders

V. Corporate shareholders interested in 10% or more of the shares of the Company

Unit: ten thousand Currency: RMB

Name of corporate shareholder	Person in charge or legal representative	General manager	Date of incorporation	Organization code	Registered capital	Principal business or operation
China Merchants Finance Investment Holdings Co., Ltd.	HONG Xiaoyuan (洪小源)	HONG Xiaoyuan (洪小源)	May 28, 1997	27934371-2	60,000	Investment (projects are separately reported); domestic business, commodity supply and sales (excluding licensed, exclusive or franchised commodities).
Shenzhen Jisheng Investment Development Co., Ltd.	LIU Jie (劉杰)	WANG Zhang Wei (王章為)	December 11, 2001	73414637-5	60,000	Investment (projects are separately reported); domestic business, commodity supply and sales (excluding licensed, exclusive or franchised commodities); economic information consultancy (excluding restricted items).
Statement	Among the above shareholders, CM Finance Investment and Jisheng Investment are subsidiaries of China Merchants Group, the controlling shareholder of the Company. Owners of 14.63% shares held by HKSCC Nominees Limited are unregistered H Shareholders.					

VI. Restrictions on the Reduction of Shares

During the Reporting Period, the Company did not have any restriction on reduction of shares.

VII. Purchase, Sale or Redemption of Securities of the Company

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

Chapter 7: Directors, Supervisors, Senior Management and Employees

I. CHANGE IN SHAREHOLDINGS AND REMUNERATION

(I) The change in shareholdings and remuneration of existing and resigned/retired Directors, Supervisors and senior management during the Reporting Period.

Unit: Share

Name	Position (Notes)	Gender	Age	Term commencement date	Term expiration date	No. of shares held at the beginning of the Year	No. of shares held at the end of the Year	Changes (+/-) in shareholdings during the Year	Reason for changes	Total remuneration from the Company during the Reporting Period (RMB10,000) (before tax)	Remuneration from related parties
GONG Shaolin (宮少林)	Chairman of the Board, Executive Director	Male	61	November, 2001	May, 2017	—	—	—	—	520.10	No
SU Min (蘇敏)	Non-executive Director	Female	48	June, 2016	May, 2017	—	—	—	—	—	Yes
HUA Li (華立)	Non-executive Director	Male	45	July, 2014	May, 2017	—	—	—	—	—	Yes
XIONG Xianliang (熊賢良)	Non-executive Director	Male	49	December, 2014	May, 2017	—	—	—	—	—	Yes
WANG Yan (王岩)	Executive Director, President and Chief Executive Officer	Male	51	December, 2011 January, 2012	May, 2017 May, 2017	—	—	—	—	522.22	No
GUO Jian (郭健)	Non-executive Director	Male	52	May, 2014	May, 2017	—	—	—	—	—	Yes
PENG Lei (彭磊)	Non-executive Director	Female	44	August, 2007	May, 2017	—	—	—	—	—	Yes
WANG Daxiong (王大雄)	Non-executive Director	Male	56	September, 2016	May, 2017	—	—	—	—	—	Yes
HUANG Jian (黃堅)	Non-executive Director	Male	47	August, 2012	May, 2017	—	—	—	—	—	Yes
CAO Dong (曹棟)	Non-executive Director	Male	47	May, 2014	May, 2017	—	—	—	—	—	No
YI Xiqun (衣錫群)	Independent Non-executive Director (Note 1)	Male	69	August, 2013	—	—	—	—	—	—	Yes
LIU Jialin (劉嘉凌)	Independent Non-executive Director	Male	53	August, 2011	May, 2017	—	—	—	—	16	Yes
DING Huiping (丁慧平)	Independent Non-executive Director	Male	60	July, 2014	May, 2017	—	—	—	—	16	Yes
ZHU Haiwu (朱海武)	Independent Non-executive Director	Male	50	July, 2016	May, 2017	—	—	—	—	10	Yes
YANG Jun (楊鈞)	Independent Non-executive Director	Male	59	June, 2011	May, 2017	11,800	11,800	—	—	16	Yes
ZHOU Linda Lei (周語茵)	Chairman of the Supervisory Committee	Female	48	July, 2014	May, 2017	—	—	—	—	417.70	No
LI Xiaofei (李曉霽)	Supervisor	Male	46	July, 2014	May, 2017	—	—	—	—	—	Yes
LIU Chong (劉沖)	Supervisor	Male	46	May, 2014	May, 2017	—	—	—	—	—	Yes
FANG Xiaobing (房小兵)	Supervisor	Male	46	July, 2011	May, 2017	—	—	—	—	—	No
ZHANG Zehong (張澤宏)	Supervisor	Male	44	July, 2011	May, 2017	—	—	—	—	—	Yes
ZHU Haibin (朱海彬)	Supervisor	Male	53	July, 2007	May, 2017	—	—	—	—	—	Yes
YIN Hongyan (尹虹艷)	Employee Representative Supervisor	Female	45	August, 2007	May, 2017	—	—	—	—	117.09	No
ZHAN Guifeng (詹桂峰)	Employee Representative Supervisor	Male	46	July, 2011	May, 2017	—	—	—	—	109.41	No
HE Min (何敏)	Employee Representative Supervisor	Female	41	July, 2009	May, 2017	—	—	—	—	97.38	No
XIONG Jiantao (熊劍濤)	Vice President	Male	48	December, 2005	May, 2017	—	—	—	—	375.02	No
DENG Xiaoli (鄧曉力)	Vice President	Female	49	November, 2005	May, 2017	—	—	—	—	364.56	No
	Chief Risk Officer			August, 2014	May, 2017						No
SUN Yizheng (孫議政)	Vice President	Male	48	November, 2009	May, 2017	—	—	—	—	376.60	No
DING Edward An Hua (丁安華)	Vice President	Male	52	January, 2011	May, 2017	—	—	—	—	367.61	No
LI Zongjun (李宗軍)	Vice President	Male	51	July, 2015	May, 2017	—	—	—	—	376.6	No
WU Huiheng (吳慧峰)	Secretary to the Board	Male	42	December, 2014	May, 2017	—	—	—	—	328.25	No
ZHAO Bin (趙斌)	Chief Compliance Officer	Male	47	January, 2016	May, 2017	—	—	—	—	305.79	No
HONG Xiaoyuan (洪小源)	Non-executive Director (resigned)	Male	53	August, 2007	March, 2016	—	—	—	—	—	Yes
SUN Yueying (孫月英)	Non-executive Director (resigned)	Female	58	March, 2001	May, 2016	—	—	—	—	—	Yes
XU Hua (徐華)	Independent Non-executive Director (resigned)	Male	56	July, 2013	July, 2016	—	—	—	—	—	Yes

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Position (Notes)	Gender	Age	Term commencement date	Term expiration date	No. of shares held at the beginning of the Year	No. of shares held at the end of the Year	Changes (+/-) in shareholdings during the Year	Reason for changes	Total remuneration from the Company during the Reporting Period (RMB10,000) (before tax)	Remuneration from related parties
ZHANG Weihua (張衛華)	Chief Compliance Officer (resigned)	Female	55	April, 2009	January, 2016	—	—	—	—	—	No
Total	/	/	/	/	/	11,800	11,800	—	/	4,336.33	/

Notes:

1. Yi Xiqun, an independent director who has resigned due to personal reason, will continue to perform his duties before a new independent Director is appointed by the Company;
2. No share incentive scheme was implemented during the Reporting Period;
3. Payment of 40% of the annual performance-based bonus payable to the Directors, chairman of the Supervisory Committee and senior management who worked full time for the Company shall be deferred for a term of 3 years. The deferred payment of remuneration shall be divided equally.
4. The total remuneration before tax of Directors, chairman of the Supervisory Committee and senior management who worked full time for the Company has not been confirmed yet. Further information will be disclosed upon confirmation.
5. The Directors, chairman of the Supervisory Committee and senior management who worked full time for the Company did not receive any non-cash remuneration.

Name	Major working experience
GONG Shaolin (宮少林)	<p>Mr. GONG has served as Chairman of the Board and our executive Director since November 2001. Mr. GONG has experience in the securities and financial industry via serving as chairman of the board of directors of CMS International from January 2006 to September 2015; vice president of China Merchants Bank (listed on the SSE, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from July 1997 to July 2001; secretary of the general office of the People's Bank of China, division head of the fund planning department (計劃資金司處長) of the People's Bank of China, vice president of the Shenzhen branch of the People's Bank of China and deputy administrator (副局長) of the Shenzhen branch of the SAFE from December 1986 to June 1997. Mr. GONG obtained a Ph.D. degree in economics from Southwestern University of Finance and Economics in June 1999. Mr. GONG was granted the title of Senior Economist by the People's Bank of China in July 1993.</p>
SU Min (蘇敏)	<p>Ms. SU has served as our non-executive Director since June 2016. Ms. SU has experience in management of finance-related or listed companies via serving as general manager and director of China Merchants Finance Holdings Company Limited from September 2015 and December 2015, respectively; supervisor of China Merchants Capital Investments Co., Ltd. from January 2016; director of China Merchants Innovative Investment Management Co., Ltd. (招商局創新投資管理有限公司董事) from November 2015; director of China Merchants Bank (listed on the SSE, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from September 2014; and chairman of the board of directors of Shenzhen China Merchants Qihang Internet Investment Management Co., Ltd. (深圳招商啓航互聯網投資管理有限公司) from November 2015. Ms. SU served as director of China Shipping Development Co., Ltd. (listed on the SSE, stock code: 600026; listed on the Hong Kong Stock Exchange, stock code: 1138) from May 2013 to August 2015; and director of China Shipping Container Lines Company Limited (listed on the SSE, stock code: 601866; listed on the Hong Kong Stock Exchange, stock code: 2866) from June 2013 to December 2015. Ms. SU was appointed as director of Huishang Bank Corporation Limited (listed on the Hong Kong Stock Exchange, stock code: 3698) from December 2009 to May 2011 and as director of Anhui Province Wenergy Company Limited (listed on the SZSE, stock code: 000543) from March 2008 to September 2011. Ms. SU has accounting-related experience and had served as chief accountant of China Shipping (Group) Company from April 2011 to September 2015; chief accountant of Anhui Province Energy Group Co., Ltd. from May 2007 to November 2011 and deputy general manager from November 2010 to April 2011. Ms. SU obtained a bachelor's degree in finance from Shanghai University of Finance and Economics and a master's degree in business administration from the University of Science and Technology of China in July 1990 and December 2002, respectively. She was granted the qualification of senior accountant in June 2008 by Department of Human Resources and Social Security of Anhui Province.</p>

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
HUA Li (華立)	<p>Mr. HUA has served as our non-executive Director since July 2014. Mr. HUA has served as head of the finance department (property rights department) at China Merchants Group (招商局集團財務部 (產權部)) since January 2012 and as director of China Merchants Finance Holdings Company Limited since December 2015. He has acted as director of China Merchants Energy Shipping Co., Ltd. (listed on the SSE, stock code: 601872) since April 2014, and the director of Sinotrans & CSC Holdings Co., Ltd. since June 2016. Mr. HUA has acted as director of China Merchants Expressway Network & Technology Holdings Co., Ltd. since August 2016; and director of China Merchants Industry Holdings Co., Ltd., China Merchants Logistics Holding Co., Ltd. and China Merchants Chongqing Transportation Research and Design Company Limited (招商局重慶交通科研設計院有限公司) since May 2012. He was chairman of supervisory committee of China Merchants Property Development Co., Ltd. (formerly listed on the Shenzhen Stock Exchange, A share stock code: 000024, and B share stock code: 200024; formerly listed on the Stock Exchange of Singapore, S share stock code: C03; which had merged with China Merchants Shekou Industrial Zone Holdings Co., Ltd.), and was non-executive director of China Merchants Property Development Co., Ltd. from April 2004 to November 2013. From July 1993 to December 2011, Mr. HUA held the following positions at China Merchants Group: chief financial officer (“CFO”) of China Merchants Shekou Industrial Zone Co., Ltd. (currently known as China Merchants Shekou Industrial Zone Holdings Co., Ltd., listed on the SZSE, stock code: 001979); deputy general manager of the finance department of China Merchants Group; manager of the finance department of China Merchants Transportation Co., Ltd.; deputy head and head of the finance department of China Merchants Group; deputy manager of the finance department of China Merchants Holdings (International) Co., Ltd. (listed on the Hong Kong Stock Exchange, stock code: 0144); staff at the finance department of China Merchants Group and the Shanghai office of China Merchants Group. Mr. HUA obtained a bachelor’s degree in arts majoring in accounting from Shanghai Maritime University (formerly Shanghai Maritime Institute) in July 1993, a master’s degree in accounting from The Chinese University of Hong Kong in December 2005, and a master’s degree in business administration from The Hong Kong University of Science and Technology in June 2014. Mr. HUA also obtained the qualification as a Certified Public Accountant (non-practising) from the Chinese Institute of Certified Public Accountant in March 2011.</p>

Name	Major working experience
<p>XIONG Xianliang (熊賢良)</p>	<p>Mr. XIONG has served as our non-executive Director since December 2014. Mr. XIONG has experience in strategic management and research via serving as general manager (head) of strategic research department of China Merchant Group since October 2011, and head of strategic development department (information management department and research department) of China Merchants Group since March 2015, and concurrently head of the security and supervision department since February 2017. Mr. XIONG acted as non-executive director of China Merchants Bank (listed on the SSE, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from July 2012 to June 2014. Mr. XIONG worked at the Research Office of the State Council from December 2004 to October 2011; at the general group of the steering committee of the Western Region Development of the State Council (國務院西部開發領導小組綜合組) from July 2003 to December 2003; at the Chongqing Development and Planning Commission from December 2000 to December 2004; and at the Development Research Center of the State Council from March 1994 to December 2000. Mr. XIONG obtained a master's degree and a doctoral degree in global economics from Nankai University in June 1991 and December 1993, respectively.</p>
<p>WANG Yan (王岩)</p>	<p>Mr. WANG has served as our executive Director since December 2011, and President and Chief Executive Officer since January 2012. Mr. WANG has experience in management of securities companies and banks via serving in management or administrative positions of various securities companies and banks. Mr. WANG has been director of CMS International and China Merchants Securities (HK) Co., Limited since October 2011 successively, and he is currently serving as chairman of the board of directors of CMS International and China Merchants Securities (HK) Co., Limited. Mr. WANG was director of China Merchants Securities Investment Management (HK) Co., Limited, CMS Capital (HK) Co., Limited and China Merchants Nominees (HK) Co., Limited from October 2011 to May 2014. Mr. WANG served as president and chief operating officer ("COO"), acting chief executive officer ("CEO"), executive president and CEO of BOC International Holdings Limited from March 2005 to September 2011; deputy general manager of the Hong Kong branch of Industrial and Commercial Bank of China Limited (listed on the SSE, stock code: 601398; listed on the Hong Kong Stock Exchange, stock code: 1398) from April 2000 to January 2005, and during that period from July 2001 to December 2004 also as deputy general manager of Industrial and Commercial Bank of China (Asia) Limited; representative and chief representative of the New York branch of ICBC from February 1997 to April 2000; and deputy division head of the general planning division of the international business department of ICBC from August 1991 to February 1997. Mr. WANG obtained a bachelor's degree and a master's degree in law majoring in international law, and a doctoral degree in economics majoring in national economics, all from Peking University, in July 1986, July 1989 and January 2005, respectively. Mr. WANG was granted the title of Senior Economist by ICBC in August 1999.</p>

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
GUO Jian (郭健)	<p>Mr. GUO has served as our non-executive Director since May 2014. Mr. GUO has experience in equity and capital investment. Mr. GUO has experience in management of securities companies and capital investment-related companies. Mr. GUO has served as deputy general manager of China Merchants Capital Investments Co., Ltd. since May 2014 and general manager of China Merchants Kunlun Capital Co., Ltd. and Zhongxinjian Merchant Equity Investment Co., Ltd. since April 2014. Mr. GUO served as director of CECEP Solar Energy Technology Co., Ltd. (listed on the SZSE, stock code: 000591) from May 2014 to March 2016. He served concurrently as the chairman of the board of Shenzhen China Merchants Sanxin Capital Management Co., Ltd. (深圳市招商三新資本管理有限責任公司) since April 2015, the vice chairman of the board of Shenzhen China Merchants Hongda Capital Management Co., Ltd. (深圳市招商洪大資本管理有限責任公司) since August 2015, the chairman of the board of Shenzhen Xinzha Zhongan Capital Management Co., Ltd. (深圳市新招中安資本管理有限責任公司) since December 2015, the director and general manager of 深圳市招商國協壹號股權投資基金管理有限公司 and the director of 深圳市招商銀和股權投資基金有限公司 since October 2016. Mr. GUO held the following positions with us between July 2004 and May 2014: general manager and executive director of our international business department; managing general manager of our investment banking department; assistant to President; secretary to the Board; and Vice President. Mr. GUO served as chairman of the board of directors of CMS Zhiyuan from March 2012 to January 2015. Mr. GUO was director of CMS International from January 2006 to April 2014 and director of China Merchants Securities (HK) Co., Limited from May 2005 to April 2014. Mr. GUO obtained a bachelor's degree in economics majoring in maritime financial accounting from Shanghai Maritime University (formerly Shanghai Maritime Institute) and an executive master of business administration (EMBA) from Hong Kong University of Science and Technology in July 1985 and June 2014, respectively.</p>
PENG Lei (彭磊)	<p>Ms. PENG has served as our non-executive Director since August 2007. Ms. PENG has relevant management and working experience via serving in management and administrative positions of various securities and finance-related companies. Ms. PENG has served as the deputy general manager of China Merchants Finance Holdings Company Limited since April 2016, as director of Morgan Stanley Huaxin Fund Management Co., Ltd. since March 2015 and as director of China Great Wall Securities Co., Ltd. since June 2011. Ms. PENG joined China Merchants Finance Holdings Company Limited in May 2002, and had served as deputy general manager of the general management department, general manager of the audit department, general manager of the China business department, general manager of the securities department and assistant to the general manager. Ms. PENG served as executive director of Union Asset Management Company from May 2002 to October 2003. Ms. PENG obtained a bachelor's degree in economics majoring in business management from Southwestern University of Finance and Economics and a master's degree in economics majoring in finance from Peking University in July 1994 and July 2010, respectively.</p>

Name	Major working experience
WANG Daxiong (王大雄)	<p>Mr. WANG has served as our non-executive Director since September 2016. Mr. WANG has experience in management of listed companies. Mr. WANG acted as the chairman of the board of directors of COSCO SHIPPING Financial Co., Limited since March 2014, the chief executive officer and executive director of COSCO SHIPPING Development Co., Ltd. (listed on the SSE, stock code: 601866; listed on the Hong Kong Stock Exchange, stock code: 2866) since May 2016, director of CIB Fund Management Co., Ltd. and China Merchants Bank Co., Ltd. since April 2016 and November 2016, respectively, vice chairman of the board of the directors of New China COSCO Financial Holdings Limited (新華遠海金融控股有限公司) since March 2017, director of China Shipping Development Company Limited (listed on the Hong Kong Stock Exchange, stock code: 1138; listed on the SSE, stock code: 600026) from August 1997 to March 2014, director of China Shipping Container Lines Company Limited (listed on the Hong Kong Stock Exchange, stock code: 2866; listed on the SSE, stock code: 601866) from June 2004 to June 2014, the vice chairman and chairman of the board of directors of China Shipping Haisheng Shipping Co., Ltd. (listed on the SSE, stock code: 600896) from June 1998 to July 2001 and from July 2001 to April 2014, respectively, and director of China Merchants Bank (listed on the Hong Kong Stock Exchange, stock code: 3968; listed on the SSE, stock code: 600036) from April 1998 to March 2014. Mr. WANG has finance-related experience via serving as chief accountant, vice president and deputy general manager of China Shipping (Group) Company from January 1998 to March 2014, head of the finance department and chief accountant of Guangzhou Maritime Transport (Group) Co., Ltd. from January 1996 to January 1998; department head, financial assistant and division head of the Finance Division of the Guangzhou Maritime Bureau (廣州海運局財務處) from March 1991 to January 1996, deputy head and head of the Finance Division of the Second Cargo of Guangzhou Maritime Bureau (廣州海運局二貨公司) from March 1988 to March 1991, and deputy head of the Finance Division of the Guangzhou Maritime Bureau (廣州海運局) from December 1987 to March 1988. Mr. WANG obtained a bachelor's degree, majoring in finance and economy, from Shanghai Maritime University and an EMBA degree from Shanghai University of Finance and Economics in July 1983 and January 2012, respectively. Mr. WANG also obtained the qualification of senior accountant from Ministry of Transport in November 1995.</p>

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
HUANG Jian (黃堅)	<p>Mr. HUANG has served as our non-executive Director since August 2012. Mr. HUANG has finance-related experience via serving in financial departments and administrative positions of various companies. Mr. HUANG has served as general manager of capital operation department of China COSCO Shipping Corporation Limited since September 2016, deputy general manager (person-in-charge) of capital operation department of China COSCO Shipping Corporation Limited from February to August 2016 and non-executive director of COSCO SHIPPING Development Co., Ltd. (listed on the SSE, stock code: 601866; listed on the Hong Kong Stock Exchange, stock code: 2866) since June 2016. Mr. HUANG held various positions with COSCO, including deputy general manager of the finance department of China Ocean Shipping (Group) Company from February 2012 to February 2016; general manager of the finance department and CFO of COSCO Americas Inc. from November 2006 to February 2012; vice president and general manager of the finance department of COSCO Logistics (Americas), Inc. (中遠物流(美洲)有限公司) (formerly Intermodal Bridge Services Inc. (中遠美國內陸運輸公司)) from September 2004 to November 2006; Mr. HUANG held several positions in COSCO from July 1996 to September 2004, and the last position he held was head of capital management department of finance and capital division; and Mr. HUANG was staff at the finance department of Shenzhen Ocean Shipping Co., Ltd. from July 1993 to July 1996. Mr. HUANG obtained a bachelor's degree in economics majoring in auditing from Capital University of Economics and Business (formerly the Beijing Institute of Finance and Trade) and a master's degree in business management from Beijing Institute of Technology in July 1992 and March 2002, respectively. Mr. HUANG obtained the qualifications of accountant and senior accountant from the Ministry of Finance in May 1997 and December 2015, respectively.</p>
CAO Dong (曹棟)	<p>Mr. CAO has served as our non-executive Director since May 2014. Mr. CAO has audit-related experience via serving in audit departments of various companies. Mr. CAO served as Supervisor from August 2013 to May 2014. Mr. CAO has acted as deputy head and head of the audit department of Qinhuangdao Port Co., Ltd. (listed on the Hong Kong Stock Exchange, stock code: 3369) since April 2009, and deputy head and head of the audit department of Hebei Port Group Co., Ltd. from October 2009 to January 2017. Mr. CAO acted as deputy manager of the general department of the Caofeidian Construction and Development Command from December 2003 to April 2009 and deputy head of the investment center of Qinhuangdao Port Group Co., Ltd. from April 2003 to December 2003. Mr. CAO obtained a bachelor's degree in economics majoring in finance from Hebei University and a master's degree in engineering majoring in software engineering from the University of Electronic Science and Technology of China in July 1991 and December 2011, respectively. Mr. CAO obtained the qualification of senior accountant from the Title Reform Leadership Group of Hebei Province in December 2001, and the qualification of certified public accountant (non-practising member) from the Chinese Institute of Certified Public Accountants in August 2010.</p>

Name	Major working experience
YI Xiqun (衣錫群)	<p>Mr. YI has served as our independent non-executive Director since August 2013. Mr. YI has relevant experience via serving as independent directors of various listed finance-related companies. Mr. YI tendered his resignation from directorship for personal reasons in November 2014, and will continue to perform his duties until the new independent non-executive Director is appointed as soon as practicable and takes office. Mr. YI has been executive vice president of the China Association of Private Equity since October 2010; Mr. YI was independent non-executive director of Asian Capital Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 8295) from June 2010 to April 2016; and independent non-executive director of ICBC (listed on the SSE, stock code: 601398; listed on the Hong Kong Stock Exchange, stock code: 1398) from December 2013 to April 2016; independent non-executive director of China Merchants Bank (listed on the SSE, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from January 2008 to March 2014; independent non-executive director of SOHO China Limited (listed on the Hong Kong Stock Exchange, stock code: 0410) from September 2007 to May 2015; deputy chairman and chairman of the board of directors of Beijing Enterprises Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 0392) from September 1999 to August 2009. Mr. YI graduated from Beijing University of Chemical Technology (formerly Beijing Institute of Chemical Technology) majoring in polymer chemistry in December 1975 and completed the enterprise management and research courses from Tsinghua University in July 1982.</p>
LIU Jialin (劉嘉凌)	<p>Mr. LIU has served as our independent non-executive Director since August 2011. Mr. LIU has working experience in the financial industry via serving as managing director of Cinda International Asset Management Limited since February 2011, and independent non-executive director of Far East Horizon Ltd. (listed on the Hong Kong Stock Exchange, stock code: 3360) since March 2011. He held various positions with Morgan Stanley from February 1992 to December 2007 and the position he last held was managing director of the Hong Kong fixed income division of Morgan Stanley Asia Limited. Mr. LIU obtained a bachelor's degree in science majoring in physics from Peking University and a master's degree in science majoring in physics from Massachusetts Institute of Technology in July 1982 and June 1989, respectively.</p>

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Name	Major working experience
DING Huiping (丁慧平)	<p>Mr. DING has served as our independent non-executive Director since July 2014. Mr. DING has worked at Beijing Jiaotong University (formerly Northern Jiaotong University) since December 1993, where he served as professor, Ph.D. tutor and head of the Center for Enterprise Competitiveness Research. Mr. DING has relevant experience via serving as an independent director of various listed companies, including independent non-executive director of Huadian Power International Corporation Limited (listed on the SSE, stock code: 600027; listed on the Hong Kong Stock Exchange, stock code: 1071) since May 2014 and from October 2003 to June 2009. He has been independent director of Metro Land Corporation Ltd. (listed on the SSE, stock code: 600683) since April 2015. Mr. DING was independent non-executive director of China International Marine Containers (Group) Co., Ltd. (listed on the SZSE, stock code: 000039; listed on the Hong Kong Stock Exchange, stock code: 2039) from May 2010 to July 2013; independent director of Road and Bridge International Co., Ltd. (formerly China Road and Bridge International Construction Co., Ltd.) (formerly listed on the SSE, stock code: 600263, delisted in March 2012 due to merger by absorption) from February 2009 to February 2012; independent director of Shangdong Xinneng Taishan Power Generation Co., Ltd. (formerly Shangdong Luneng Taishan Cable Co., Ltd.) (listed on the SZSE, stock code: 000720) from June 2003 to May 2009; and independent non-executive director of China Merchants Bank (listed on the SSE, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from June 2003 to May 2006. Mr. DING obtained an associate doctoral degree and a doctoral degree in production economics from Linkoping Institute of Technology, Sweden in December 1991 and March 1993, respectively. Mr. DING was appointed as Honorary Professor by the A.J. Palumbo School of Business Administration of Duquesne University in July 1996.</p>
ZHU Haiwu (朱海武)	<p>Mr. ZHU has served as our independent non-executive Director since July 2016. Mr. ZHU has experience in management of listed companies and accountant-related work. Mr. ZHU has acted as partner of Ruihua Certified Public Accountants since January 2000. He has been independent director of Shanxi Securities Co., Ltd. (listed on the SZSE, stock code: 002500) since May 2015 and independent director of Sinosteel Engineering & Technology Co., Ltd. (listed on the SZSE, stock code: 000928) and Huayuan Property Co., Ltd. (listed on the SSE, stock code: 600743) since September 2014 and November 2014, respectively. Mr. ZHU was a member of the first and second session of the Listing Review Committee of Growth Enterprise Board of the CSRC from August 2009 to August 2011. He had successively served as project manager, and manager and deputy general manager of Zhonghua Accounting Firm from September 1993 to December 1999. Mr. ZHU obtained a bachelor's degree in economics, majoring in accounting, from Shanghai University of Finance and Economics and a master's degree in professional accounting from Deakin University, Australia, in July 1985 and August 2002, respectively. Mr. ZHU obtained the qualification of Certified Public Accountant from the Chinese Institute of Certified Public Accountants in September 1994, the qualification of senior accountant from the Ministry of Finance in November 1998, and the status of fellow of Certified Practising Accountant Australia in September 2002.</p>

Name	Major working experience
YANG Jun (楊鈞)	<p>Mr. YANG has served as our independent non-executive Director since June 2011. Mr. YANG has experience in financial and other relevant transaction via holding various positions at Shanghai United Assets and Equity Exchange (“SUAEE”) since July 2005, including assistant to the president, general manager of the Beijing headquarters, head of financial property transaction center, COO of equity trading and general manager of the equity trading department. He has been independent director of Shanghai Zhenhua Heavy Industries Company Limited (listed on the SSE, stock code: 600320) since April 2015. Mr. YANG has had years of experience working at the various levels of people’s courts in Shanghai holding various positions, including grade four senior judge approved by the Supreme People’s Court of the People’s Republic of China in November 1998. Mr. YANG obtained a bachelor’s degree in laws from the East China University of Political Science and Law (formerly the East China College of Political Science and Law) and a master’s degree in civil laws from Peking University in August 1983 and July 1991, respectively.</p>
ZHOU Linda Lei (周語蕊)	<p>Ms. ZHOU has served as Chairman of the Supervisory Committee since July 2014. Ms. ZHOU was executive director of China Merchants China Direct Investments Limited (listed on the Hong Kong Stock Exchange, stock code: 0133) from March 2008 to September 2014 and from March 2002 to September 2005; managing director of China Merchants China Investment Management Limited from February 2008 to May 2014 and from February 2002 to July 2005; and independent director of China Merchants Fund from September 2007 to November 2013. Ms. ZHOU served as independent director of Jiangxi Selon Industrial Co., Ltd. (listed on the SZSE, stock code: 002748) from May 2008 to May 2014; supervisor of Industrial Bank Co., Ltd. (listed on the SSE, stock code: 601166) from April 2008 to October 2013. Ms. ZHOU obtained a bachelor’s degree in economics majoring in accounting from Renmin University of China and a master’s degree in business administration from Sonoma State University of the California State University.</p>
LI Xiaofei (李曉霏)	<p>Mr. LI has served as our Supervisor since July 2014. Mr. LI has been the assistant to the general manager of China Merchants Finance Holdings Company Limited since November 2014, and supervisors of China Great Wall Securities Co., Ltd. and Shenzhen China Merchants Qihang Internet Investment Management Co., Ltd. (深圳招商啓航互聯網投資管理有限公司) since July 2015 and July 2016, respectively. Mr. LI also served as the general manager of the human resources department of China Merchants Finance Holdings Company Limited from May 2010 to September 2016., senior manager of the human resources department of China Merchants Group from October 2006 to May 2010, and manager of the human resources and administration department and secretary to the board of directors of Grand Auto Park Company Limited (深圳市平方汽車園區有限公司) from October 2003 to October 2006. Mr. LI joined Shenzhen Nanyou (Holdings) Ltd. since July 1993, and served as the following: secretary of the general manager office, deputy manager of the planning and development department and deputy manager of the leasing department. Mr. LI obtained a master’s degree in economics majoring in labor economics from Renmin University of China in January 2004.</p>

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
LIU Chong (劉沖)	<p>Mr. LIU has served as our Supervisor since May 2014. Mr. LIU was Director of the Company from July 2008 to May 2014. He has served as general manager of China Shipping Investment Co., Ltd. since October 2012 and general manager of China Shipping (Group) Leasing Co., Ltd. since August 2014, general manager of COSCO SHIPPING Development Co., Ltd. (listed on the SSE, stock code: 601866; listed on the Hong Kong Stock Exchange, stock code: 2866) since March 2016 and has been executive director of the company since May 2016. Mr. LIU has served as a non-executive director of China International Marine Containers (Group) Co., Ltd. (Listed on the Hong Kong Stock Exchange, stock code: 2039; Listed on the SZSE, stock code: 000039) in May 2016. Mr. LIU acted as chief accountant of China Shipping Container Lines Co., Ltd. from October 2011 to April 2013; head of the Capital management department of China Shipping (Group) Company from December 2010 to November 2011; chief accountant of China Shipping Haisheng Co., Ltd. (listed on the SSE, stock code: 600896) from January 2008 to November 2010; CFO and deputy general manager of China Shipping Logistics Co., Ltd. from May 2002 to January 2008; deputy general manager of China Shipping Investment from June 1998 to May 2002; and deputy head of the settlement center (Guangzhou division) of China Shipping Group from December 1997 to June 1998. Mr. LIU worked for Guangzhou Maritime Transport (Group) Co., Ltd. from January 1995 to December 1997 and the last position he held was internal banking vice president. Mr. LIU obtained a bachelor's degree in economics from Sun Yat-sen University in July 1990. Mr. LIU obtained the qualification of Certified Public Accountant (non-practicing) by the Hainan Institute of Certified Public Accountants in February 2010 and was granted the title of Senior Accountant by China Harbour Engineering Co., Ltd (中國港灣建設(集團)總公司) in November 2000.</p>
FANG Xiaobing (房小兵)	<p>Mr. FANG has served as our Supervisor since July 2011. Mr. FANG has served as general manager of the financial management department of China Communications Construction Company Ltd. (CCCC) (listed on the SSE, stock code: 601800; listed on the Hong Kong Stock Exchange, stock code: 1800) since August 2014; director of CCCC Finance Company Limited (中交財務有限公司) since March 2016, and has held the following positions at China Communications Construction Company Limited: executive general manager and CFO of the overseas business department from July 2013 to August 2014; chief accountant of the overseas business department from June 2012 to July 2013; and deputy general manager of the finance department from October 2005 to April 2011. Mr. FANG served as general manager of the financial funding department of China Communications Construction Group (Limited) from April 2011 to June 2012. Mr. FANG served at China Harbor Construction (Group) Company (中國港灣建設(集團)總公司) between November 1994 and September 2005, and the highest position he held was deputy general manager of finance department. Mr. FANG obtained a bachelor's degree in engineering majoring in finance from Changsha University of Science & Technology (formerly Changsha College of Transportation), a master's degree in business administration from Fordham University in the U.S. and doctoral degree in administration from Beijing Jiaotong University in June 1993, February 2006 and June 2016, respectively. Mr. FANG was granted the title of Senior Accountant (Professor) in December 2015 by China Communications Construction Company Limited.</p>

Name	Major working experience
ZHANG Zehong (張澤宏)	<p>Mr. ZHANG has served as our Supervisor since July 2011. Mr. ZHANG has been vice president of Shenzhen Huaqiang Holdings Limited since August 2014 and director of Shenzhen Huaqiang Industry Co., Ltd. (listed on the SZSE, stock code: 000062) since June 2012. Mr. ZHANG served as general manager of Huaqiang Industry from June 2012 to August 2014; vice president of Huaqiang Holdings from November 2011 to June 2012; assistant to the president of Huaqiang Holdings from January 2007 to November 2011; managing director of Shenzhen Huaqiang Dingxin Investment Co., Ltd. from December 2008 to June 2012; and head of the auditing department, the finance department, and the settlement center of Huaqiang Holdings from October 2003 to October 2008. Mr. ZHANG obtained a bachelor's degree in economics majoring in accounting from Xi'an Shiyou University (formerly known as Xi'an Shiyou College) in June 1994 and a master's degree in economics majoring in accounting from Shaanxi Institute of Finance and Economics (now merged into Xi'an Jiaotong University) in July 1997. Mr. ZHANG was granted the title of Intermediate Accountant by the Ministry of Finance in May 1999.</p>
ZHU Haibin (朱海彬)	<p>Mr. ZHU has served as our Supervisor since July 2007. Mr. ZHU was Director of the Company from March 2000 to July 2007. Mr. ZHU has worked at COFCO Property (Group) Co., Ltd. (listed on the SZSE, stock code: 000031) as deputy general manager since February 2006, and as director from February 2006 to March 2007. Mr. ZHU held various positions at Shenzhen Baoheng (Group) Co., Ltd. from September 1993 to February 2006 including being its director and general manager. Mr. ZHU obtained a master's degree in engineering from Zhejiang University in September 1995. He was granted the title of Senior Economist by COFCO in December 2012.</p>
YIN Hongyan (尹虹艷)	<p>Ms. YIN has served as our employee representative Supervisor since August 2007. Ms. YIN has been deputy general manager and general manager of our department of operations and administration since April 2009. Ms. YIN had held the following positions in the Company: manager of our Shenzhen Fumin Road securities branch from April 2007 to April 2009; assistant to general manager of our private customer service department from January 2006 to April 2007; deputy manager of our Shenzhen Fumin Road securities branch from January 2005 to January 2006; and assistant to manager and head of the customer service department of our Shenzhen Zhenhua Road securities branch from July 2000 to February 2005. Ms. YIN obtained a doctoral degree in law majoring in sociology from Nankai University in June 2006.</p>
ZHAN Guifeng (詹桂峰)	<p>Mr. ZHAN has served as our employee representative Supervisor since July 2011. Mr. ZHAN has served as general manager of our Investment Banking Department since July 2016, and deputy general manager and general manager of our audit and supervision department from April 2009 to June 2016; supervisor of CMS Asset Management since July 2015. He served various positions in the Company from October 1999 to April 2009, including finance head of the Shanghai branch and the investment banking department, assistant to general manager of our audit and supervision department, and deputy general manager of our finance department. Mr. ZHAN was also CFO of China Merchants Securities (HK) Co., Limited from July 2007 to April 2009. Mr. ZHAN obtained a bachelor's degree in engineering majoring in finance from Changsha University of Science & Technology (formerly Changsha College of Transportation) and a master's degree in business administration from Fudan University in June 1993 and June 2004, respectively. Mr. ZHAN was granted the qualification of Certified Public Accountant in December 1994 by the Ministry of Finance of the PRC.</p>

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
HE Min (何敏)	Ms. HE has served as our employee representative Supervisor since July 2009. Ms. HE served as deputy general manager of the finance department of the Company since April 2009; and assistant to the general manager of the finance department from April 2006 to April 2009. Ms. HE has worked at the finance department of the Company since July 1999. Ms. HE obtained a bachelor's degree in economics majoring in accounting and a master's degree in management majoring in accounting, both from Zhongnan University of Economics and Law (formerly Zhongnan University of Finance and Economics), in July 1996 and June 1999, respectively. Ms. HE was granted the qualification of Certified Public Accountant in October 1999 by the Chinese Institute of Certified Public Accountants.
XIONG Jiantao (熊劍濤)	Mr. XIONG has served as Vice President since December 2005. Mr. XIONG has served as chairman of the board of directors of China Merchants Futures since March 2008; director of Boseru Funds since November 2014; chairman of the board of directors of CMS Asset Management since March 2015; and director of CMS International since September 2015. Mr. XIONG served various positions in the Company from June 1995 to December 2005, including manager of computer department, general manager of computer center, general manager of the IT technology center and general technology director. Mr. XIONG had been seconded by the CSRC to be a member of the administrative take-over group of China Southern Securities. Mr. XIONG served as deputy manager of the information center of China Merchants Bank (listed on the SSE, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from April 1993 to June 1995. Mr. XIONG obtained a bachelor's degree in engineering majoring in telecommunications engineering from Nanjing University of Posts and Telecommunications (formerly Nanjing Institute of Posts and Telecommunications), a master's degree in engineering majoring in automatic instrumentation and installation from Huazhong University of Science and Technology and an executive master's degree in business management from Fudan University in July 1989, June 1992 and June 2014, respectively.
DENG Xiaoli (鄧曉力)	Ms. DENG has served as Vice President since November 2005 and Chief Risk Officer since August 2014, and secretary to the Board of the Company from August 2014 to December 2014. Joining the Company in November 2001, Ms. DENG served as deputy general manager and general manager of the risk management department of the Company from March 2002 to March 2006. Ms. DENG served as director of CMS International since January 2006, director of China Merchants Fund since November 2006 and vice chairman of the board of directors of China Merchants Fund since November 2013. Ms. DENG had been seconded by the CSRC to be a member of the administrative take-over group of China Southern Securities. Before joining the Company, Ms. DENG was senior analyst in the risk management department of Citigroup Inc. from August 1998 to October 2001 and senior risk analyst of Provident Financial Corporation from June 1997 to August 1998. Ms. DENG obtained a bachelor's degree in science majoring in management science from Shandong University, a master's degree in arts from the State University of New York and a doctoral degree in philosophy from the State University of New York in July 1989, December 1993 and December 1996, respectively. Ms. DENG was granted the title of Senior Economist (Finance) by the Shenzhen Human Resources and Social Security Bureau (深圳市人力資源和社會保障局) in December 2013.

Name	Major working experience
SUN Yizheng (孫議政)	Mr. SUN has served as Vice President since November 2009. Mr. SUN served as director of Guangdong Equity Exchange Co., Ltd. since September 2013. He was managing director and assistant to the president of the investment banking department of the Company from October 2007 to December 2009. Mr. SUN worked in the Listed Companies Department and the Listed Companies Supervision Department of the CSRC from February 1998 to April 2001. Mr. SUN obtained a master's degree in engineering majoring in management engineering from Xi'an Jiaotong University and a doctoral degree in management majoring in technical economics and management from Tsinghua University in June 1992 and January 2002, respectively.
DING Edward An Hua (丁安華)	Mr. DING has served as Vice President since October 2011. Mr. DING has been our chief economist since May 2009 and director of CMS International since December 2009 and the supervisor of China Merchants Fund since November 2016. Mr. DING acted as consultant of the management committee of the research center of the Company from May 2009 to December 2009 and was our Director from August 2007 to April 2011. Mr. DING also acted as director of China Merchants Bank (listed on the SSE, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from June 2007 to June 2010 and director of China Merchants Energy Shipping Co., Ltd. (Listed on SSE, stock code: 601872) from December 2004 to April 2010. Mr. DING held various positions at China Merchants Group from March 2001 to April 2009 and from October 1992 to December 1994, including the following: deputy general manager of the business development department; deputy general manager of the corporate planning department; general manager of the strategic research department; and chief researcher of the research department. Mr. DING obtained a bachelor's degree in engineering majoring in automobile application engineering from Changsha University of Science & Technology (formerly Changsha College of Transportation) and a master's degree in engineering majoring in industrial management engineering from South China University of Technology in October 1984 and December 1989, respectively.
LI Zongjun (李宗軍)	Mr. LI has served as Vice President since July 2015. He has served as chairman of the board of directors of CMS Zhiyuan since January 2015 and director of Ganzhou China Merchants Zhiyuan No. 1 Equity Investment Management Co., Ltd. (贛州招商致遠壹號股權投資管理有限公司) since June 2013. Mr. LI served as assistant to the President from December 2014 to July 2015; deputy general manager of China Merchants Capital Investments Co., Ltd. from April 2013 to January 2014; deputy general manager of the corporate planning department of China Merchants Group from February 2006 to April 2013; and assistant to the general manager of China Merchants Holdings (International) Co., Ltd. (listed on the Hong Kong Stock Exchange, stock code: 0144) from March 2003 to February 2006. Mr. LI served as deputy manager of the overseas listing department of COSCO's asset management center from September 1997 to April 1999; and assistant to the general manager of COSCO Finance Co., Ltd. (formerly COSCO Group Finance Co., Ltd.) and general manager of its Beijing securities department from March 1994 to October 1997. Mr. LI obtained a bachelor's degree in economics and a master's degree in economics, both from Nankai University, in June 1987 and April 1990, respectively. Mr. LI was granted the qualification of senior economist by the Ministry of Transport in October 1998.

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Name	Major working experience
WU Huifeng (吳慧峰)	<p>Mr. WU has served as Secretary to the Board since December 2014. Mr. WU had held the following positions in the Company: assistant to the President from May 2014 to March 2015; co-general manager of the Board office from June 2014 to June 2015; Supervisor from July 2007 to May 2014; and Director from May 2004 to July 2007. Mr. WU had held the following positions in China Merchants Finance Holdings Company Limited: deputy general manager from September 2013 to May 2014; assistant to the general manager from July 2008 to September 2013; general manager of human resources department from June 2008 to May 2010; general manager of the finance and audit department from June 1999 to June 2008. Mr. WU served as deputy manager of the finance department of Shanghai Nanshan Real Estate Development Co., Ltd. (上海南山房地產開發有限公司) (formerly Shanghai Chengnan Real Estate Development Company (上海誠南房地產開發公司)) from August 1998 to June 1999; and clerk and head of the settlement center of China Nanshan Development (Group) Co., Ltd. from June 1996 to August 1998. Mr. WU obtained a bachelor's degree in economics majoring in accounting from the Shanghai University of Finance and Economics and a master's degree in economics majoring in finance from Peking University in June 1996 and January 2012, respectively. Mr. WU was granted the qualification of accountant in May 1998 by the Ministry of Finance of the PRC.</p>
ZHAO Bin (趙斌)	<p>Mr. ZHAO has served as Chief Compliance Officer since January 2016. Mr. ZHAO has been director of China Merchants Futures and CMS Asset Management from July 2008 and from July 2015, respectively. He had served as general manager of our department of retail brokerage from April 2008 to January 2016, and during such period, he served as general manager of our channel management department from April 2013 to January 2014. Mr. ZHAO had also held the following positions in the Company: employee representative Supervisor from July 2007 to May 2011; general manager of private customer service department from January 2006 to April 2009; manager of our Shenzhen Nanshan Nanyou Road securities branch from August 2001 to January 2006; deputy manager (person-in-charge) of our Shenzhen Longgang securities branch from August 1999 to August 2001; and assistant to the general manager of brokerage business department from January 1999 to August 1999. Mr. ZHAO had held the following positions in the securities department of China Merchants Bank: assistant to the manager and manager of Haikou branch (營業部) from March 1996 to December 1998; head of Futian branch (營業部) from May 1995 to March 1996; and staff of the securities department from July 1992 to May 1995. Mr. ZHAO obtained a bachelor's degree in economics majoring in international finance from Shenzhen University and a master's degree in science majoring in project management from the University of Greenwich in June 1992 and February 2011 respectively.</p>

Name	Major working experience
<p>HONG Xiaoyuan (洪小源)</p>	<p>Mr. HONG was a Director of the Company from August 2007 to February 2016. Mr. HONG is currently an assistant to general manager of China Merchants Group Limited, chairman of the board of directors and chief executive officer of China Merchants Finance Holdings Company Limited, chairman of the board of directors and general manager of China Merchants Finance Investment Holdings Co., Ltd., chairman of the board of directors of China Merchants China Direct Investments Limited, Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd. and China Merchants Capital Investments Co., Ltd., and director of China Merchants Bank Co., Ltd.; Mr. HONG had previously served as an officer of Department of Overall Planning of the State Commission for Restructuring Economic Systems of China, and subsequently served as general manager of Shenzhen Longfan Industrial Co., Ltd. (深圳龍蕃實業股份有限公司), assistant to general manager of China Merchants Shekou Industrial Zone Co., Ltd., general manager of China Merchants Shekou Holdings Co. Ltd., general manager of China Merchants Technology Holdings Co., Ltd., deputy general manager of China Merchants Shekou Industrial Zone Co., Ltd. and general manager of China Merchants Finance Holdings Co., Ltd. since 1988; Mr. HONG had been director of China Credit Trust Co. Ltd. and Morgan Stanley Huaxin Fund Management Co., Ltd., chairman of the board of directors of China Merchants Kunlun Capital Co., Ltd., CM Houlder Insurance Brokers Limited, China Merchants Insurance Company Limited, China Merchants China Investment Management Limited, Bosera Asset Management Co., Limited and China Merchants Holdings (U.K.) Co., Ltd.. Mr. HONG obtained a bachelor degree in Economic Geography and a master degree in Economics from Peking University in July 1985 and February 1988, respectively, and a master degree in Science from the Australian National University in October 1993. Mr. HONG was granted the qualification of senior economist by the Department of Personnel of Guangdong Province in November 2007.</p>
<p>SUN Yueying (孫月英)</p>	<p>Ms. SUN was a Director of the Company from March 2001 to May 2016. Ms. SUN has served as director of COSCO SHIPPING Development Co., Ltd. (listed on the SSE, stock code: 601866; listed on the Hong Kong Stock Exchange, stock code: 2866) since July 2016, chief accountant of China COSCO Shipping Corporation Limited since February 2016, non-executive director of China COSCO Holdings Company Ltd. from February 2005 to December 2016, chairman of the board of directors of COSCO Finance Co., Ltd. since August 2009 and director of China Merchants Bank since April 2001. Ms. SUN joined China Ocean Shipping (Group) Company from October 1997 to January 2016, and had served as deputy manager and general manager of the Finance and Capital Division and deputy accountant; Ms. SUN had served as director and department manager of General Affairs Division of COSCO Japan Co., Ltd. (中遠日本公司) from September 1993 to October 1997, and served in the finance department and the telecommunications office of Tianjin Ocean Shipping Co., Ltd. from August 1982 to September 1993. Ms. SUN obtained a bachelor degree in water transport finance and accounting from Shanghai Maritime University. Ms. SUN was granted the qualification of senior accountant by the Ministry of Finance in October 2003.</p>

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Name	Major working experience
XU Hua (徐華)	Mr. XU was an independent Director of the Company from July 2013 to July 2016. Mr. XU has served as chief accountant and principle partner of Grant Thornton Accounting Firm (Limited Liability Partnership) (致同會計師事務所(特殊普通合伙)) since July 1998; Mr. XU had been the Deputy Secretary-General of the Beijing Institute of Certified Public Accountants from June 1993 to June 1998, and the director of Beijing Municipal Bureau of Finance from September 1983 to May 1993. Mr. XU obtained a bachelor degree in Finance and a master degree in Accounting from Capital University of Economics and Business (formerly known as Beijing Institute of Finance and Trade). Mr. XU was granted the qualification of senior accountant by the Beijing Evaluation Committee of Senior Professionals in November 1995; he is also a certified accountant.
ZHANG Weihua (張衛華)	Ms. ZHANG was the Compliance Director of the Company from April 2009 to January 2016. Ms. ZHANG has served as an advisor of the Company since April 2016 and a senior advisor of the Company from January to April 2016, and had acted as the Compliance Director of the Company from April 2009 to January 2016. Ms. ZHANG has been the chief supervisor of China Merchants Fund from August 2010 to November 2016. Ms. ZHANG had served as chief auditor of the audit and supervision department, assistant to president and general manager of the audit department of the Company, and assistant to general manager of the securities department of the headquarters of China Merchants Bank. Ms. ZHANG holds a postgraduate degree.

(II) Share Options Granted to Directors and Senior Management during the Reporting Period

During the Reporting Period, none of the Directors or senior management of the Company was granted any share options.

II. POSITIONS OF INCUMBENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT AND THOSE RESIGNED DURING THE REPORTING PERIOD

(I) Positions in shareholders

Name	Name of shareholder	Position	Date of Appointment	Date of Termination
CAO Dong	Hebei Port Group Co., Ltd.	Head of the audit department	May 2010	January 2017
FANG Xiaobing	China Communications Construction Company Ltd.	General manager of the financial management department	August 2014	to date
HONG Xiaoyuan	CM Finance Investment	Chairman of the board of directors	July 2007	to date
	CM Finance Investment	General manager	January 2009	to date

Statement of positions in shareholders' company

(II) Positions in other companies

Name	Name of company	Position	Date of Appointment	Date of Termination
SU Min (蘇敏)	China Merchants Finance Holdings Company Limited	General manager	September 2015	to date
	China Merchants Finance Holdings Company Limited	Director	December 2015	to date
	China Merchants Capital Investments Co., Ltd.	Supervisor	January 2016	to date
	China Merchants Innovative Investment Management Co., Ltd.	Director	November 2015	to date
	China Merchants Bank	Director	September 2014	to date
	Shenzhen China Merchants Qihang Internet Investment Management Co., Ltd.	Chairman of the board of directors	November 2015	to date
HUA Li (華立)	China Merchants Group	Head of the finance department (property rights department)	January 2012	to date
	China Merchants Finance Holdings Co., Ltd.	Director	December 2015	to date
	China Merchants Energy Shipping Co., Ltd.	Director	April 2014	to date
	China Merchants Expressway Network & Technology Holdings Co., Ltd.	Director	August 2016	to date
	China Merchants Port Holdings Company Limited	Director	October 2016	to date
	China Merchants Industry Holdings Co., Ltd.	Director	May 2012	to date
	China Merchants Logistics Holding Co., Ltd.	Director	May 2012	to date
	Sinotrans & CSC Holdings Co., Ltd.	Director	June 2016	to date
	China Merchants Chongqing Transportation Research and Design Company Limited	Director	May 2012	to date
XIONG Xianliang (熊賢良)	China Merchants Group	Head of strategic development department (information management department and research department)	March 2015	to date
	China Merchants Group	Head of the security and supervision department	February 2017	to date

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Name	Name of company	Position	Date of Appointment	Date of Termination
WANG Yan (王岩)	The fifth session of Council of Securities Association of China	Vice president, standing council member	May 2012	to date
	Council of the SZSE	Council member	February 2012	to date
	Self-disciplinary Management Committee under Council of the SZSE	Chairman of committee	November 2014	to date
	Member Management Committee under Council of the SSE	Committee member	August 2012	to date
	Supervisory Board of the SSE	Supervisor	September 2016	to date
	The People's Government of Jilin Province	Economic and Technical Consultant	July 2012	to date
	The People's Government of Ganzhou, Jiangxi Province	Economic Consultant	January 2013	to date
	CMS International	Chairman of the board of directors	September 2015	to date
GUO Jian (郭健)	China Merchants Kunlun Capital Co., Ltd.	General manager	April 2014	to date
	Zhongxinjian Merchant Equity Investment Co., Ltd.	General manager	April 2014	to date
	China Merchants Capital Investments Co., Ltd.	Deputy general manager	May 2014	to date
	Shenzhen China Merchants Sanxin Capital Management Co., Ltd. (深圳市招商三新資本管理有限責任公司)	Chairman of the board of directors	April 2015	to date
	Shenzhen China Merchants Hongda Capital Management Co., Ltd. (深圳市招商洪大資本管理有限責任公司)	Vice chairman of the board of directors	August 2015	to date
	Shenzhen Xinzha Zhongan Capital Management Co., Ltd. (深圳市新招中安資本管理有限責任公司)	Chairman of the board of directors	December 2015	to date
	CECEP Solar Energy Co., Ltd.	Director	May 2014	March 2016
	Shenzhen China Merchants Guoxie No. 1 Equity Investment Fund Management Co., Ltd. (深圳市招商國協壹號股權投資基金管理有限公司)	Director, general manager	October 2016	to date
	Shenzhen China Merchants Yinhe Equity Investment Fund Management Co., Ltd. (深圳市招商銀和股權投資基金有限公司)	Director	October 2016	to date
PENG Lei (彭磊)	China Merchants Finance Holdings Company Limited	Deputy general manager	April 2016	to date
	Morgan Stanley Huaxin Fund Management Co., Ltd.	Director	March 2015	to date
	China Great Wall Securities Co., Ltd.	Director	June 2011	to date

Name	Name of company	Position	Date of Appointment	Date of Termination
WANG Daxiong (王大雄)	COSCO SHIPPING Financial Co., Limited	Chairman of the board of directors	March 2014	to date
	COSCO SHIPPING Development Co., Ltd.	Chief Executive Officer	May 2016	to date
	COSCO SHIPPING Development Co., Ltd.	Executive director	May 2016	to date
	China Merchants Bank Co., Ltd.	Director	November 2016	to date
	CIB Fund Management Co., Ltd.	Director	April 2016	to date
	New China COSCO Financial Holdings Limited (新華遠海金融控股有限公司)	Vice chairman of the board of directors	March 2017	to date
HUANG Jian (黃堅)	China COSCO Shipping Corporation Limited	General manager of capital operation department	September 2016	to date
	COSCO SHIPPING Development Co., Ltd.	Non-executive Director	June 2016	to date
CAO Dong (曹棟)	Qinhuangdao Port Co., Ltd.	Head of the audit department	March 2012	to date
	Qinhuangdao Port Co., Ltd.	Employee supervisor	August 2010	to date
	Qinhuangdao Haiyun Coal Transaction Market Co., Ltd. (秦皇島海運煤炭交易市場有限公司)	Chairman of the supervisory committee	May 2011	to date
	Tangshan Caofeidian Shiye Port Co., Ltd. (唐山曹妃甸實業港務有限公司)	Supervisor	April 2011	to date
	Cangzhou Bohai Port Co., Ltd. (滄州渤海港務有限公司)	Chairman of the supervisory committee	March 2012	to date
	SDIC Caofeidian Port Co., Ltd.	Supervisor	April 2011	to date
YI Xiqun (衣錫群)	China Association of Private Equity	Executive vice president	October 2010	to date
	Industrial and Commercial Bank of China	Independent non-executive director	December 2013	April 2016
	Asian Capital Holdings Limited	Independent non-executive director	June 2010	April 2016
	Zheshang Jinhui Trust Holdings Limited (浙商金匯信託股份有限公司)	Independent director	December 2010	April 2016
	Zhongguancun Entrepreneurs Consultancy Committee (中關村企業家顧問委員會)	Committee member	March 2010	to date
LIU Jialin (劉嘉凌)	Cinda International Asset Management Limited	Managing director	February 2011	to date
	Far East Horizon Ltd.	Independent director	March 2011	to date
DING Huiping (丁慧平)	Beijing Jiaotong University	Professor and Ph.D. tutor	July 1999	to date
	Center for Enterprise Competitiveness Research	Head	July 2007	to date
	Huadian Power International Corporation Limited	Independent director	May 2014	to date
	Metro Land Corporation Ltd.	Independent director	April 2015	to date
	China Merchants Bank	External supervisor	June 2016	to date
	Shandong International Trust Co., Ltd.	Independent director	August 2015	to date

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Name of company	Position	Date of Appointment	Date of Termination
ZHU Haiwu (朱海武)	Ruihua Certified Public Accountants	Partner	January 2000	to date
	Shanxi Securities Co., Ltd.	Independent director	May 2015	to date
	Sinosteel Engineering & Technology Co., Ltd.	Independent director	September 2014	to date
	Huayuan Property Co., Ltd.	Independent director	November 2014	to date
	Tangshan Sunfar Silicon Industry Co., Ltd.	Independent director	December 2011	to date
	Guangdong Tianhe Agricultural Means of Production Co., Ltd.	Independent director	August 2012	to date
YANG Jun (楊鈞)	Shanghai United Assets and Equity Exchange	Assistant to the president, general manager of the Beijing headquarters, head of financial property transaction center, COO of equity trading and general manager of the equity trading department	July 2005	to date
	Shanghai Zhenhua Heavy Industries Company Limited	Independent director	April 2015	to date
LI Xiaofei (李曉霏)	China Merchants Finance Holdings Company Limited	Assistant to the general manager	November 2014	to date
	China Merchants Finance Holdings Company Limited	General manager of the human resources department	May 2010	September 2016
	China Great Wall Securities Co., Ltd.	Supervisor	July 2015	to date
	Shenzhen China Merchants Qihang Internet Investment Management Co., Ltd. (深圳招商啓航互聯網投資管理有限公司)	Supervisor	July 2016	to date
LIU Chong (劉冲)	China International Marine Containers (Group) Co., Ltd.	Non-executive Director	May 2016	to date
	CIB Fund Management Co., Ltd.	Supervisor	May 2016	to date
	China Shipping Investment Co., Ltd.	General manager	October 2012	to date
	COSCO SHIPPING Development Co., Ltd.	Executive director	May 2016	to date
	COSCO SHIPPING Development Co., Ltd.	General manager	March 2016	to date
	China Shipping (Group)Leasing Co., Ltd.	General manager	August 2014	to date
FANG Xiaobing (房小兵)	Beijing United Development Co., Ltd (北京聯合置業有限公司)	Director	July 2005	to date
	Jiang Tai Insurance Brokers Co., Ltd.	Supervisor	October 2015	to date
	CCCC Shanghai Equipment Engineering Co., Ltd	Director	December 2007	to date
	CCCC Finance Company Ltd.	Director	March 2016	to date
	CCCC Fund Management Co., Ltd.	Director	August 2016	to date
ZHANG Zehong (張澤宏)	Shenzhen Huaqiang Holdings Limited	Vice president	August 2014	to date
	Shenzhen Huaqiang Industry Co., Ltd.	Director	June 2012	to date
	Shenzhen Huaqiang Electronic Commerce Co., Ltd.	Director	April 2013	to date

Name	Name of company	Position	Date of Appointment	Date of Termination
ZHU Haibin (朱海彬)	COFCO Property (Group) Co., Ltd.	Deputy general manager	February 2006	to date
ZHAN Guifeng (詹桂峰)	CMS Asset Management	Supervisor	July 2015	to date
XIONG Jiantao (熊劍濤)	Agency Committee of Securities Association of China (中國證券業協會經紀業委員會)	Vice chairman	September 2011	to date
	China Merchants Futures	Chairman of the board of directors	March 2008	to date
	Bosera Funds	Director	November 2014	to date
	CMS Asset Management	Chairman of the board of directors	March 2015	to date
	CMS International	Director	September 2015	to date
DENG Xiaoli (鄧曉力)	Financial Accounting and Risk Control Committee of Securities Association of China	Vice chairman	July 2011	to date
	CMS International	Director	January 2006	to date
	China Merchants Fund	Vice chairman of the board of directors	November 2013	to date
SUN Yizheng (孫議政)	Investment Bank Committee under Securities Association of China (中國證券業協會投資銀行專業委員會)	Vice chairman	November 2014	to date
	Guangdong Equity Exchange Co., Ltd.	Director	September 2013	to date
	ECT	Director	January 2015	to date
DING Edward An Hua (丁安華)	CMS International	Director	December 2009	to date
	China Merchants Fund	Chairman of the supervisory committee	November 2016	to date
LI Zongjun (李宗軍)	CMS Zhiyuan	Chairman of the board of directors	January 2015	to date
	Ganzhou China Merchants Zhiyuan No.1 Equity Investment Management Company Limited (贛州招商致遠一號股權投資管理有限公司)	Director	June 2013	to date

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Name of company	Position	Date of Appointment	Date of Termination
WU Huifeng (吳慧峰)	China Merchants Capital Investments Co., Ltd.	Supervisor	January 2012	January 2016
ZHAO Bin (趙斌)	China Merchants Futures	Director	July 2008	to date
	CMS Asset Management	Director	July 2015	to date
HONG Xiaoyuan (洪小源)	China Merchants Group	Assistant to general manager	September 2011	to date
	China Merchants Finance Holdings Co., Ltd.	Chairman of the board of directors and chief executive officer	March 2015	to date
	China Merchants China Direct Investments Ltd.	Chairman of the board of directors	November 2014	to date
	China Merchants Securities (UK) Limited	Chairman of the board of directors	July 2007	May 2016
	Shenzhen CMB Qianhai Financial Asset Exchange Co., Ltd.	Chairman of the board of directors	February 2015	to date
	China Merchants Capital Investments Co., Ltd.	Vice chairman of the board of directors	January 2016	to date
	China Merchants Bank	Director	June 2007	to date
SUN Yueying (孫月英)	COSCO SHIPPING Development Co., Ltd.	Chairman of the board of directors	July 2016	to date
	China COSCO Shipping Corporation Limited	Chief accountant	February 2016	to date
	China COSCO Holdings Company Limited	Non-executive director	February 2005	to date
	China COSCO Finance Co., Ltd.	Chairman of the board of directors	August 2009	to date
	China Merchants Bank	Director	April 2001	to date
XU Hua (徐華)	Grant Thornton	Head accountant and senior partner	July 1998	to date
ZHANG Weihua (張衛華)	Shenzhen Internal Audit Association	Vice president and standing council member	January 2012	to date
	CMS Investment	Supervisor	December 2013	to date
Statement of positions in other companies	None			

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making procedures of remuneration of Directors, Supervisors and senior management	The Remuneration and Appraisal Committee under the Board shall provide recommendations to the Board regarding the remuneration structure and policy of the Directors and senior management of the Company.
Basis for determination of remuneration of Directors, Supervisors and senior management	Remuneration of the senior management shall be based on the remuneration and appraisal system of the Company.
Remuneration paid to Directors, Supervisors and senior management	Please refer to "I. Change in Shareholdings and Remuneration" of this chapter.
Aggregate remuneration payable to Directors, Supervisors and senior management as of the end of the Reporting Period	Please refer to "I. Change in Shareholdings and Remuneration" of this chapter.

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Change and effective date	Date of Change	Reason
HONG Xiaoyuan (洪小源)	Director	Resigned	February 29, 2016	Other work arrangement
SUN Yueying (孫月英)	Director	Resigned	May 3, 2016	Other work arrangement
XU Hua (徐華)	Independent director	Resigned	July 20, 2016	Other work arrangement
SU Min (蘇敏)	Director	Appointed	June 13, 2016	Elected at the shareholders' meeting
WANG Daxiong (王大雄)	Director	Appointed	September 21, 2016	Elected at the shareholders' meeting
ZHU Haiwu (朱海武)	Independent director	Appointed	July 20, 2016	Elected at the shareholders' meeting
ZHANG Weihua (張衛華)	Chief compliance officer	Resigned	January 15, 2016	Retired
ZHAO Bin (趙斌)	Chief compliance officer	Appointed	January 15, 2016	Appointed by the board of directors

V. MEMBERS OF COMMITTEES UNDER THE BOARD

The Board of the Company has set up five committees, namely the Strategy Committee, Risk Management Committee, Audit Committee, Remuneration and Appraisal Committee and Nomination Committee. Members of each of the committees are set out as follows:

- (I) Strategy Committee with 7 committee members: GONG Shaolin (convener), XIONG Xianliang, WANG Yan, GUO Jian, HUANG Jian, CAO Dong and LIU Jialin.
- (II) Risk Management Committee with 7 committee members: SU Min (convener), HUA Li, WANG Yan, PENG Lei, WANG Daxiong, CAO Dong and LIU Jialin.

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- (III) Audit Committee with 5 committee members: ZHU Haiwu (convener), HUA Li, HUANG Jian, DING Huiping and YANG Jun.
- (IV) Remuneration and Appraisal Committee with 5 committee members: YI Xiquan (convener), SU Min, CAO Dong, LIU Jialin and ZHU Haiwu.
- (V) Nomination Committee with 5 committee members: DING Huiping (convener), WANG Yan, PENG Lei, YI Xiquan and YANG Jun.

VI. PENALTIES BY SECURITIES REGULATORY AUTHORITIES IN THE LAST THREE YEARS

The Directors, Supervisors and senior management of the Company have not been subject to any penalties by securities regulatory authorities in the last three years.

VII. EMPLOYEES OF THE PARENT COMPANY AND MAJOR SUBSIDIARIES

(I) Employees

Number of employees of the parent company (including securities agents)	10,069
Number of employees of major subsidiaries	748
Total number of employees	10,817
Number of resigned and retired employees with expenses borne by the parent company and major subsidiaries	36
Classification by business function	
Business function	Number
Management and administration	329
Securities and futures brokerage	8,546
Investment banking	878
Investment management	177
Investment and trading	118
Research	180
Legal and compliance, risk management and internal audit	121
IT	249
Finance and accounting	130
Others	89
Total	10,817
Classification by education background	
Education background	Number (person)
Doctor	78
Master	2,367
Bachelor	5,884
Below bachelor's Degree	2,488
Total	10,817

(II) Remuneration

The general remuneration policy of the Company is formulated by the Board mainly based on the remuneration of benchmark companies as well as the performance of major indicators of the Company. The management is responsible for allocating the total remuneration according to the market-oriented and performance-based principles, which shall consist of fixed remuneration determined based on the market remuneration data provided by professional management consulting company and the ranking of the Company among its major competitors, and bonus determined at the discretion of the President mainly according to the achievement of key performance indicators of each department, strategic tasks, and objectives in terms of innovation and synergy as well as the market rate.

(III) Training

According to the strategy of “catching up and forging ahead”, the Company planned and implemented classified and specific training programs under the theme of “Year of Marketing (營銷年)”, including profession, management and general training programs, covering all employees in order to support their growth and enhance the core competitiveness of the Company.

1. Profession training was organized for all employees to raise their profession in securities and innovation capability through a series of internal themed training covering marketing, integrated operation, innovative businesses and basic skills.
2. Management training was provided for new and current management and senior management members to enhance their overall management abilities through themed training programs covering leadership, global vision and the latest financial knowledge.
3. General training was mainly provided for basic level employees to improve their professionalism through various forms of online and offline training programs covering diversified subjects including corporate culture, compliance and risk control, rules and systems, business procedures and office skills.

(IV) Outsourced services

Hours of outsourced services	586,250 hours
Total remuneration paid for outsourced services	RMB39.54 million

VIII. OTHERS

As of December 31, 2016, the Company entered into the securities agency contracts with 3,754 agents.

The Company adopted categorized and classified management on its agents. In respect of categorized management, the headquarters of the Company is responsible for formulating centralized systems and regulations on the recruitment, remuneration, performance assessment, training, compliance management and routine code of conduct, while branch companies and branches shall determine their respective systems on recruitment, profit sharing commission rate, training and assessment for the marketing personnel under the framework formulated by the Company. In respect of classified management, the Company classifies its marketing personnel into different grades according to their sales performance, education background, professional qualifications, compliance with laws and regulations and general qualifications. Marketing personnel are assigned with different remuneration package and scope of business according to their grades. In particular, general marketing staff are mainly responsible for soliciting new customers, while those with exceptional performance and higher qualifications are responsible for serving customers with a specific level of assets.

Chapter 8: Corporate Governance Report

I. OVERVIEW OF CORPORATE GOVERNANCE

The Company, being a company listed in Hong Kong and the PRC, manages its operation in strict compliance with the laws, regulations and regulative documents of the places where its shares are listed, and strives to protect and enhance its corporate image. The Company continues to improve its corporate governance structure in compliance with the Company Law, Securities Law and the regulations and requirements of the CSRC, SFC and the Hong Kong Stock Exchange. The corporate governance of the Company complies with the applicable requirements of the laws and regulations. The Company has established a corporate governance structure consisting of the shareholders' general meeting, the Board, the Supervisory Committee and the management with separate duties and effective checks and balances in order to maintain regulated corporate governance and operation. In 2016, the Company has adopted the Corporate Governance Code under Appendix 14 of the Hong Kong Listing Rules as the guideline of its corporate governance.

From the listing date of H shares to December 31, 2016, the Company strictly complied with Corporate Governance Code under Appendix 14 of the Hong Kong Listing Rules and Corporate Governance Report (hereinafter referred to as the "Code and Report"). The Company satisfied all provisions under the Code and Report and substantially all of the recommended best practices under the Code and Report.

During the Reporting Period, the Company held a total of 38 meetings, including three shareholders' general meetings, 14 Board meetings, five meetings of the Supervisory Committee, and one meeting of the Strategy Committee, four meetings of the Risk Management Committee, six meetings of the Audit Committee, two meetings of the Nomination Committee and three meetings of the Remuneration and Appraisal Committee under the Board.

The corporate governance structure of the Company is comprehensive and does not delineate from the relevant requirements of the regulatory authorities of the places where its shares are listed.

(I) Shareholders and Shareholders' General Meetings

The shareholders' general meeting is the highest institution of authority of the Company which allows shareholders to exercise their powers. The Company convenes and holds shareholders' general meetings in strict compliance with the relevant rules, including the Articles of Association and the Rules of Procedures for General Meetings to ensure all of the shareholders, especially the minority shareholders, are treated fairly to fully exercise their rights.

The controlling shareholder of the Company exercises its rights according to the applicable laws, regulations and the Articles of Association, and does not interfere directly or indirectly in the decision-making or operating activities of the Company beyond the authority of the shareholders' general meeting, occupy the funds of the Company or request the provision of any guarantee from the Company in favour of itself or other parties. The de facto controller of the Company is not involved in the personnel, assets, finance, organisations and business of the Company.

(II) Directors and the Board

The appointment and replacement of Directors of the Company are in strict compliance with the Articles of Association, and the number of Directors and composition of the Board fulfil the requirement of laws and regulations. The Board refines its rules of procedures from time to time and the convention, holding and voting procedures of the Board meetings are legal and effective. The Board has set up five committees, including the Risk Management Committee, the Strategy Committee, the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee, and formulated rules, clear division of authorities of each committee, decision procedures

and rules of procedures. The Company has improved the system of independent directors and set up a work system of independent directors, which can protect the interests of the Company and shareholders independently and objectively and ensure effective checks and balances during the decision making process of the Board. In addition, the Company has set up a system of secretary to the Board. The Secretary to the Board is responsible for the preparation of the shareholders' general meetings, Board meetings and meetings of committees under the Board, the filing of minutes and documents of the meetings, information disclosure and management of investor relations, and the submission of the documents of the shareholders' general meetings, Board meetings and meetings of the Supervisory Committee to the local branches of the CSRC.

The Company believes the diversified composition of the Board is the key factor in achieving its strategic targets and sustainable development. As such, the Company has formulated the Policy of Diversified Composition of the Board (《董事會成員多元化政策》) which suggested that the composition of the Board shall be diversified in terms of gender, age, culture and education background, professional experiences, skill, knowledge and popularity. The selection of members will be based on their ability and potential contribution to the Board. The nomination of the members of the Board shall be carried out in accordance with the principle of merit, and shall fully consider the diversity of the composition of the Board in an objective manner. The Nomination Committee will report the diversity of the composition of the Board in each annual report. It is also responsible for supervising the implementation of the Policy of Diversified Composition of the Board, which will be reviewed when necessary to ensure its effectiveness. The Nomination Committee will discuss any necessary amendments to the Policy of Diversified Composition of the Board and the proposed amendments will be considered and approved by the Board.

(1) Composition of the Board

The Company shall have a board of directors accountable to the shareholders' general meeting. According to the requirements of the Articles of Association, the Board consists of 15 directors, including independent Directors of not less than one-third of the total number of Directors. There are two executive Directors (GONG Shaolin and WANG Yan), eight non-executive Directors (SU Min, XIONG Xianliang, HUA Li, GUO Jian, PENG Lei, WANG Daxiong, HUANG Jian and CAO Dong) and five independent non-executive Directors (YI Xiqun, LIU Jialin, DING Huiping, ZHU Haiwu and YANG Jun) in the Board of the Company. The Directors are elected at shareholders' general meetings. They serve a term of three years which starts from the date on which they are elected at the shareholders' general meeting and their qualifications as directors of securities company are obtained from the CSRC or its authorised institutions. Directors are eligible for re-elections upon expiry of their terms of office. Independent non-executive Directors shall not hold office for more than six consecutive years. Please see "I. Change in Shareholdings and Remuneration" in "Directors, Supervisors, Senior Management and Employees" under Chapter 7 of this report for the composition of the Board and the biography of the Directors of the Company.

The Board of the Company is in compliance with the requirement of the Hong Kong Listing Rules that the board of directors shall comprise at least three independent non-executive directors, representing at least one-third of the board of directors. The qualifications of the five independent non-executive Directors of the Company fully comply with the requirements under Rules 3.10(1) and (2) and 3.10(A) of the Hong Kong Listing Rules. In addition, the Company has received annual written confirmation from each of the independent non-executive Directors prepared according to Rule 3.13 of the Hong Kong Listing Rules with regard to their independence. Therefore, the Company confirms that all independent non-executive Directors of the Company have fulfilled the independence requirement under the Hong Kong Listing Rules.

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(2) *Duties and responsibilities of the Board*

The Board is the decision-making body of the Company and shall report its work to the shareholders' general meeting. According to the Articles of Association, the Board shall exercise the following major functions and powers: to convene shareholders' general meetings and to report to shareholders' general meetings; to implement the resolutions of the shareholders' general meetings; to determine business operation plans and investment plans of the Company; to formulate annual preliminary and final financial budgets of the Company; to formulate the profit distribution plans and plans for recovery of losses of the Company; to formulate proposals of the Company regarding increase or reduction of the registered capital, issuance of bonds or other securities and listing; to formulate plans for any substantial acquisition by the Company, repurchase of shares or merger, division, dissolution and change of form of the Company; to decide on matters relating to the Company's external investments, acquisitions or disposal of assets, mortgage of assets, external guarantees, entrusted wealth management and connected/related party transactions as authorized by the shareholders' general meetings; to decide on the establishment of the Company's internal management structure; to appoint or dismiss the Company's general manager and secretary to the Board; based on the nominations of general manager, to appoint or dismiss deputy general manager, chief finance officer, chief compliance officer and other senior management and to determine their remuneration, rewards and penalties; to formulate the basic management policies of the Company, including the basic compliance management system; to formulate proposals for any amendments to the Articles of Association; to manage the disclosure of information of the Company; to propose to shareholders' general meetings the adjustment of the size and composition of the Board; to propose to the shareholders' general meetings the appointment or change of the accounting firm acting as the auditors of the Company; to listen to the work report of the general manager of the Company and examine on the general manager's work; to review compliance reports regularly submitted by the Company in accordance with regulatory requirements and evaluate the effectiveness of compliance management of the Company; to ensure the independence of the chief compliance officer, guarantee the independent communication between the chief compliance officer and the Board and safeguard the smooth reporting between the chief compliance officer and the regulatory authority; other duties and powers granted by the laws, administrative rules, departmental regulations and the Articles of Association.

(III) **Supervisors and Supervisory Committee**

The appointment and replacement of Supervisors of the Company are in strict compliance with the Articles of Association, and the number of Supervisors and composition of the Supervisory Committee fulfil the requirement of laws and regulations. The Supervisory Committee refines its rules of procedures from time to time and the convention, holding and voting procedures of the meetings of the Supervisory Committee are legal and effective. The Supervisory Committee shall report to the shareholders' general meeting and is accountable to all shareholders. It is responsible for maintaining effective supervision on the finance of the Company as well as the compliance of duty performance of the Board and management. The Supervisory Committee shall perform their duties, including attending the meetings of the Supervisory Committee, observing the meetings of the Board, reporting their work at the shareholders' general meeting and submitting the report of the Supervisory Committee, in accordance with the relevant requirements.

The Supervisory Committee is the supervisory authority of the Company and is accountable to all shareholders. The Supervisory Committee shall, pursuant to the regulations of the Company Law and the Articles of Association, be responsible for the supervision of the financial activities and internal control of the Company, and the legality and compliance of the Board, operation management and its members in the discharge of their duties.

The Supervisory Committee currently consists of nine Supervisors. The Supervisors include six shareholder representative Supervisors and three employee representative Supervisors. The shareholder representative Supervisors and the employee representative Supervisors are elected at the shareholders' general meetings and the employee representative meetings, respectively, for a term of three years and are eligible for re-election upon expiry of their terms of office. For details of the composition of the Supervisory Committee and the biographies of the Supervisors, see "I. Change in shareholdings and remuneration" in "Directors, Supervisors, Senior Management and Employees" under Chapter 7 of this report.

(IV) Senior Management

The Company strictly complies with the Articles of Association in relation to the appointment and replacement of senior management. The senior management of the Company shall be appointed based on the procedures in compliance with the Company Law and Articles of Association. The operation and management of the Company adopt an accountability system under which the President shall be held accountable. The President shall be accountable to the Board while the Vice Presidents and other senior management shall be accountable to the President and assist the President based on his authorization. The Financial Management Committee, the Risk Management Committee, the IT Committee, the Product Committee and the Innovative Development Committee are set up under the President to enhance the professionalism, compliance and efficiency of the decisions of the management.

According to the Articles of Association, the business management consists of the general manager, the deputy general managers, the Secretary to the Board, the chief financial officers, the chief compliance officer and other personnel approved by the resolutions of the Board as senior management. The general manager is in charge of the business management, and shall be accountable to the Board and perform the following duties: to be in charge of the operation and management of the Company, organize the execution of the resolutions of the Board and report his/her work to the Board; to prepare and implement the annual operation plan and investment plan of the Company; to formulate the internal management structure of the Company; to formulate the basic management system of the Company; to formulate rules and regulations for the Company; to propose to the Board the appointment or dismissal of the deputy general managers, chief financial officer, chief compliance officer and other senior management (other than the Secretary to the Board); to appoint or dismiss management members other than those required to be appointed or dismissed by the Board; to perform other duties delegated by the Articles of Association or the Board.

(V) Chairman and President

For the purpose of balancing power and authority, the roles of Chairman and President of the Company shall be separate to enhance the independence of their duties, accountability, balanced division of power and authority, and to fully exercise their extensive supervision and control over the executive officers. Mr. GONG Shaolin and Mr. WANG Yan serve as the Chairman and President of the Company, respectively. There is clear division between the roles of Chairman and the President. According to the Articles of Association, the Chairman shall be the legal representative of the Company who is responsible for managing the operation of the Board to ensure that the Directors act in the best interests of the Company. The Chairman shall also ensure the effectiveness and the performance of the duties of the Board, and that the Board discusses all significant and appropriate matters such that the Directors can obtain accurate, timely and clear data. The President shall be in charge of the daily work of the Company, observe Board meetings, report to the Board, and exercise his power pursuant to the scope of authorization of the President.

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(VI) Liability Insurances for the Directors, Supervisors and Senior Management of the Company

As authorized in the sixth extraordinary general meeting of the Company for 2015, the Company has maintained the liability insurance for the Directors, Supervisors and senior management and other relevant personnel effective from 00:00 on September 26, 2016 to 24:00 on September 25, 2017. Insurance coverage has been provided for the Directors, Supervisors and senior management of the Company against potential liabilities to reasonably avoid management and legal risks faced by the Directors, Supervisors and senior management of the Company and to facilitate the full discharge of duties by the Directors, Supervisors and senior management.

(VII) Information Disclosure and Transparency

The Company has formulated several information disclosure systems, including Information Disclosure System (《信息披露制度》), Material Information Internal Report System (《重大信息內部報告制度》), Confidentiality System of Inside Information (《內幕信息保密制度》), Registration System for Persons with Inside Information (《內幕信息知情人登記制度》), Investor Relations Management System (《投資者關係管理制度》), Accountability System for Major Mistakes Disclosed in Annual Reports (《年報信息披露重大差錯責任追究制度》), Annual Report Work System for the Independent Directors (《獨立董事年報工作制度》) and Annual Report Work Procedures for the Audit Committee Under the Board (《董事會審計委員會年報工作規程》). The Secretary to the Board is responsible for the information disclosure, reception of visiting shareholders and answering their enquiries. The Company is able to truthfully, accurately, completely and promptly disclose information and ensure all shareholders can have equal opportunities for obtaining information in accordance with the requirements of the laws, regulations and the Articles of Association. The Company is also able to disclose the information of the substantial shareholders and the changes in shareholding according to the related requirements. Other than the information disclosure channels required by the laws, the Company mainly communicates with investors by phone, email, internet platform, reception of visitors and participating in investor meetings.

(VIII) Stakeholders

The Company protects the rights and interests of the creditors, customers, employees and other stakeholders through its systems and different aspects of its business operation. Efforts are also made to ensure the sustainable and healthy development of the Company in pursuit of a win-win situation between the Company and its stakeholders as well as to maximise the effectiveness of its social contribution.

(IX) Miscellaneous

There are no relationships (including financial, business, family or other major relationships or connection) among the Directors, Supervisors and senior management.

II. SHAREHOLDERS' GENERAL MEETINGS

Meeting	Date of meeting	Resolutions	Poll results	Inquiry index of designated website for the publication of poll results	Date of publication
2015 Annual General Meeting	April 22, 2016	Working report of the Board for 2015; working report of the Supervisory Committee for 2015; duty report of independent Directors for 2015; 2015 annual report and its highlights of the Company; resolution on profit distribution of the Company for 2015; resolution on budget for proprietary investment of the Company for 2016; resolution on contemplated ordinary related party transactions of the Company for 2016; resolution on the appointment of auditing firm of the Company for 2016; resolution on the change of Directors; resolution regarding the plan for subscription of H Shares by management and key employees of the Company through asset management plans (draft).	Passed	SSE website	April 23, 2016
2016 First Extraordinary General Meeting	June 30, 2016	Resolution on change of the independent directors; resolution on change of Directors; resolution regarding the issue of short-term financing notes.	Passed	SSE website	July 1, 2016
2016 Second Extraordinary General Meeting	September 13, 2016	Resolution regarding the interim profit distribution of the Company for 2016; resolution regarding the entering of Securities and Financial Products, Transactions and Services Framework Agreement with China Merchants Group; resolution on the adjustment to allowance of independent Directors; resolution on the increase of investment for the construction project of China Merchants Securities Building.	Passed	SSE website	September 14, 2016

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III. DUTY PERFORMANCE OF DIRECTORS

(I) Attendance of Directors at Board Meetings and Shareholders' General Meetings

Name of Director	Whether an independent Director	Attendance of Board meetings						Attendance of shareholders' general meeting
		Number of Board Meetings requiring attendance	Attendance in person (times)	Attendance through correspondence (times)	Attendance by proxy (times)	Absence (times)	Whether not attending in person for two consecutive meetings	Attendance of shareholders' general meeting (times)
GONG Shaolin (宮少林)	No	14	14	10	0	0	No	3
SU Min (蘇敏)	No	8	8	7	0	0	No	2
XIONG Xianliang (熊賢良)	No	14	14	12	0	0	No	3
HUA Li (華立)	No	14	14	12	0	0	No	3
WANG Yan (王岩)	No	14	14	11	0	0	No	3
GUO Jian (郭健)	No	14	14	12	0	0	No	3
PENG Lei (彭磊)	No	14	14	11	0	0	No	3
WANG Daxiong (王大雄)	No	3	3	3	0	0	No	0
HUANG Jian (黃堅)	No	14	14	12	0	0	No	3
CAO Dong (曹棟)	No	14	14	12	0	0	No	3
YI Xiqun (衣錫群)	Yes	14	14	12	0	0	No	2
LIU Jialin (劉嘉凌)	Yes	14	14	12	0	0	No	3
DING Huiping (丁慧平)	Yes	14	14	12	0	0	No	3
ZHU Haiwu (朱海武)	Yes	7	7	6	0	0	No	1
YANG Jun (楊鈞)	Yes	14	14	12	0	0	No	3
HONG Xiaoyuan (洪小源) (resigned)	No	1	1	0	0	0	No	0
SUN Yueying (孫月英) (resigned)	No	4	4	3	0	0	No	1
XU Hua (徐華) (resigned)	Yes	7	7	6	0	0	No	1

During the Reporting Period, there was no Director not attending in person for two consecutive Board meetings.

Number of Board meetings convened in the year	14
Of which: number of onsite meetings	2
Number of meetings convened by way of correspondence	10
Number of meetings convened onsite and by way of correspondence	2

(II) Convening of Board Meetings

In 2016, the Board convened a total of 14 meetings, details of which are set out as follows:

No.	Meeting	Date of meeting	Resolutions	Voting results	Form of meeting	Date of announcement on resolutions
1	32nd meeting of the fifth session of the Board	February 26, 2016	Working report of the Board for 2015; duty report of independent Directors for 2015 (non-voting matter at this Board meeting); 2015 annual report and its highlights of the Company; resolution on profit distribution of the Company for 2015; resolution on budget for proprietary investment of the Company for 2016; resolution on contemplated ordinary related party transactions of the Company for 2016; resolution on the appointment of auditing firm of the Company for 2016; work report of the Audit Committee under the Board of the Company for 2015; 2015 operational report of the Company; compliance management report of the Company for 2015; internal control assessment report of the Company for 2015; audit report on internal control of the Company for 2015; social responsibilities report of the Company for 2015; resolution regarding the budget for charity donations of the Company in 2016; resolution on the convention of 2015 annual general meeting.	Passed	Onsite	March 1, 2016
2	33rd meeting of the fifth session of the Board	March 11, 2016	Resolution on the change of Directors; resolution regarding the subscription of H Shares by management and key employees of the Company through asset management plans (draft).	Passed	Onsite and teleconference	March 12, 2016
3	34th meeting of the fifth session of the Board	April 15, 2016	Resolution regarding the establishment of a trading company in Qianhai-Shekou Free Trade Zone; resolution on the change of joint company secretary of the Company.	Passed	Correspondence	April 16, 2016

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No.	Meeting	Date of meeting	Resolutions	Voting results	Form of meeting	Date of announcement on resolutions
4	35th meeting of the fifth session of the Board	April 29, 2016	Resolution on the revision of Information Disclosure System of China Merchants Securities Co., Ltd. (《招商證券股份有限公司信息披露制度》); resolution on the revision of Investor Relation Management System of China Merchants Securities Co., Ltd. (《招商證券股份有限公司投資者關係管理制度》); resolution on the revision of Working Rules of Secretary to the Board of China Merchants Securities Co., Ltd. (《招商證券股份有限公司董事會秘書工作規範》); resolution on the revision of the Compliance Management System of China Merchants Securities Co., Ltd. (《招商證券股份有限公司合規管理制度》); resolution on the revision of the Management Rules on the Shares and Changes of Shareholdings of Directors, Supervisors and Senior Management in China Merchants Securities Co., Ltd. (《招商證券股份有限公司董事、監事和高級管理人員所持公司股份及其變動管理制度》); resolution on the appointment of authorized representative of the Company; resolution regarding the adjustment to the impairment indicators for financing business; resolution of the first quarterly report of the Company in 2016.	Passed	Correspondence	April 30, 2016
5	36th meeting of the fifth session of the Board	May 20, 2016	Resolution on change of independent Director; resolution on change of Director; resolution regarding the additional capital injection to CMS Asset Management Co., Ltd.; resolution on the convention of 2016 first extraordinary general meeting.	Passed	Correspondence	May 21, 2016
6	37th meeting of the fifth session of the Board	June 6, 2016	Resolution regarding the issue of short-term financing notes; resolution regarding the opening of 50 new securities branches.	Passed	Correspondence	June 7, 2016
7	38th meeting of the fifth session of the Board	June 27, 2016	Resolution for election of members of special committees under the fifth session of the Board.	Passed	Correspondence	June 28, 2016

No.	Meeting	Date of meeting	Resolutions	Voting results	Form of meeting	Date of announcement on resolutions
8	39th meeting of the fifth session of the Board	August 15, 2016	Resolution for election of members of special committees under the fifth session of the Board.	Passed	Correspondence	August 16, 2016
9	40th meeting of the fifth session of the Board	August 25, 2016	Resolution regarding the interim profit distribution of the Company for 2016; resolution regarding the entering of Securities and Financial Products, Transactions and Services Framework Agreement with China Merchants Group; resolution on the adjustment to allowance of independent Directors; resolution on the increase of investment for the construction project of China Merchants Securities Building; 2016 interim operational report of the Company; 2016 interim report and its highlights of the Company; 2016 interim compliance report of the Company; resolution on the convention of the second extraordinary meeting of the Company in 2016.	Passed	Onsite	August 27, 2016
10	41st meeting of the fifth session of the Board	September 19, 2016	Resolution regarding the confirmation of the global offering (Hong Kong public offering and international offering) and listing of H Shares on the Hong Kong Stock Exchange.	Passed	Onsite and teleconference	September 20, 2016
11	42nd meeting of the fifth session of the Board	September 27, 2016	Resolution regarding the commitment for provision of guarantee in favour of the net capital increase of asset management subsidiary by the Company; resolution regarding the termination of the resolution regarding subscription of H Shares by management and key employees of the Company through asset management plans (draft).	Passed	Correspondence	September 28, 2016
12	43rd meeting of the fifth session of the Board	October 28, 2016	Resolution on the third quarterly report of the Company in 2016; resolution regarding the election of members of the special committees under the fifth session of the Board.	Passed	Correspondence	October 29, 2016
13	44th meeting of the fifth session of the Board	November 24, 2016	Resolution on the revision of the Working Rules of the Audit Committee of the Board of the Company (《公司董事會審計委員會工作規則》); resolution regarding the establishment of a Korean branch by a wholly-owned subsidiary to engage in brokerage business.	Passed	Correspondence	November 25, 2016

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No.	Meeting	Date of meeting	Resolutions	Voting results	Form of meeting	Date of announcement on resolutions
14	45th meeting of the fifth session of the Board	December 5, 2016	Resolution regarding the capital increase of China Merchants Securities Investment Co., Ltd. and the investment in Qingdao Asset Management Co., Ltd. (青島市資產管理有限責任公司) by China Merchants Securities Investment Co., Ltd..	Passed	Correspondence	December 7, 2016

(III) Objection Raised by Independent Directors on Relevant Matters of the Company

During the Reporting Period, the independent Directors of the Company did not raise objections against any proposals of the Board or other proposals of the Company for the year.

(IV) Duty Performance of Independent Directors

For details of the duty performance of independent Directors of the Company, please see the Annual Duty Report of Independent Directors of China Merchants Securities Co., Ltd. for 2016 (《招商證券股份有限公司獨立董事2016年度述職報告》) published on the SSE website for the same period of this report.

(V) Implementation of resolutions passed at shareholders' general meetings by the Board

- On April 22, 2016, the 2015 annual general meeting of the Company considered and approved the Resolution on the Profit Distribution of the Company for 2015. On September 13, 2016, the second extraordinary general meeting of the Company for 2016 considered and approved the Resolution on the Interim Profit Distribution of the Company for 2016. Both profit distribution plans were completed during the Reporting Period.
- On April 22, 2016, the 2015 annual general meeting of the Company considered and approved the Resolution on the Change of Directors, and Ms. SU Min was elected as an independent non-executive Director of the fifth session of the Board. On June 30, 2016, the first extraordinary general meeting of the Company for 2016 considered and approved the Resolution on the Change of Independent Directors and the Resolution on the Change of Directors, and Mr. ZHU Haiwu was elected as an Independent non-executive Director of the fifth session of the Board and Mr. WANG Daxiong was elected as a non-executive Director of the fifth session of the Board. Upon receipt of the Approval of SU Min as a Director of a Securities Firm (Shen Zheng Ju Xu Ke Zi [2016] No. 46) (《關於核准蘇敏證券公司董事任職資格的批覆》(深證局許可字[2016]46號)) from the CSRC Shenzhen Bureau in June 2016, the appointment of SU Min was officially approved. Upon receipt of the Approval of ZHU Haiwu as an Independent Director of a Securities Firm (Shen Zheng Ju Xu Ke Zi [2016] No. 64) (《關於核准朱海武證券公司獨立董事任職資格的批覆》(深證局許可字[2016]64號)) from the CSRC Shenzhen Bureau in July 2016, the appointment of ZHU Haiwu was officially approved. Upon receipt of the Approval of WANG Daxiong as a Director of a Securities Firm (Shen Zheng Ju Xu Ke Zi [2016] No. 99) (《關於核准王大雄證券公司董事任職資格的批覆》(深證局許可字[2016]99號)) from the CSRC Shenzhen Bureau in October 2016, the appointment of WANG Daxiong was officially approved.
- On June 30, 2016, the first extraordinary general meeting of the Company for 2016 considered and approved the Resolution on the Issue of Short-term Financing Notes. Pursuant to the resolution, the Company did not issue any short-term financing securities during the Reporting Period based on the market condition and business needs.

4. On April 22, 2016, the 2015 annual general meeting of the Company considered and approved the Resolution on the Budget for Proprietary Investment the Company for 2016. Pursuant to the resolution, the total proprietary amount of equity securities and derivatives of the Company did not exceed (effective) 100% of its net capital. The cost of A-share directional investment did not exceed 50% of its net capital on June 30, 2015; the amount of fixed-income proprietary investment did not exceed (effective) 400% of its net capital. The Company's relevant operational indicators were all kept within the scope of authorization by the shareholders' general meeting during the Reporting Period.
5. On April 22, 2016, the 2015 annual general meeting of the Company considered and approved the Resolution on Contemplated Ordinary Related Party Transactions of the Company for 2016. Please refer to the Announcement on the Contemplated Ordinary Related Party Transactions of the Company for 2017 disclosed on the SSE website, China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily for details of the actual implementation of the ordinary related party transactions of the Company according to the resolution during the Reporting Period.
6. On April 22, 2016, the 2015 annual general meeting of the Company considered and approved the Resolution on the Plan for Subscription of H Shares by Management and Key Employees of the Company through Asset Management Plans (Draft). During the Reporting Period, as the asset management plan has not received approval from the competent authority or department, after careful and due consideration of the Board, the Termination of the Resolution on Subscription of H Shares by Management and Key Employees of the Company through Asset Management Plans (Draft) was considered and approved at the 42nd meeting of the fifth session of the Board on September 27, 2016, which terminated the implementation of the asset management plans.
7. On April 22, 2016, the 2015 annual general meeting of the Company considered and approved the Resolution on Appointment of Auditing Firm of the Company for 2016. Pursuant to the resolution, during the Reporting Period, the Company re-appointed ShineWing Certified Public Accountants LLP as the auditor of the annual report and internal control of the Company for 2016.

(VI) Others

1. Directors' Training

Directors' training is a continuous commitment of the Company to ensure that the Directors have due understanding of the operation and business of the Company, as well as the duties and responsibilities as conferred by the CSRC, the SSE, the Hong Kong Stock Exchange, the Articles of Association and relevant laws and regulations. During the Reporting Period, the Directors strove to update their expertise and skills to cater to the development of the Company. Apart from attending training organized by regulatory authority and self-regulatory organizations to fulfil the continuing training requirement, the Directors receive Weekly Strategic Reports (《戰略資訊周報》) from the Board office to keep abreast of the latest policies and regulations, industry dynamics and the operation of the Company. In addition, the Company further improved its internal working procedures by establishing a multi-layer information communication mechanism and an information sharing platform to provide the Directors with updated information for further enhancing their performance of obligations.

2. Directors' Remuneration

For details, see "I. Change in Shareholdings and Remuneration" in "Chapter 7 Directors, Supervisors, Senior Management and Employees" of this report.

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3. Term of Office of Non-executive Directors

As at the end of the Reporting Period, there were eight non-executive Directors (SU Min, XIONG Xianliang, HUA Li, GUO Jian, PENG Lei, WANG Daxiong, HUANG Jian, CAO Dong) and five independent non-executive Directors (YI Xiqun, LIU Jialin, DING Huiping, ZHU Haiwu, YANG Jun). For details of their terms of office, see “I. Change in Shareholdings and Remuneration” in “Chapter 7 Directors, Supervisors, Senior Management and Employees” of this report.

IV. SIGNIFICANT OPINIONS AND RECOMMENDATIONS PROPOSED BY THE SPECIAL COMMITTEES UNDER THE BOARD IN PERFORMING THEIR DUTIES DURING THE REPORTING PERIOD, DETAILS SHOULD BE DISCLOSED IF THERE WERE DISAGREEMENTS

The Company has established five committees under the Board, namely the Strategy Committee, the Risk Management Committee, the Audit Committee, the Nomination Committee and the Remuneration and Appraisal Committee in accordance with relevant PRC laws, regulations, the Articles of Association and the corporate governance practice prescribed in the Hong Kong Listing Rules. The committees are accountable to the Board and perform duties under the authorization of the Board. The decision-making procedures of the Board are further refined by clear division of duties, powers and responsibilities and high operation efficiency of the committees. The committees provide advice on the decisions of the Board and have made favourable contribution when the Board makes major decisions for the Company.

For details of the composition of the committees as at the end of the Reporting Period, see “V. Members of Committees under the Board” under “Chapter 7 Directors, Supervisors, Senior Management and Employees” of this report.

(I) Strategy Committee

The main duties of the Strategy Committee of the Company include analyzing, planning and providing recommendations on the mid- and long-term development strategies of the Company; analyzing and giving suggestions on major investment projects which are required to obtain approval of the Board according to the Articles of Association; analyzing and providing recommendations on major strategic investments decision and mergers and acquisitions of the Company; analyzing and providing recommendations on major strategic investment decisions and mergers and acquisitions of the Company which are required to obtain approval of the Board according to the Articles of Association; analyzing and providing recommendations on other major matters affecting the development of the Company; organizing expert review committee(s) for the above matters; monitoring the implementation of the above matters; and performing other duties as authorized by the Board.

During the Reporting Period, the Strategy Committee held a total of one meeting. At the meeting, comprehensive review and discussion were carried out on the implementation of business strategies, issues requiring the support of shareholders, asset management and wealth management strategies in 2015 in line with the corporate development and business strategies of the Company.

Number	Session	Date	Proposal	Report
1	The fifth meeting of the Strategy Committee of the fifth session of the Board	February 25, 2016	—	Report on the Implementation of the Business Strategy of the Company for 2015

During the Reporting Period, the attendance of meetings of the Strategy Committee is as follows:

Number	Name	Number of meetings attended/ Number of meetings held
1	GONG Shaolin (宮少林) (Convener)	1/1
2	XIONG Xianliang (熊賢良)	1/1
3	WANG Yan (王岩)	1/1
4	GUO Jian (郭健)	1/1
5	HUANG Jian (黃堅)	1/1
6	CAO Dong (曹棟)	1/1
7	LIU Jialin (劉嘉凌)	1/1

(II) Risk Management Committee

The main duties of the Risk Management Committee of the Company include reviewing and providing recommendations on the general goals and basic policies of risk management and compliance management of the Company; reviewing and discussing with the management on the risk management system of the Company to ensure that the management has fulfilled its duties and set up an efficient risk management system; discussing issues such as the adequacy of resources, the experience of employees, the sufficiency of training programmes for employees and relevant budget in respect of risk management; reviewing and providing recommendations on the organizational deployment of risk management and compliance management of the Company; evaluating and providing recommendations on the risks involved in major decisions and the proposals in resolving the major risks; reviewing and providing recommendations on the regular risk evaluation reports, compliance reports and economic capital management proposals; analyzing the results of major investigations and the response of the management on such investigations in respect of risk management issues on its own or as designated by the Board; and handling other matters required to be resolved by regulatory authorities or as authorized by the Board.

During the Reporting Period, the Risk Management Committee held a total of four meetings. The Risk Management Committee gained comprehensive understanding of the risk and compliance situation of the Company through reviewing its quarterly, interim and annual compliance reports and risk management reports. It also conducted assessment on the risk profile and risk control capability of the Company on a regular basis. Its cooperation with various departments of the Company such as compliance and risk management departments was strengthened to facilitate the establishment of a comprehensive internal risk prevention system of the Company.

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Number	Session	Date	Proposal	Report
1	The eighth meeting of the Risk Management Committee of the fifth session of the Board	February 26, 2016	Budget for proprietary investment of the Company for 2016; compliance management report of the Company for 2015; risk evaluation report of the Company for 2015; report on risk appetite, risk tolerance and allocation of economic capital of the Company for 2016; report on all-inclusive budget for proprietary investment of the Company for 2016; report on net capital and risk control indicators of the Company for 2015	—
2	The ninth meeting of the Risk Management Committee of the fifth session of the Board	June 14, 2016	Compliance management report of the Company for the first quarter of 2016; risk evaluation report of the Company for the first quarter of 2016	—
3	The tenth meeting of the Risk Management Committee of the fifth session of the Board	August 25, 2016	Interim compliance report of the Company for 2016; risk evaluation report of the Company for the second quarter of 2016	—
4	The eleventh meeting of the Risk Management Committee of the fifth session of the Board	December 30, 2016	Compliance work report of the Company for the third quarter of 2016; risk evaluation report of the Company for the third quarter of 2016	—

During the Reporting Period, the attendance of meetings of the Risk Management Committee is as follows:

Number	Name	Number of meetings attended/ Number of meetings held
1	SU Min (蘇敏) (Convener)	2/2
2	WANG Yan (王岩)	4/4
3	HUA Li (華立)	4/4
4	PENG Lei (彭磊)	4/4
5	WANG Daxiong (王大雄)	1/1
6	CAO Dong (曹棟)	4/4
7	LIU Jialin (劉嘉凌)	4/4
8	HONG Xiaoyuan (洪小源)	1/1
9	SUN Yueying (孫月英)	1/1

(III) Audit Committee

The main duties of the Audit Committee of the Company include providing recommendations on engaging or changing external auditors, supervising and assessing the performance of external auditors; guiding internal auditing and supervising the internal audit system of the Company and its implementation; coordinating the communication of the management, internal auditors and relevant departments with the external auditors, and performing the role as a major representative of the Company to liaise with the external auditors and supervise their relationships; supervising the internal control procedures and assessing their effectiveness; reviewing the internal control of the Company and conducting daily monitoring and examination of the responsible parties. The Audit Committee shall also be responsible for conducting prior guidance, supervision throughout the whole process and subsequent review on the responsible parties of the Company to strengthen the internal control system; and supervising and reviewing the performance, incidents and implementation regarding compliance and risk control obligations of all departments and positions on a daily basis and report to the Board regularly. The Audit Committee shall be responsible for keeping track of the performance of compliance obligations of the senior management through regular meetings with the compliance officers and other efficient methods; overseeing the financial reporting system of the Company, reviewing its financial reports and giving opinions thereon; conducting audit on major related party transactions; and ensuring and reviewing the arrangements of the Company which enable its employees to be the whistleblower in the event of any possible misconduct in financial reporting, internal control or other aspects of the Company. The Audit Committee shall be responsible for ensuring that proper arrangements are made for the Company to conduct fair and independent investigation on such matters and take appropriate actions; dealing with other matters as delegated by the Board; considering other topics as identified by the Board; and performing other duties required by the listing rules or laws and regulations of the places where the Company is listed.

During the Reporting Period, the Audit Committee held a total of six meetings. The Audit Committee convened meetings, considered and made decisions on the relevant issues pursuant to the Working Rules of the Audit Committee of the Board (《董事會審計委員會工作規則》) of the Company so as to enhance work efficiency and reasonable decision-making. In accordance with the Annual Report Work Procedures for the Audit Committee under the Board (《董事會審計委員會年報工作規程》), the Audit Committee performed its duties in a prudent manner by participating in the preparation of the annual financial report, auditing and disclosure. It also strove to uphold its audit independence. Its audit quality was also enhanced to safeguard the interests of the Company and shareholders as a whole.

In accordance with the requirements of relevant laws and regulations, the Audit Committee and its members fully discharged its audit and supervision obligations. Its diligent efforts were indispensable to the optimization of the corporate governance structure and the audit quality.

After carrying out prudent audit and supervision on the financial position of the Company and review on the financial statement prepared by the Company, the Audit Committee believes that the Company has a stable financial system and satisfactory financial position. In addition, the Board is satisfied with the adequacy of resources, staff qualification and experience for performing accounting and financial functions as well as the sufficiency of staff training and relevant budget after conducting reviews through the Audit Committee.

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Number	Session	Date of meeting	Proposal	Report
1	The tenth meeting of the Audit Committee of the fifth session of the Board	February 25, 2016	Audit report of the Company for 2015; assessment report on internal control of the Company for 2015; audit report on internal control of the Company for 2015; engagement of auditing firm of the Company for 2016; contemplated ordinary related party transactions of the Company for 2016; work report of the Audit Committee under the Board of the Company for 2015.	Audit of the annual report of the Company for 2015; audited financial report of the Company for 2015; work report on internal audit of the Company for 2015 and working schedule on internal audit for 2016
2	The eleventh meeting of the Audit Committee of the fifth session of the Board	April 29, 2016	First quarterly report of the Company for 2016; adjustment to the impairment indicators for financing business.	—
3	The twelfth meeting of the Audit Committee of the fifth session of the Board	June 23, 2016	—	Internal audit report of the Company from January 2016 to May 2016; business report of the sales department in Hohhot
4	The thirteenth meeting of the Audit Committee of the fifth session of the Board	August 25, 2016	Amendments to the Integrated Assessment Methods of the Audit and Supervision Department and its Personnel of China Merchants Securities Co., Ltd. (Trial) (《招商證券股份有限公司稽核監察部及稽核監察部人員綜合考評辦法(試行)》); interim financial report of the Company for 2016.	Interim work report on internal audit of the Company for 2016
5	The fourteenth meeting of the Audit Committee of the fifth session of the Board	October 28, 2016	Third quarterly financial statement of the Company for 2016.	—
6	The fifteenth meeting of the Audit Committee of the fifth session of the Board	November 11, 2016	Amendments to the Terms of Reference of the Audit Committee of the Board of China Merchants Securities Co., Ltd. (《招商證券股份有限公司董事會審計委員會工作規則》).	Third quarterly internal audit report of the Company and the report on the schedule adjustment of the internal audit project of the Company for 2016; report on the work schedule of auditing for 2016

During the Reporting Period, the attendance of meetings of the Audit Committee is as follows:

Number	Name of member	Number of meetings attended/ Number of meetings held
1	ZHU Haiwu (朱海武) (Convener)	3/3
2	HUA Li (華立)	6/6
3	HUANG Jian (黃堅)	6/6
4	DING Huiping (丁慧平)	6/6
5	YANG Jun (楊鈞)	6/6
6	XU Hua (徐華)	3/3

(IV) Nomination Committee

The main duties of the Nomination Committee of the Company include: reviewing the structure, number of members and composition (including skills, knowledge and experience) of the Board at least once a year and making recommendations to any intended change to the Board in line with the strategies of the Company; making recommendations to the Board as to its scale and composition based on the business operations, asset scale and share structure of the Company; considering and formulating criteria and procedures for selection of Directors and senior management to be approved by the Board; identifying qualified candidates for Directors and senior management and giving opinions to the Board; assessing the independence of independent non-executive Directors; reviewing and providing recommendations on the appointment and dismissal of Directors and senior management; making recommendations to the Board on the appointment or re-appointment of Directors, as well as the succession plan of Directors (particularly the Chairman and the Chief Executive Officer); other duties as authorized by the Board; and performing other duties as required by the listing rules or laws and regulations of the places where the Company is listed.

During the Reporting Period, the Nomination Committee held a total of two meetings which nominated Ms. SU Min and Mr. WANG Daxiong as the candidates for non-executive Directors, and nominated Mr. ZHU Haiwu as the candidate for independent non-executive Director.

Number	Session	Date of meeting	Proposal	Report
1	The eighth meeting of the Nomination Committee of the fifth session of the Board	March 11, 2016	Nomination of Director of the fifth session of the Board (SU Min).	—
2	The ninth meeting of the Nomination Committee of the fifth session of the Board	May 19, 2016	Nomination of Director of the fifth session of the Board (WANG Daxiong); nomination of independent Director of the fifth session of the Board (ZHU Haiwu).	—

During the Reporting Period, the attendance of meetings of the Nomination Committee is as follows:

Number	Name of member	Number of meetings attended/ Number of meetings held
1	DING Huiping (丁慧平)(Convener)	2/2
2	WANG Yan (王岩)	2/2
3	PENG Lei (彭磊)	2/2
4	YI Xiqun (衣錫群)	2/2
5	YANG Jun (楊鈞)	2/2

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(V) Remuneration and Appraisal Committee

The main duties of the Remuneration and Appraisal Committee include: considering, reviewing and providing recommendations on the remuneration policy, standard and proposal of the Directors and senior management of the Company with reference to the principal scope of authorization, duties and importance of the Directors and senior management as well as the remuneration package for similar positions of comparable companies; making recommendations to the Board on the overall remuneration policy and structure of the Directors and senior management of the Company and the formulation of official and transparent procedures for determining the remuneration policy. The remuneration standard and proposal include but are not limited to appraisal standard and procedures, major evaluation system, reward and penalty proposals and systems. The Remuneration and Appraisal Committee is also responsible for reviewing and approving the remuneration proposal for the management in accordance with the corporate missions and targets determined by the Board; reviewing the overall remuneration policy of the Company and the total amount of annual remuneration and examining the remuneration policy and the execution of annual remuneration; reviewing the appraisal system for the Directors and senior management of the Company; making recommendation to the Board on the remuneration of executive Directors and senior management (including salary, pension and compensation (including the compensation as to the loss or termination of office or appointment)), as well as the remuneration of non-executive Directors; considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions of other positions of the Company; reviewing and approving compensation payable to Executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with the terms of the employment contracts or is otherwise fair and reasonable; reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with the terms of the employment contracts or are otherwise reasonable and appropriate; ensuring that no Director or any of his associates is involved in deciding his own remuneration; examining the appraisal standards of the Directors and senior management of the Company; reviewing and examining the performance of the duties of the Directors and senior management, conducting annual performance assessment and providing recommendations; overseeing the implementation of remuneration system of the Company; performing other duties as authorized by the Board; and performing other duties as required by the listing rules or laws and regulations of the places where the Company is listed.

During the Reporting Period, the Remuneration and Appraisal Committee held a total of three meetings which reviewed the performance of the senior management and conducted annual performance appraisal.

Number	Session	Date of meeting	Proposal	Report
1	The fifth meeting of the Remuneration and Appraisal Committee of the fifth session of the Board	February 25, 2016	Provision of total remuneration of the Company for 2015; amendments to the management methods of the remuneration of senior management of China Merchants Securities Co., Ltd..	Work debriefing of the senior management of the Company for 2015
2	The sixth meeting of the Remuneration and Appraisal Committee of the fifth session of the Board	March 11, 2016	Proposal regarding the subscription of H Shares by management and key employees of the Company through asset management plans (draft).	—
3	The seventh meeting of the Remuneration and Appraisal Committee of the fifth session of the Board	August 25, 2016	Adjustment to allowance of independent Directors.	—

During the Reporting Period, the attendance of meetings of the Remuneration and Appraisal Committee is as follows:

Number	Name of member	Number of meetings attended/ Number of meetings held
1	YI Xiqun (衣錫群) (Convener)	3/3
2	SU Min (蘇敏)	1/1
3	CAO Dong (曹棟)	3/3
4	LIU Jialin (劉嘉凌)	3/3
5	ZHU Haiwu (朱海武)	1/1
6	HONG Xiaoyuan (洪小源)	1/1
7	XU Hua (徐華)	2/2

V. DUTY PERFORMANCE OF SUPERVISORS

During the Reporting Period, the Supervisory Committee of the Company duly performed its duties in strict compliance with the regulations as stipulated in, among others, the Company Law, the Securities Law, the Articles of Association and the Rules of Procedures for the Supervisory Committee. In line with its accountability to all shareholders, the Supervisory Committee conducted efficient supervision on the financial position of the Company and major decisions of the Board of the Company, and the legality and the compliance of the operation management in order to safeguard the interests of the Company and shareholders.

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(I) Participation of Supervisors in the Supervisory Committee Meetings and Shareholders' General Meetings

Name of Supervisor	Position	Attendance of meetings of the Supervisory Committee						Attendance of shareholders' general meetings
		Number of meetings of the Supervisory Committee held during the year	Attendance in person	Attendance through correspondence	Attendance by proxy	Absence	Whether not attending in person in two consecutive meetings	Attendance of shareholders' general meeting
ZHOU Linda Lei (周語茵)	Chairman of the Supervisory Committee	5	5	2	0	0	No	3
LI Xiaofei (李曉霏)	Supervisor	5	5	3	0	0	No	3
LIU Chong (劉冲)	Supervisor	5	5	3	0	0	No	3
FANG Xiaobing (房小兵)	Supervisor	5	5	3	0	0	No	3
ZHANG Zehong (張澤宏)	Supervisor	5	5	3	0	0	No	3
ZHU Haibin (朱海彬)	Supervisor	5	5	3	0	0	No	3
YIN Hongyan (尹虹艷)	Employee Representative Supervisor	5	5	2	0	0	No	3
ZHAN Guifeng (詹桂峰)	Employee Representative Supervisor	5	5	2	0	0	No	3
HE Min (何敏)	Employee Representative Supervisor	5	5	2	0	0	No	3

Number of meetings of the Supervisory Committee convened	5
Of which: Number of onsite meetings	2
Number of meetings convened by way of correspondence	2
Number of meetings convened onsite and by way of correspondence	1

(II) Convening of the Meetings of the Supervisory Committee

In 2016, the Supervisory Committee convened a total of five meetings, details of which are set out as follows:

Number	Session	Date of meeting	Proposal	Voting results	Form of meeting	Date of disclosure of proposal
1	The ninth meeting of the fifth session of the Supervisory Committee	February 25, 2016	Work report of the Supervisory Committee of the Company for 2015; annual report of the Company for 2015 and its highlights; 2015 operational report of the Company; internal control assessment report of the Company for 2015; compliance management report of the Company for 2015; social responsibilities report of the Company for 2015.	Passed	Onsite	March 1, 2016
2	The tenth meeting of the fifth session of the Supervisory Committee	March 11, 2016	Proposal regarding the subscription of H Shares by management and key employees of the Company through asset management plans (draft).	Passed	Onsite and teleconference	March 12, 2016
3	The eleventh meeting of the fifth session of the Supervisory Committee	April 29, 2016	Resignation audit report of Ms. ZHANG Weihua, the former Compliance Director of China Merchants Securities Co., Ltd.; assessment report on the efficiency of compliance management of China Merchants Securities Co., Ltd. for 2015; the first quarterly report of China Merchants Securities Co., Ltd. for 2016; adjustment to the impairment indicators for financing business.	Passed	Correspondence	April 30, 2016
4	The twelfth meeting of the fifth session of the Supervisory Committee	August 25, 2016	Interim report of China Merchants Securities Co., Ltd. for 2016 and its highlights; interim compliance report of China Merchants Securities Co., Ltd. for 2016.	Passed	Onsite	August 27, 2016
5	The thirteenth meeting of the fifth session of the Supervisory Committee	October 28, 2016	Proposal on the third quarterly report of the Company for 2016.	Passed	Correspondence	—

(III) Supervision and Inspection by the Supervisory Committee

In 2016, the Supervisory Committee paid close attention to the updates on industrial regulations and performed its duties in corporate governance in accordance with the relevant laws and regulations such as the Company Law and Securities Law and the related provisions regarding the responsibilities of the Supervisory Committee in the Articles of Association. The Supervisory Committee supervised the Board and senior management in respect of their implementation of resolutions of the general meetings, inspected the daily operation and financial position of the Company and conducted investigations and researches on frontline staff. The Supervisors made contributions by actively providing advice and closely monitoring the risk control and compliance of the Company in order to safeguard the legal interests of the Company, its shareholders and all investors and ensure regulated operation of the Company. The major supervision and inspection works are as follows:

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1. *Completing assessment on the effectiveness of the Company's compliance management in 2015 and formulating the work plan for 2016*

In accordance with its work plan, the Supervisory Committee engaged ShineWing Certified Public Accountants LLP ("SHINEWING") to conduct an assessment on the effectiveness of the Company's compliance management in 2015. According to the Assessment Report on the Effectiveness of the Compliance Management of China Merchants Securities Co., Ltd. in 2015 (《招商證券股份有限公司2015年度合規管理有效性評估報告》) issued by SHINEWING, it is concluded that the Company has developed and effectively implemented corresponding management systems for the businesses and issues subject to assessment during the Reporting Period, and its targets for compliance management were generally fulfilled. There was no material compliance risk in all aspects. The above report was delivered to and filed with the CSRC Shenzhen Office upon the approval of the eleventh meeting of the fifth session of the Supervisory Committee.

The Company engaged SHINEWING by means of quotation for the assessment on the effectiveness of the Company's compliance management in 2016.

2. *Investigations and assessments*

The Supervisory Committee conducted two assessments on the business departments during the year:

Assessments were conducted on the operation of the Jiangsu Branch and its business department as well as the business departments in Sichuan in April and November 2016, respectively. The Supervisory Committee debriefed the branches and the business departments on their overall business operation. The Supervisory Committee had adequate communications and discussions with the frontline staff of the branches and business departments with regard to various issues such as general business operation of the branches and business departments, system development and management of the branches, management mode of the second-tier business departments, job rotation between the first-tier and second-tier business departments, risk control and compliance, business synergies with the subsidiaries of China Merchants Group, difficulties and challenges faced by the business departments during their development, specific requests regarding support from the headquarters of the Company and the concerns of the business departments. The questions raised by the frontline staff were reflected to the headquarters of the Company in the assessment reports with ongoing follow-ups.

3. *Completing the departure audit of ZHANG Weihua (張衛華), the former chief compliance officer of the Company*

The Company engaged the Shenzhen branch of Asia Pacific (Group) CPAs (special general partnership) to conduct a departure audit of ZHANG Weihua (張衛華), the former chief compliance officer. The audit report was filed with CSRC Shenzhen Office upon the approval by the eleventh meeting of the fifth session of the Supervisory Committee.

4. *Other daily duties*

The Supervisory Committee completed the performance appraisals on the Directors, Supervisors and senior management of the Company in 2015.

(IV) Independent Opinions of the Supervisory Committee

In 2016, in accordance with the relevant laws and regulations such as the Company Law and Securities Law and the relevant requirements of the Articles of Association, the Supervisory Committee duly performed its duties with an aim to protect the interests of the Company and all shareholders. The Supervisory Committee supervised and inspected the legal operation, major decisions, major operating and financial conditions as well as related party transactions of the Company, and provided the following independent opinions:

1. Legal operation of the Company

In 2016, the Board and the management of the Company were able to operate legally in accordance with the Company Law, Securities Law, Articles of Association, and other applicable laws, regulations and rules. In particular, since the listing of the Company's H Shares on the Main Board of the Hong Kong Stock Exchange in 2016, the Company was able to maintain regulated operation in respect of corporate governance, information disclosure and investor relations by adhering to the regulatory policies in both the Mainland China and Hong Kong. The major operational decisions of the Company were reasonable while its decision-making procedures were lawful and effective. The Company has continuously improved its risk management, compliance management and internal control systems and consolidated the management of implementation. All internal management systems were effectively implemented. The Supervisory Committee has not identified any behaviour of the Directors and senior management during their performance of duties that violated the relevant laws, regulations and the Articles of Association or were detrimental to the interests of the Shareholders and the Company.

2. Inspection of the financial position of the Company

In 2016, the Supervisory Committee duly reviewed the financial statements and financial information of the Company. The Supervisory Committee was of the view that the preparation of the financial statements of the Company was in compliance with the relevant requirements of the Accounting Standards for Enterprises and IFRSs. The 2016 financial statements of the Company were able to reflect the financial position, results of operation and cash flows of the Company. The audit opinions contained in the standard unqualified auditor's report issued by SHINEWING were objective and fair.

3. Examination of the implementation of resolutions of the shareholders' general meetings

In 2016, the Supervisory Committee monitored the implementation of resolutions of the shareholders' general meetings. The Supervisory Committee was of the view that the Board was able to duly enforce the resolutions of the shareholders' general meetings and had no such behaviours that were detrimental to the interests of shareholders, in particular the minority shareholders.

4. Related party transactions

In 2016, the review, voting, disclosure and implementation of the relevant related party transactions of the Company were in compliance with the applicable laws, regulations and the provisions and requirements of the internal management systems of the Company. The pricing of such transactions was fair and reasonable. The Supervisory Committee has not identified any circumstances that were detrimental to the interests of the Company.

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5. *Review of relevant reports*

The Supervisory Committee reviewed the 2016 Operational Report of the Company (《公司2016年度經營工作報告》), Report on the Use of Proceeds from the Offering of H Shares of the Company in 2016 (《公司2016年度H股募集資金使用情況報告》), Internal Control Assessment Report of the Company for 2016 (《公司2016年度內部控制評價報告》), Compliance Management Report of the Company for 2016 (《公司2016年度合規管理工作報告》) and Social Responsibility Report of the Company for 2016 (《公司2016年度社會責任報告》), and had no objection to such reports.

6. *Enforcement of the Registration and Management System for Inside Information Holders*

In 2016, the Supervisory Committee supervised the enforcement of the Registration System for Persons with Inside Information. The Supervisory Committee was of the view that the Company has formulated the Registration System for Persons with Inside Information of China Merchants Securities Co., Ltd. (《招商證券股份有限公司內幕信息知情人登記制度》) in accordance with the Regulation on the Establishment of Registration System for Persons with Inside Information by Listed Companies (《關於上市公司建立內幕信息知情人登記管理制度的規定》), relevant laws and regulations and the Articles of Association. The Supervisory Committee has not identified any violation of such policy.

7. *Performance evaluation on Directors and management team of the Company*

In 2016, as the Directors and all senior management of the Company diligently performed their duties, duly executed the new three-year development strategies of the Company and united all staff of the Company to work hard together despite difficulties, the Company achieved a second high results of operation in its history. The H Shares of the Company were successfully issued and listed on the Main Board of the Hong Kong Stock Exchange. The overall operating ability and management standard of the Company were improved, which laid a solid foundation for the long term and sound development of the Company. In addition, the Company has always insisted on risk control and compliance, and maintained sound and lawful operation. The Supervisory Committee highly appreciated the works of the Directors and all senior management of the Company in 2016.

During the Reporting Period, the Supervisory Committee had no objections to the matters under supervision.

VI IDENTIFICATION OF RISKS IN THE COMPANY BY THE SUPERVISORY COMMITTEE

During the Reporting Period, the Supervisory Committee of the Company had no objections towards the matters under supervision during the Reporting Period.

VII. FAILURE IN ENSURING THE COMPANY'S INDEPENDENCE FROM ITS CONTROLLING SHAREHOLDER IN TERMS OF BUSINESS, PERSONNEL, ASSETS, ORGANISATION AND FINANCE AND ABILITY TO MAINTAIN INDEPENDENT OPERATION

Applicable Not applicable

Solutions adopted by the Company in response to competition and their progress and subsequent working plans

Applicable Not applicable

VIII. APPRAISAL SYSTEM OF SENIOR MANAGEMENT AND THE ESTABLISHMENT AND IMPLEMENTATION OF INCENTIVE MECHANISM DURING THE REPORTING PERIOD

The remuneration of the senior management of the Company is determined based on their position and performance. An annual performance bonus incentives system has been set up under the current management framework, and the payment of performance-based bonus is determined by the Board with reference to the operating results of the Company. The Chairman and senior management of the Company are entitled to individual performance bonus based on the annual appraisal results. The distribution proposal shall be confirmed after the independent Directors provide independent opinions and the Remuneration and Appraisal Committee under the Board issues written opinions thereon.

IX. REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

For the remunerations of the Directors, Supervisors and senior management of the Company, please see “Change in Shareholdings and Remuneration” under “Chapter 7 Directors, Supervisors, Senior Management and Employees” of this report.

X. DISCLOSURE OF SELF-ASSESSMENT REPORT OF INTERNAL CONTROL

For details of the self-assessment report of internal control of the Company, please see the 2016 Internal Control Assessment Report of China Merchants Securities Co., Ltd. (《招商證券股份有限公司2016年度內部控制評價報告》) which will be published on the SSE website on the same date of this report.

XI. RELEVANT ISSUES BASED ON THE AUDIT REPORT ON INTERNAL CONTROL

For details of the audit report on internal control of the Company, please see the 2016 Audit Report on Internal Control of China Merchants Securities Co., Ltd. (《招商證券股份有限公司2016年度內部控制審計報告》) which will be published on the SSE website on the same date of this report.

XII. RESPONSIBILITY STATEMENT ON INTERNAL CONTROL AND DEVELOPMENT OF INTERNAL CONTROL SYSTEM

(I) Responsibility Statement on Internal Control

The Board of the Company shall be responsible for establishing sound internal control based on the regulations of corporate internal control system, maintaining its effective operation, assessing its effectiveness and truthfully disclosing the internal control assessment report. The Supervisory Committee shall supervise the establishment and implementation of internal control by the Board. The management shall be responsible for coordinating and guiding the daily operation of internal control of the Company.

Internal control of the Company is designed to reasonably ensure the lawful operation and management, security of assets and the authenticity and completeness of financial reports and relevant information, and to improve the efficiency and results of operation according to the development strategy. Due to inherit limitations, internal control of the Company may only provide reasonable assurance for the above objectives. In addition, as internal control may become inappropriate or insufficient on the compliance of policies and procedures due to changes of conditions, the forecast on the effectiveness of future internal control based on the internal control assessment results is subject to certain risks.

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Based on the assessment on the internal control of the Company, the Board believes that the Company has maintained an effective internal control on financial reporting in all material aspects pursuant to the regulations of corporate internal control system and relevant requirement. As of the date of internal control assessment report (December 31, 2016), the Company was not aware of any material deficiency in the internal control for financial reporting and non-financial reporting aspects.

(II) Basis for Development of Internal Control for Financial Reporting

Pursuant to the General Regulations for Corporate Internal Control (《企業內部控制基本規範》) and Supplementary Guidelines for Corporate Internal Control (《企業內部控制配套指引》) jointly issued by the Ministry of Finance of the PRC, CSRC, the National Audit Office, China Banking Regulatory Commission and China Insurance Regulatory Commission, the Guidelines for the Internal Control of Securities Companies (《證券公司內部控制指引》) issued by the CSRC and the Guidelines for Internal Control of Listed Companies on the Shanghai Stock Exchange (《上海證券交易所上市公司內部控制指引》) issued by the SSE, the Company has set up a sound internal control for financial reporting based on its actual condition.

(III) Development of Internal Control System

The Company is committed to further improving the internal regulations, rules and management systems. According to the corporate governance requirement, the Company has refined the top-down systems to strengthen control over all business lines and management procedures. A series of comprehensive internal control systems is implemented effectively. In the future, the Company will continue to promote its internal control throughout the whole process of operation and development, and ensure the sustainable and sound growth of the Company by improving and strengthening the implementation of systems with effective supervision and evaluation.

XIII. DEVELOPMENT OF COMPLIANCE MANAGEMENT SYSTEM OF THE COMPANY

(I) Development of Compliance Management System of the Company

In 2016, under its five-level compliance management structure comprising the Board, senior management, chief compliance officer, Legal and Compliance Department, and other departments, branches and subsidiaries, and the three-line of compliance management framework consisting of the shareholders' general meeting, the Board and management, the Company duly performed its compliance management duties and maintained lawful operation effectively. Based on changes in external regulatory policies and the progress of its business development, the Company continued to improve its compliance management system. The Company actively conducted various self-inspections and on-site inspections pursuant to the regulatory requirements in order to prevent any imposition of regulatory measures so to safeguard its reputation and interests. The development of internal control system for investment banking business of the Company was recognized by the SFC. The regulated operation of the Company was highly recognized during the specific inspection of its corporate bond business by the CSRC Shenzhen Office, and its recommendation business was not subject to any regulatory penalties. The Company actively participated in the development of industrial regulations by assisting in the formulation and revision of such regulations. By keeping abreast of the changes in the laws, regulations and policies, the Company formulated, revised and abolished its rules and policies in a timely manner. The Company optimized the procedures for legal compliance management works and continuously improved the control over legal compliance management. Through enhancing process management in a sensible way, sound legal compliance supports and services were provided for the regulated development of various businesses. The Legal and Compliance Department conducted a total of 33 sessions of targeted legal compliance trainings during the year with a total of 17,159 participants to promote the awareness of compliance among all staff. The Company progressively carried out its first self-assessment on money laundering risks. The quality of its

anti-money laundering reports for suspicious transactions was praised by the headquarters of the People's Bank of China for several consecutive years. The Company optimized its information segregation system and continued to improve its inspection means in response to the increasing supervision needs. Through refining its contract templates and assisting the business departments to improve their contract execution model, the Company strengthened the efficiency of contract management. By actively following up and dealing with the complaint letters of customers, the Company safeguarded its legal interest and received a written appreciation letter from the CSRC Shenzhen Office. Centralized management of the legal compliance works of the subsidiaries was enhanced through diversified compliance management according to their different internal compliance management structures.

(II) Compliance Check during the Reporting Period

In 2016, the Company conducted internal self-examination and self-correction on all business lines, and carried out compliance inspection and monitoring on high-risk areas, new businesses and regulatory focuses, in order to eliminate compliance risks timely. The Legal and Compliance Department supervised 19 compliance self-examinations of relevant business departments and carried out 22 compliance examinations. In respect of the problems identified by compliance check and suggestions for rectification, adoption rate of business departments was 100%.

(III) Progress of Audit

During the Reporting Period, the Company closely monitored the business development progress of the Company based on its objectives of supervision, and maintained relatively high auditing coverage rate over all business units to identify weaknesses and prevent risks. In rapid response to the changing business and management needs, it conducted audit in advance based on the prediction on risks and refined special audits for comprehensive inspection. By strengthening the discussion and supervision on audits, risk prevention capability of frontline departments was enhanced. In addition, the audit department closely monitored the rectification progress based on its audit results, so that the problems identified were generally solved. Innovative audit approaches and methods have been adopted to improve the auditing standards and data analysis model, which further improved the quality and efficiency of internal auditing functions, facilitating the optimization of the internal management of the Company in a timely manner.

During the Reporting Period, the Company completed departure audits, special audits, standard audits, and audit, evaluation and inspection of internal procedures and control for a total of 130 items related to the headquarters, branches, subsidiaries and associated companies. Through such internal audits and evaluation, the Company inspected the completeness and effectiveness of the internal control systems of the targets, and issued reminders on major risks so discovered, which significantly supported the improvement of risk prevention awareness of all departments, branches and subsidiaries and associated companies as well as the internal control of the Company.

XIV. OTHER INFORMATION

(I) Compliance with Code on Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Hong Kong Listing Rules (the "Model Code") as the code of conduct regarding the transactions of securities of the Company by all Directors and Supervisors. Having made specific inquiries, all Directors and Supervisors of the Company have confirmed that during the period from the listing date of H shares to December 31, 2016, they have strictly complied with the standards under the Model Code. According to the requirements of the CSRC, employees of the Company shall be regarded as securities practitioners and shall be prohibited from dealings in shares. The Company is not aware of any breach of the guidelines by the relevant employees. The Board will inspect the corporate governance and its operation from time to time, in order to comply with the applicable requirements under the Hong Kong Listing Rules and safeguard the interests of shareholders. Upon enquiry, all Directors, Supervisors and

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senior management have confirmed they have strictly complied with the applicable requirements under the Model Code and the Management Rules on the Shares and Changes of Shareholdings of Directors, Supervisors and Senior Management in China Merchants Securities Co., Ltd. (《招商證券股份有限公司董事、監事和高級管理人員所持公司股份及其變動管理制度》). For details regarding the shareholdings of the Directors, Supervisors and senior management in the Company, please see “Change in Shareholdings and Remuneration” under “Chapter 7 Directors, Supervisors, Senior Management and Employees” of this report.

(II) Responsibilities of Directors and Auditors for 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 audit report of this report, while each responsibility statement shall be interpreted separately.

The Board of the Company has confirmed that it took responsibility for the preparation of the annual report for the year ended December 31, 2016 of the Group.

The Board of the Company is responsible for presenting a clear and well-defined assessment on the interim and annual reports, stock price sensitive information, and other matters that need to be disclosed according to the Hong Kong Listing Rules and other regulatory provisions. The management has provided relevant and necessary explanation and information for the Board so that the Board could make informed assessment on the financial data and position of the Group for examination and approval.

To the knowledge of our Directors, the Company does not face any events or situations of significant uncertainty likely to give rise to the significant doubt of the Company’s capability of sustained operations. In addition, the Company has arranged appropriate insurance cover for the legal actions and liabilities which the Directors, Supervisors and senior management may be exposed to.

(III) Joint Company Secretaries

Mr. WU Huifeng and Ms. KWONG Yin Ping Yvonne are the joint company secretaries of the Company, whose appointments were in July 2015 and April 2016, respectively, and became effective in October 2016. Mr. WU Huifeng is the secretary to the Board and the main contact person within the Company. Ms. KWONG Yin Ping Yvonne is a vice president of SW Corporate Services Group Limited. According to Rule 3.29 of the Hong Kong Listing Rules, as of December 31, 2016, both Mr. WU Huifeng and Ms. KWONG Yin Ping Yvonne have received over 15 hours of relevant professional trainings.

(IV) Interests of Shareholders

The shareholders’ general meeting is the organ of the highest authority of the Company, and the shareholders exercise their rights through the shareholders’ general meeting. The Company convenes and holds shareholders’ general meetings in strict compliance with the relevant provisions of the Articles of Association and the Rules of Procedures for General Meetings to ensure the equal status of all shareholders, in particular the minority shareholders, and enable them to exercise their rights completely.

The Company pays high attention to the shareholders’ opinions and advice, actively and regularly carries out various investor relations activities to keep communication with shareholders and fulfill their reasonable requests timely. The Company has formulated a series of thorough rules and regulations such as the Administrative System Regarding Investor Relationship (《投資者關係管理制度》), to manage investor relationship in accordance with the standards, systems and procedures. Meanwhile, the Company has formed a good interaction and communication with the investors through various channels, such as existing investor service hotlines (for details, please see “Contact Persons

and Contact Methods” of “Chapter 2 Corporate Profile and Key Financial Indicators” of this report), the special column for investor relations in the Company’s website and reception of on-site researchers.

The Board of the Company welcomes the shareholders’ advice and encourages shareholders to attend the shareholders’ general meetings to ask the Board or management directly about any doubts they may hold. Shareholders may convene extraordinary general meetings or submit temporary proposals to general meetings according to the procedures set out in Articles 75 and 80 of the Articles of Association, which has been published on the SSE website, Hong Kong Stock Exchange website and company’s website. The Company will arrange for the Board to answer shareholders’ questions in its annual general meeting for 2016.

(V) Auditor’s Remuneration

For details of auditor’s remuneration of the Company, please refer to “Appointment and Dismissal of Accountants” of “Chapter 5 — Major Events” of this report.

(VI) Risk Management

For details of the risk management of the Company, please refer to “Potential Risks and Corresponding Solutions” under “Chapter 4 Report of the Board of Directors” of this report.

(VII) Management of Inside Information

The Company has established an operating mechanism for managing inside information in accordance with regulatory requirements, which mainly consists of the Confidentiality System of Inside Information (《內幕信息保密制度》) and the Registration System for Persons with Inside Information (《內幕信息知情人登記制度》). Under this mechanism, the confidentiality and registration of inside information are regulated based on the Confidentiality System of Inside Information (《內幕信息保密制度》) and the Registration System for Persons with Inside Information (《內幕信息知情人登記制度》) to enhance the level of confidentiality and the management of insiders. According to the Material Information Internal Report System (《重大信息內部報告制度》), internal collection and management of major information is refined through the appointment of contact persons for internal reporting of major information at each of the departments, branches and subsidiaries. According to the Information Disclosure System (《信息披露制度》) and Investor Relations Management System (《投資者關係管理制度》), information disclosure shall be made on a fair basis. This operating mechanism covers all key aspects of controlling inside information including the collection, circulation, verification, confidentiality and fair disclosure. The Company ensures the effectiveness of such mechanism by enhancing the training system, defining the duty requirements, upholding accountability and improving the awareness of information disclosure.

(VIII) Amendments to the Articles of Association

On August 12, 2015, the resolution regarding the amendments to the Articles of Association of China Merchants Securities Co., Ltd. was considered and approved at the fifth extraordinary general meeting for 2015 of the Company. The Articles of Association became effective upon the date of issue and listing of H Shares of the Company.

(IX) Environmental, Social and Governance Report

The Company will issue an independent Environmental, Social and Governance Report within three months after the date of publication of the annual report.

Chapter 9: Corporate Bonds

I. BASIC INFORMATION OF CORPORATE BONDS

Unit: RMB100 million Currency: RMB

Name	Abbreviation	Code	Date of issue	Date of expiry	Remaining balance	Interest rate	Payment of principal and interest	Trading place
2012 Type One Corporate Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司2012年公司債券品種一)	12 China Merchants 01 (12招商01)	122232	March 5, 2013	March 5, 2018	30	4.45%	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
2012 Type Two Corporate Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司2012年公司債券品種二)	12 China Merchants 02 (12招商02)	122233	March 5, 2013	March 5, 2018	15	4.80%	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
2012 Type Three Corporate Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司2012年公司債券品種三)	12 China Merchants 03 (12招商03)	122234	March 5, 2013	March 5, 2023	55	5.15%	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
2014 Publicly Traded Corporate Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司公開發行2014年公司債券)	14 China Merchants Bonds (14招商債)	122374	May 26, 2015	May 26, 2025	55	5.08%	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange

1. The abovementioned date of issue refers to the first day of the issue, i.e. the date on which interests are accruable;
2. The abovementioned date of expiry shall be postponed to the next business day if it falls on a statutory public holiday or rest day. Such postponement period shall not be subject to any interests.

Payment of interests of corporate bonds

On March 7, 2016, the Company paid an aggregate of RMB488.75 million of interests (tax inclusive) which was incurred from the corporate bonds of 2012 (2012年公司債券) for the period from March 5, 2015 to March 4, 2016.

On May 26, 2016, the Company paid an aggregate of RMB279.40 million of interests (tax inclusive) which was incurred from the corporate bonds of 2014 (2014年公司債券) for the period from May 26, 2015 to May 25, 2016.

Other information on the corporate bonds

In accordance with the requirements under the Prospectus of China Merchants Securities Co., Ltd. for the Public Issuance of 2012 Corporate Bonds (《招商證券股份有限公司公開發行2012年公司債券募集說明書》) (the "Prospectus"), the issuer has the right to decide whether to raise the coupon rate for the rest of the two years at the end of the third year of the investment period of 12 China Merchants 01 (12招商01). The coupon rate of 12 China Merchants 01 was 4.45% for the first three years of the investment period. The Company decided not to raise the coupon rate at the end of the third year of the investment period, which means the coupon rate of 12 China Merchants 01 (12招商01) shall remain at 4.45% in the next two years.

In accordance with the Prospectus, the bond investors of 12 China Merchants 01 (12招商01) have the option to sell their 12 China Merchants 01 (12招商01) bonds in whole or in part at nominal value back to the issuer on the interest payment date of the third interest accrual year during such investment period of this issuance. The registration period of the resale was from January 20 to 22, 2016.

In accordance with the statistics of Shanghai Branch of China Securities Depository and Clearing Corporation Limited on the resale of 12 China Merchants 01 (12招商01), as there were no valid board lot and amount reported for the resale during such issuance, no payment was incurred for the resale.

For details of the above issues, please refer to the relevant announcements of the Company dated January 15, 16, 19, 20 and 26, 2016, respectively.

II. CONTACT PERSON AND CONTACT DETAILS OF THE TRUSTEES IN CORPORATE BONDS AND CONTACT DETAILS OF THE CREDIT RATING AGENCY

Trustee	Name	Huatai United Securities Co., Ltd.	Everbright Securities Co., Ltd.
	Office address	(01A, 02, 03, 04), 17A, 18A, 24A, 25A & 26A, 5/F, CTS Tower, Central Business District, Futian District, Shenzhen	No. 1508, Xinzha Road, Jing'an District, Shanghai
	Contact person	YU Shouxiang (于首祥)	XUE Jiang (薛江), SUN Bei (孫蓓)
	Contact number	0755-82492956	021-22169999
Credit rating agency	Name	Shanghai Brilliance Credit Rating & Investors Service Co., Ltd.	
	Office address	14/F Huasheng Building, No. 398 Hankou Road, Shanghai	

Other descriptions:

The trustees of the Company's corporate bonds of 2012 and corporate bonds of 2014 are Huatai United Securities Co., Ltd. and Everbright Securities Co., Ltd., respectively, and the credit rating agency is Shanghai Brilliance.

III. USE OF PROCEEDS FROM THE ISSUANCE OF CORPORATE BONDS

In accordance with the Prospectus of the China Merchants Securities Co., Ltd. for the Public Issuance of corporate bonds of 2012 (《招商證券股份有限公司公開發行2012年公司債券募集說明書》), all proceeds from the issuance of the corporate bonds of 2012, after deducting the issuance expenses, shall be used for replenishment of the Company's working capital. As at December 31, 2013, all proceeds from the current bond issuance were used for replenishment of the Company's working capital in accordance with the relevant provisions of the Prospectus.

In accordance with the Prospectus of the China Merchants Securities Co., Ltd. for the Public Issuance of Corporate Bonds of 2014 (《招商證券股份有限公司公開發行2014年公司債券募集說明書》), all proceeds from the issuance of the corporate bonds of 2014, after deducting the issuance expenses, shall be used for replenishment of the Company's working capital. As at December 31, 2015, all proceeds from the current bond issuance were used for replenishment of the Company's working capital in accordance with the relevant provisions of the prospectus.

Chapter 9: Corporate Bonds

IV. RATING OF CORPORATE BONDS

On April 28, 2016, Shanghai Brilliance conducted a follow-up credit rating on the corporate bonds of the Company, namely 12 China Merchants 01 (12招商01), 12 China Merchants 02 (12招商02), 12 China Merchants 03 (12招商03) and 14 China Merchants Bonds (14招商債), and issued the "Follow-up Credit Rating Report on the 2012 and 2014 Corporate Bonds of China Merchants Securities Co., Ltd." (Serial Number: Xin Shiji Follow-up [2016]100106) (《招商證券股份有限公司2012年及2014年公司債券跟蹤評級報告》(編號: 新世紀跟蹤[2016]100106)), pursuant to which, the credit ratings of the 12 China Merchants 01 (12招商01), 12 China Merchants 02 (12招商02), 12 China Merchants 03 (12招商03) and 14 China Merchants Bonds (14招商債) remained at AAA and the overall credit rating of the Company remained at AAA with stable outlook.

V. CREDIT ENHANCEMENT MECHANISM, DEBT REPAYMENT PLANS AND OTHER RELEVANT INFORMATION OF THE CORPORATE BONDS DURING THE REPORTING PERIOD

During the Reporting Period, the Company did not have any credit enhancement mechanism, debt repayment plans and other relevant information of the corporate bonds.

VI. MEETINGS OF CORPORATE BONDHOLDERS

No meeting of corporate bondholders was held during the Reporting Period.

VII. DUTY PERFORMANCE OF THE TRUSTEES OF THE CORPORATE BONDS

The trustee of the corporate bonds of 2012 of the Company, Huatai United Securities, issued the "2015 Trust Report on the 2012 Corporate Bonds of China Merchants Securities Co., Ltd." (《招商證券股份有限公司2012年公司債券受託管理事務報告》(2015年度)) on March 31, 2016.

The trustee of the corporate bonds of 2014 of the Company, Everbright Securities, issued the "2015 Trust Report on the 2014 Corporate Bonds of China Merchants Securities Co., Ltd." (《招商證券股份有限公司2014年公司債券受託管理事務報告》(2015年度)) on March 31, 2016.

For details, please refer to the relevant announcements published by the Company on the SSE website.

VIII. ACCOUNTING DATA AND FINANCIAL INDICATORS IN THE LAST TWO YEARS AS AT THE END OF THE REPORTING PERIOD

Unit: RMB100 million Currency: RMB

Key indicators	2016	2015	Increase/ decrease for the Reporting Period over the corresponding period last year (%)	Reasons for the change
EBITDA	119.53	207.36	-42.36	Mainly due to the decrease in net profit of the year
Current ratio	2.20	2.05	7.19	Mainly due to the decrease in current liabilities of the Company
Quick ratio	2.20	2.05	7.19	Mainly due to the decrease in current liabilities of the Company
Gearing ratio	65.86%	76.13%	-13.50	
EBITDA/debt ratio	11.60%	15.29%	-24.16	
Interest coverage ratio	2.20	2.95	-25.47	
Cash interest coverage ratio	0.99	-5.40	—	Mainly due to the increase in proprietary investment and investment for capital-based intermediary business in 2015, as well as the negative cash outflow from operating activities
EBITDA/interest coverage ratio	2.23	2.98	-25.00	
Loan repayment ratio	100.00%	100.00%	—	
Interest payment ratio	100.00%	100.00%	—	

IX. PRINCIPAL AND INTEREST PAYMENTS FOR OTHER BONDS AND DEBT FINANCING INSTRUMENTS OF THE COMPANY

Details regarding the settlement of principal and interest of Short-term Corporate Bonds of Securities Company (證券公司短期公司債券) during the Reporting Period are as follows:

1. The Company settled the principal and interest payment for the first tranche of 2015 Short-term Corporate Bonds of Securities Company (2015年度第一期證券公司短期公司債券) on January 13, 2016;
2. The Company settled the principal and interest payment for the third tranche of 2015 Short-term Corporate Bonds of Securities Company (2015年度第三期證券公司短期公司債券) on March 10, 2016;
3. The Company settled the principal and interest payment for the fourth tranche of 2015 Short-term Corporate Bonds of Securities Company (2015年度第四期證券公司短期公司債券) on April 1, 2016.

Chapter 9: Corporate Bonds

Details regarding the settlement of principal and interest of subordinated bonds of the Company during the Reporting Period are as follows:

1. the Company settled the interest payment for the first tranche of 2015 subordinated bonds on March 21, 2016 (as the interest payment date, i.e. March 19, 2016, fell on a statutory holiday, the interest payment was extended to the next following business day, and no interest was accrued for the extended period);
2. the Company settled the interest payment for the second tranche of 2015 subordinated bonds on March 24, 2016;
3. the Company settled the interest payment for the third and fourth tranches of 2015 subordinated bonds on April 13, 2016;
4. the Company settled the interest payment for the fifth tranche of 2015 subordinated bonds on April 25, 2016 (as the interest payment date, i.e. April 23, 2016, fell on a statutory holiday, the interest payment was extended to the next following business day, and no interest was accrued for the extended period).

Details regarding the settlement of principal and interest of short-term financing notes of the Company during the Reporting Period are as follows:

1. the Company settled the principal and interest payment for the tenth tranche of 2015 short-term financing notes on March 24, 2016.

X. BANK CREDITS OF THE COMPANY DURING THE REPORTING PERIOD

As at the end of 2016, the Company had available credit lines from its major lending banks amounting to RMB217.5 billion, of which RMB60.0 billion were utilized and RMB157.5 billion were unused.

The Company is creditworthy. In 2016, it had repaid all bank loans as they fall due without any extension or reduction of loans.

XI. PERFORMANCE OF COMMITMENTS AND UNDERTAKINGS BY THE COMPANY IN RESPECT OF CORPORATE BONDS ACCORDING TO THE PROSPECTUSES DURING THE REPORTING PERIOD

During the Reporting Period, the Company was in strict compliance with its commitments and undertakings in respect of corporate bonds under the prospectuses and the proceeds were used in such manner as stated in the prospectuses. The Company strictly performed its obligations of information disclosure and made timely payments of bond interests in order to safeguard the legal interests of investors. During the Reporting Period, the Company had no defaults on its principal and interest repayments for the issued bonds. The Company had a sound operation and favourable profitability, and hence had not identified any risks which might give rise to its inability to fulfil future payments on time.

XII. MATERIAL INCIDENTS OF THE COMPANY AND THE EFFECTS ON OPERATION AND PAYMENT ABILITY

Applicable Not applicable

Chapter 10: Financial Report

- I. **The financial report (H Shares) of the Company for 2016 had been audited by SHINEWING (HK) CPA Limited, which issued a standard unqualified audit report.**

- II. **Consolidated Financial Statements (H Shares) (attached below)**

- III. **Notes to the Consolidated Financial Statements (H Shares) (attached below)**

Chapter 10: Financial Report

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CHINA MERCHANTS SECURITIES CO., LTD.

招商證券股份有限公司

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

Opinion

We have audited the consolidated financial statements of China Merchants Securities Co., Ltd. and its subsidiaries ("the Group") set out on pages 176 to 285, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 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") issued by the International Accounting Standards Board ("IASB") 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") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' **Code of Ethics for Professional Accountants** ("the Code") and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

The key audit matter	How the matter was addressed in our audit
Impairment Assessment — available-for-sale investments	
Refer to summary of significant accounting policies in note 3 and the disclosures note 25 to the consolidated financial statements.	
<p>As at December 31, 2016, the Group have available-for-sale investments of RMB 24,722,186 thousand, it represented 10.17% of total assets value of the Group.</p> <p>For the impairment of available-for-sale investments, management judgment would be required to determine whether there are objective evidences of indication of impairment and a significant or prolonged decline in fair value below cost as at December 31, 2016.</p> <p>Impairment assessment of available-for-sale investments is a key audit area due to the size of the balance and the significant management judgement involved in assessing impairment.</p>	<p>Our procedures in relation to management's impairment assessment included:</p> <p>We had obtained the understanding on how the management has determined a decline in fair value below cost would be regarded as significant or prolonged and whether there is any change in the impairment policy and the key input used in the analysis is with proper authorisation.</p> <p>We had checked those available-for-sale equity investments the respective fair value of which had fallen below cost, and assessed whether such decline in fair value would be regarded significant or prolonged. 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>We had checked those available-for-sale debt investments the respective fair value of which had fallen below cost, and assessed the credit rating, financial situation and the value of collaterals by the issuers, and assessed the reasonableness of the cash flow forecast adopted by the management.</p> <p>For the available-for-sale investments which are suspended for trading or where there was a disappearance of an active market, we had checked whether it is an indication of impairment.</p>



Chapter 10: Financial Report

Key Audit Matters (Continued)

The key audit matter	How the matter was addressed in our audit
<p>Impairment of advance to customers and financial assets held under repurchase agreements</p>	
<p>Refer to summary of significant accounting policies in note 3 and the disclosures notes 27 and 30 to the consolidated financial statements.</p>	
<p>As at December 31, 2016, the Group have advance to customers amounted to RMB 53,351,538 thousand and financial assets held under repurchase agreements amounted to RMB18,953,143 thousand, the total balance is RMB72,304,681 thousand, it represented 29.75% of total assets value of the Group.</p> <p>Provision for impairment is calculated on a collective basis for portfolios of financial assets with similar characteristics and on an individual basis for significant balances of financial assets. The management reviews the individually significant financial assets for indication of impairment at the end of reporting period. Financial assets that are not to be impaired individually are reviewed at the end of the reporting period on a collective basis.</p> <p>The audit was focused on loan impairment allowances due to the materiality of the balances and the calculations are inherently subject to significant judgement of management.</p>	<p>Our procedures in relation to management's impairment assessment on advance to customers and financial assets held under repurchase agreements included:</p> <p>We evaluated the design and implementation, and tested the operating effectiveness of controls over the individual and collective impairment assessment, including the impairment methodology, source of inputs and the results approval. We also reperformed management's calculation and reviewed the work performed by the relevant personnel.</p> <p>For the assessment on a collective basis, we examined the appropriateness and consistency of the policies and methodology adopted, the reasonableness of credit loss ratio used in the model; and reperformed the calculation in accordance with the methodology. If there is a change in the collective assessment policies during the reporting period, we assess whether the extent of the impact had been properly authorised.</p> <p>For individual impairment assessment, we obtained the management's assessment documentations and the counterparty's information. We examined the use of the relevant parameters in the individual identification, the value of collateral and the customers' past repayment history, and evaluated the reasonableness of the judgement made by the management.</p>

Key Audit Matters (Continued)

The key audit matter	How the matter was addressed in our audit
Determination of consolidated structured entities	
Refer to summary of significant accounting policies in note 3 and the disclosures note 22 to the consolidated financial statements.	
<p>The Group set up various structured entities including collective asset management schemes, limited partnerships and investment funds where the Group acts as manager for or held interests in these structured entities.</p> <p>As at December 31, 2016, the total assets value of consolidated structured entities amounted to RMB4,689,802 thousand. The Group considered whether the combination of the interest and power it held together with its remuneration and credit enhancements created exposure to variability of returns from the activities of these structured entities that are of such significance that it indicated that the Group was a principal and therefore should consolidate these structured entities.</p> <p>We identified determination of consolidation scope as a key audit matter due to the key judgement exercised by the management of the Group in assessing and concluding whether the Group, as an investor, controlled the structured entities.</p>	<p>Our procedures in relation to management's determination of consolidation scope included:</p> <p>We had obtained the understanding on the Group's assessment of its controls over their investees and determining consolidation scope of structured entities; and; the financial reporting process for the consolidation of these structured entities. We performed internal control testing on this business process.</p> <p>We had obtained the related contracts of collective asset management schemes, limited partnerships and investment funds, analysed the Group's extent of power and responsibilities; and checked the remuneration and exposures or rights to variable returns in these structured entities.</p> <p>We had assessed the adequacy of disclosures being made in the consolidated financial statements required under applicable accounting standards for those consolidated or unconsolidated structured entities.</p>

Other Information

The directors are responsible for the other information. The other information comprises 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.



Chapter 10: Financial Report

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

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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 are responsible for overseeing the Group's financial reporting process.

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, solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 skepticism 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.
- 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.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
(Continued)**

- 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 year 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 Mr. Chan Wing Kit.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Chan Wing Kit

Practising Certificate Number: P03224

Hong Kong

March 28, 2017

Consolidated Statement of Profit or Loss

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2016	2015
Revenue			
Fee and commission income	6	10,302,652	19,317,428
Interest income	7	6,470,406	9,906,061
Net investment gains	8	1,394,933	5,681,111
Total revenue		18,167,991	34,904,600
Other income and gains, net	9	383,727	83,968
Total revenue and other income		18,551,718	34,988,568
Depreciation and amortization	10	(161,690)	(151,133)
Staff costs	11	(3,296,948)	(8,180,358)
Fee and commission expenses	12	(1,829,189)	(2,868,697)
Interest expenses	13	(5,575,103)	(7,285,270)
Business tax and surcharges		(412,338)	(1,663,829)
Other operating expenses	14	(1,386,631)	(1,528,294)
Impairment losses, net	15	(66,222)	(228,098)
Total expenses		(12,728,121)	(21,905,679)
Operating profit		5,823,597	13,082,889
Share of results of associates		629,323	551,102
Profit before income tax		6,452,920	13,633,991
Income tax expenses	16	(1,035,838)	(2,705,737)
Profit for the year		5,417,082	10,928,254
Attributable to:			
Owners of the Company		5,403,451	10,908,749
Non-controlling interests		13,631	19,505
		5,417,082	10,928,254
Earnings per share attributable to owners of the Company (Expressed in RMB per share)	17		
— Basic and diluted		0.91	1.88

Consolidated Statement of Profit or Loss and Other Comprehensive income

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2016	2015
Profit for the year		5,417,082	10,928,254
Other comprehensive income (expense):			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
Net fair value changes during the year		(494,632)	357,577
Reclassification adjustment to profit or loss		(566,505)	(40,966)
Income tax impact		278,111	(79,153)
Subtotal		(783,026)	237,458
Share of other comprehensive income of associates		4,965	6,352
Exchange differences arising on translating foreign operations		157,555	127,766
Other comprehensive (expense) income for the year, net of tax		(620,506)	371,576
Total comprehensive income for the year		4,796,576	11,299,830
Total comprehensive income for the year attributable to:			
Owners of the Company		4,782,945	11,280,325
Non-controlling interests		13,631	19,505
		4,796,576	11,299,830

Consolidated Statement of Financial Position

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2016	2015
Non-current assets			
Property and equipment	18	1,779,170	1,518,515
Investment properties	19	—	4,970
Goodwill	20	9,671	9,671
Other intangible assets	21	23,429	24,251
Interests in associates	23	5,288,506	4,897,814
Available-for-sale financial assets	25	8,809,469	10,097,292
Financial assets held under resale agreements	27	6,462,211	3,464,071
Deferred tax assets	28	1,207,996	726,238
Other non-current assets	29	195,050	184,083
Total non-current assets		23,775,502	20,926,905
Current assets			
Advances to customers	30	53,351,538	64,389,342
Accounts and other receivables	31	6,827,360	4,051,717
Current tax assets		425,412	—
Available-for-sale financial assets	25	15,912,717	25,645,352
Loan receivables	26	64,725	287,060
Financial assets held under resale agreements	27	12,490,932	10,870,685
Financial assets at fair value through profit or loss	32	48,244,455	62,826,493
Derivative financial assets	33	1,109,613	1,016,347
Deposits with exchanges and non-bank financial institutions	34	540,442	857,442
Clearing settlement funds	35	19,043,469	19,166,188
Cash and bank balances	36	61,272,263	81,618,054
Total current assets		219,282,926	270,728,680
Total assets		243,058,428	291,655,585
Current liabilities			
Borrowings	38	3,251,970	3,090,227
Short-term debt instruments	39	21,782,330	27,878,320
Placements from other financial institutions	40	1,500,000	4,000,000
Accounts payable to brokerage clients	41	67,581,720	88,749,044
Accrued staff costs	42	4,707,662	7,125,211
Other payables and accrued charges	43	6,719,125	9,349,464
Provision	44	—	96
Current tax liabilities		72,739	522,287
Other liabilities	45	—	545,735
Financial liabilities at fair value through profit or loss	46	4,439,956	2,369,280
Derivative financial liabilities	33	1,842,803	1,866,372
Financial assets sold under repurchase agreements	47	19,398,988	32,088,027
Long-term borrowings due within one year	52	368,596	—
Bonds payable due within one year	54	5,000,000	—
Total current liabilities		136,665,889	177,584,063
Net current assets		82,617,037	93,144,617
Total assets less current liabilities		106,392,539	114,071,522

Consolidated Statement of Financial Position

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2016	2015
Equity			
Share capital	48	6,699,409	5,808,136
Capital reserve		27,533,939	19,403,877
Investment revaluation reserve	49	(315,695)	462,366
Translation reserve		52,121	(105,434)
General reserves	50	11,498,783	10,117,807
Retained profits		14,357,780	12,664,367
Equity attributable to owners of the Company		59,826,337	48,351,119
Non-controlling interests		88,702	80,671
Total equity		59,915,039	48,431,790
Non-current liabilities			
Financial assets sold under repurchase agreements	47	—	10,865,000
Accrued staff costs	42	787,540	787,540
Deferred tax liabilities	28	98,754	446,349
Deferred income	51	126,000	126,000
Bonds payable	55	45,465,206	52,960,871
Long-term borrowings	53	—	453,972
Total non-current liabilities		46,477,500	65,639,732
Total equity and non-current liabilities		106,392,539	114,071,522

The consolidated financial statements on pages 176 to 285 were approved and authorised for issue by the board of directors on March 28, 2017 and are signed on its behalf by:

GONG Shaolin
Director

WANG Yan
Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

	Equity attributable to owners of the Company							Non-controlling interests	Total
	Share capital	Capital reserve	Investment revaluation reserve	Translation reserve	General reserves	Retained profits	Subtotal		
	(Note 48)		(Note 49)		(Note 50)				
At January 1, 2015	5,808,136	19,403,877	218,556	(233,200)	7,071,819	9,268,062	41,537,250	58,911	41,596,161
Profit for the year	—	—	—	—	—	10,908,749	10,908,749	19,505	10,928,254
Other comprehensive income for the year	—	—	243,810	127,766	—	—	371,576	—	371,576
Total comprehensive income for the year	—	—	243,810	127,766	—	10,908,749	11,280,325	19,505	11,299,830
Capital injection by non-controlling shareholders	—	—	—	—	—	—	—	3,107	3,107
Appropriation to general reserve	—	—	—	—	3,045,988	(3,045,988)	—	—	—
Dividends recognised as distribution (note 56)	—	—	—	—	—	(4,466,456)	(4,466,456)	(852)	(4,467,308)
At December 31, 2015 and January 1, 2016	5,808,136	19,403,877	462,366	(105,434)	10,117,807	12,664,367	48,351,119	80,671	48,431,790
Profit for the year	—	—	—	—	—	5,403,451	5,403,451	13,631	5,417,082
Other comprehensive (expense) income for the year	—	—	(778,061)	157,555	—	—	(620,506)	—	(620,506)
Total comprehensive (expense) income for the year	—	—	(778,061)	157,555	—	5,403,451	4,782,945	13,631	4,796,576
Issuance of shares (note 48)	891,273	8,317,047	—	—	—	—	9,208,320	—	9,208,320
Transaction costs attributable to issue of shares	—	(186,985)	—	—	—	—	(186,985)	—	(186,985)
Appropriation to general reserve	—	—	—	—	1,380,976	(1,380,976)	—	—	—
Dividends recognised as distribution (note 56)	—	—	—	—	—	(2,329,062)	(2,329,062)	(5,600)	(2,334,662)
At December 31, 2016	6,699,409	27,533,939	(315,695)	52,121	11,498,783	14,357,780	59,826,337	88,702	59,915,039

Consolidated Statement of Cash Flows

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2016	2015
OPERATING ACTIVITIES			
Profit before income tax		6,452,920	13,633,991
Adjustments for:			
Interest expenses		5,575,103	7,285,270
Share of results of associates		(629,323)	(551,102)
Depreciation and amortization		161,690	151,133
Impairment losses, net		66,222	228,098
Losses on disposal of property and equipment, other intangible assets and other non-current assets		1,623	24,145
Foreign exchange (gains) losses, net		(258,692)	37,163
Net realised gains from disposal of available-for-sale financial assets		(297,664)	(341,779)
Dividend income and interest income from available-for-sale financial assets		(900,932)	(709,273)
Unrealised fair value changes in financial instruments at fair value through profit or loss		2,372,721	829,737
Unrealised fair value change in derivatives financial instruments		(776,700)	(679,547)
Operating cash flows before movements in working capital		11,766,968	19,907,836
Decrease (increase) in advances to customers		11,157,105	(5,924,977)
Increase in other current assets		(330,047)	(2,165,663)
Increase in interest receivables		(373,310)	(489,248)
Increase in financial assets held under resale agreements		(4,603,272)	(6,892,507)
Decrease (increase) in financial assets at fair value through profit or loss		14,663,259	(25,455,481)
Decrease (increase) in deposit with exchanges and non-bank financial institutions		317,000	(612,762)
Increase in clearing settlement funds		(593,761)	(5,841,752)
Decrease (increase) in cash held on behalf of customers		22,089,279	(24,929,327)
(Decrease) increase in accounts payable to brokerage clients		(21,167,323)	31,054,821
(Decrease) increase in accrued staff costs		(2,417,549)	4,242,807
(Decrease) increase in other current liabilities		(2,538,563)	356,700
Decrease in financial assets sold under repurchase agreements		(23,554,039)	(6,185,489)
Decrease in placements from other financial institutions		(2,500,000)	(600,000)
Decrease in provisions		(96)	(22)
Cash from (used in) operation		1,915,651	(23,535,064)
Income taxes paid		(2,462,089)	(2,880,705)
Interest paid		(1,902,487)	(3,157,044)
NET CASH USED IN OPERATING ACTIVITIES		(2,448,925)	(29,572,813)

Consolidated Statement of Cash Flows

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

	Note	2016	2015
INVESTING ACTIVITIES			
Dividends and interest received from investments		984,224	824,348
Purchase of property and equipment, other intangible assets and other non-current assets		(436,808)	(401,380)
Proceeds from disposal of property and equipment, other intangible assets and other non-current assets		319	704
Deposit for acquisition of interest in an associate		(945,405)	—
Proceeds on disposal (purchase of) available- for-sale financial assets, net		10,167,477	(20,215,167)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		9,769,807	(19,791,495)
FINANCING ACTIVITIES			
Dividends paid to shareholders		(2,329,062)	(4,467,308)
Repayment of bonds and short-term debt instruments interest		(4,185,250)	(1,205,675)
Repayment of borrowings interest		(94,680)	(89,563)
Repayment of bonds and short-term debt instruments		(29,734,327)	(47,514,316)
Capital injection from non-controlling shareholders, net		—	3,107
Proceeds from issue of shares		9,208,320	—
Transaction cost paid on issuance of H Shares		(150,864)	—
Proceeds from bonds and short-term debt instruments		20,995,710	103,822,938
Proceeds from borrowings		—	246,350
Proceeds from long-term borrowings		8,402	158,477
NET CASH (USED IN) FROM FINANCING ACTIVITIES		(6,281,751)	50,954,010
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,039,131	1,589,702
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	37	10,554,561	8,538,706
Effect of foreign exchange rate changes		732,126	426,153
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	37	12,325,818	10,554,561

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

1 CORPORATE INFORMATION

China Merchants Securities Co., Ltd (the “Company”) was formerly established as a securities department of China Merchants Bank. On August 1, 1993, with the approval of People’s Bank of China (Shenzhen branch) and Shenzhen Administration for Industry and Commerce, the Group was duly established as the Securities Department of China Merchants Bank (招商銀行証券業務部). On August 26, 1994, the Securities Department of China Merchants Bank was renamed as Shenzhen CMB Securities Company (深圳招銀證券公司). On September 28, 1994, Shenzhen CMB Securities Company (深圳招銀證券公司) further changed its name to CMB Securities Company (招銀證券公司). On November 6, 1998, with the approval of People’s Bank of China and China Securities Regulatory Commission, CMB Securities Company (招銀證券公司) increased its share capital. Its shareholding structure was altered and renamed as Guotong Securities Limited Liability Company (國通證券有限責任公司).

Being approved by the Ministry of Finance of PRC pursuant to the approval from the Ministry of Finance of PRC for the issues on State-owned shares management by Guotong Securities Co., Ltd. (國通證券股份有限公司) (Cai Qi [2001] No. 723), the China Securities Regulatory Commission pursuant to the approval for the change to limited company by Guotong Securities Limited Liability Company (國通證券有限責任公司) (Zheng Jian Ji Gou Zi [2001] No. 285), the Municipal Government of Shenzhen pursuant to the approval for reform in shareholding structure reform by Guotong Securities Co., Ltd. (國通證券股份有限公司) (Shen Fu Gu [2001] No. 49), and being approved and registered with Shenzhen Administration for Industry and Commerce, Guotong Securities Limited Liability Company (國通證券有限責任公司) reformed its company structure and changed its name to Guotong Securities Co., Ltd. (國通證券股份有限公司) on December 26, 2001. On June 28, 2002, Guotong Securities Co., Ltd. (國通證券股份有限公司) was renamed as China Merchants Securities Co., Ltd. (招商證券股份有限公司).

On November 2, 2009, with the approval by China Securities Regulatory Commission ([2009] No. 1132), the Company launched its initial public offering of 358,546,141 A shares. On November 17, 2009, the Company started to be listed on the Shanghai Stock Exchange.

The Company’s ultimate holding company is China Merchants Group Limited (“CMG”). CMG is a PRC enterprise regulated and directly managed by the State-Owned Assets Supervision and Administration Commission of the State Council and CMG is owned and controlled by the PRC Government.

On October 7, 2016, with the approval by China Securities Regulatory Commission ([2016] No. 1735), the Company issued RMB891,273,800 H Shares, which were listed on the main board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

As at December 31, 2016, the Company’s registered capital was RMB6,699,409,329 and the Company has a total of 6,699,409,329 issued shares of RMB1 each.

The address of the registered office and principal place of business of the Company is 38–45/F., Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen, Guangdong, PRC. The Company and its subsidiaries (the “Group”) are principally engaged in securities brokerage, securities financial advisory, financial advisory relating to securities trading and securities investment activities, securities underwriting and sponsorship, proprietary trading, asset management, margin financing and securities lending, securities investment fund distribution, intermediary services to futures company, agency sales of financial products, insurance agency and securities investment management.

The consolidated financial statements are presented in Renminbi (“RMB”), which is the same as functional currency of the Company. All consolidated financial statements and notes to the consolidated financial statements are presented in RMB has been rounded to the nearest thousand, except when otherwise indicates.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

The consolidated financial statements set out in this report has been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”) and the related interpretations (“IFRICs”). The Group has consistently adopted all of the new and revised International Accounting Standards (“IASs”), IFRSs, amendments and “IFRICs” (herein collectively referred to as the “IFRSs”) which are effective for the Group’s financial year beginning on January 1, 2016 throughout the year.

The Group have not early applied the following new and revised IFRSs and amendments that have been issued but are not yet effective.

IFRS 9	Financial Instruments ¹
IFRS 15	Revenue from Contracts with Customers ¹
IFRS 16	Leases ²
IFRIC 22	Foreign Currency Transactions and Advance Consideration ¹
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts ¹
Amendments to IFRS 15	Clarification to IFRS 15 Revenue from contracts with customers ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IAS 7	Disclosure Initiative ⁴
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ⁴
Amendments to IAS 40	Transfers of Investment Property ¹
Amendments to IFRSs	Annual improvements to IFRS Standards 2014-2016 Cycle ⁵

¹ Effective for annual periods beginning on or after January 1, 2018.

² Effective for annual periods beginning on or after January 1, 2019.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after January 1, 2017.

⁵ Amendments to IFRS 12 are effective for annual periods beginning on or after 1 January 2017, and Amendments to IFRS 1 and Amendments to IAS 28 are effective for annual periods beginning on or after 1 January 2018.

Except as described below, the application of the new and revised IFRSs will have no material impact on the Group’s financial statements.

IFRS 9 Financial instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

IFRS 9 Financial instruments (Continued)

Key requirements of IFRS 9 that are relevant to the Group are:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity’s expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 9 it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.
- IFRS 9 introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, IFRS 9 looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under IAS 39, it is necessary to exhibit eligibility and compliance with the requirements in IAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for IAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

IFRS 9 Financial instruments (Continued)

IFRS 9 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company anticipate that the adoption of IFRS 9 (2014) in the future may have an impact on the Group’s results and financial position, 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. It is not practicable to provide a reasonable estimate of the effect of IFRS 9 (2014) until a detailed review has been completed.

IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction contracts and IFRIC 13 Customer Loyalty Programs when it becomes effective. It also includes guidance on when to capitalise costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosed requirements.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. Certain costs incurred in fulfilling a contract which are currently expensed may need to be recognised as an asset under IFRS 15. More disclosures relating to revenue are also required. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detail review is completed.

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

IFRS 16 Leases (Continued)

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date. Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, 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.

IFRS 16 will supersede the current lease standards including IAS 17 Leases and the related Interpretations when it becomes effective. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019 with early application permitted provided that the entity has applied IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

As at December 31, 2016, the Group has non-cancellable operating lease commitments of RMB923,618 thousand as disclosed in note 59. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these lease unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

3 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the following accounting policies which conform with IFRSs. In addition, the consolidated financial statements includes applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved where the Company: (a) has power over the investee; (b) is exposed, or has rights, to variable returns from its involvement with the investee; and (c) has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Investments in subsidiaries are stated at cost less accumulated impairment loss, if any, in the Group's statement of financial position. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or losses from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Structured entities

The Group served as the manager of collective asset management schemes and funds. These collective asset management schemes and funds invest mainly in equities, debt securities cash and cash equivalents and securities-backed lending under resale agreement. The Group's percentage ownership in these structured entities can fluctuate from day to day according to the Group's and third-party participation in them. Where the Group is deemed to control such collective asset management schemes and funds, with control determined based on an analysis of the guidance in IFRS 10 Consolidated financial statements, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the relevant group entity as an issuer to repurchase or redeem units in such collective asset management schemes and funds for cash. These are presented as "Third-party interests in consolidated collective asset management schemes" within other liabilities or "Financial liabilities at fair value through profit or loss" in the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income taxes and IAS 19 Employee benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current assets held for sale and discontinued operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less accumulated impairment losses, if any.

Foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the dates of the transactions.

A spot exchange rate is an exchange rate quoted by the "People's Bank of China", the State Administrative of Foreign Exchange or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is a rate determined under a systematic and rational method, normally the average exchange rate of the current period.



Notes to the Consolidated Financial Statements

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(Expressed in thousands of Renminbi, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of the year. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the resulting exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale financial assets, which are recognised as other comprehensive income in capital reserve.

The assets and liabilities of foreign operation are translated to RMB at the spot exchange rate at the end of reporting period. The equity items, excluding “retained earnings”, are translated to RMB at the spot exchange rates at the transaction dates. The income and expenses of foreign operation are translated to RMB at the rates that approximate the spot exchange rates. The resulting translation differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. Upon disposal of a foreign operation, the cumulative amount of the translation differences recognised in shareholders’ equity which relates to that foreign operation is transferred to profit or loss in the period in which the disposal occurs.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to insignificant risk of change in value.

Goodwill

Goodwill represents the excess of:

- (i) the aggregate of the fair value of the consideration transferred, the amount of any noncontrolling interest in the acquiree and the fair value of the group’s previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree’s identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group’s policy for goodwill arising on the acquisition of associates is described below.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates

An associate is an entity 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 results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, unless it is classified as held for sale. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal or partial disposal of the Group's interest in an associate in which the Group lost significant influence and discontinued the use of equity method, any retained interest that is within the scope of IAS 39 is measured at fair value on that date, the difference between the carrying amount of the associate at the date, and the proceeds from disposing of such interest (or partial interest) in the associate and the fair value of the retained interest is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in their comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related asset or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

When an investment in an associate is held by, or is held indirectly through, a group entity that is a venture capital organization and similar entities, the Group may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with IAS 39 Financial instruments: Recognition and measurement.

In the Company's statement of financial position, investments in associates of the Company are accounted for using the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment and other non-current assets

Property and equipment including buildings and leasehold land (classified as finance leases) and other non-current assets including leasehold improvement and deferred expenses for use in the supply of services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation/amortization and subsequent accumulated impairment losses, if any.

Depreciation/amortization is recognised so as to write off their costs, other than construction in progress, less their residual values over their estimated useful lives, using straight-line method. The estimated useful lives, residual values and depreciation/amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress is carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories when completed and ready for intended use. Depreciation/amortization of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment and other non-current assets is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

If an item of property and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, the cost and accumulated depreciation of that item at the date of transfer are transferred to investment property for subsequent measurement and disclosure purposes.

The estimated residual value rates and useful lives of each class of property and equipment and other non-current assets are as follows:

Classes	Estimated residual value rates	Useful lives
Leasehold land and buildings	5%	30–50 years
Motor vehicles	5%	5 years
Electronic and communication equipment	5%	5 years
Office equipment	5%	5 years

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

The estimated residual value rates and useful lives of investment properties are as follows:

Classes	Estimated residual value rates	Useful lives
Buildings	5%	30–50 years
Leasehold land	—	Over the term of the lease

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

The estimated useful lives of each class of intangible assets are as follows:

Classes	Useful lives
Trading rights (with finite life)	10 years
Others	5 years

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Impairment on non-financial assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property and equipment, investment property, intangible assets with finite useful lives, interests in subsidiaries and other non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**Leasing (Continued)***Leasehold land and buildings*

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property and equipment and investment properties.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

If the construction of qualifying assets have been suspend under abnormal circumstances, the corresponding capitalization of the borrowing cost should be stop accordingly.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

Salaries and allowances

Salaries and allowances are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Contributions to retirement benefits scheme

The Group participates in Central Provident Fund (“CPF”) Scheme for its employees in the PRC organised by the municipal governments of the relevant provinces. The Group also participates in the Mandatory Provident Fund Scheme (the “MPF Scheme”) for its employees in Hong Kong under the Mandatory Provident Fund Scheme Ordinance. The Group also sets up annuity scheme for qualified employees. Annuity contributions are accrued based on a certain percentage of the participants’ total salary when employees have rendered service entitling them to the contributions. The contribution is recognised in profit or loss.

Other social welfare

Social welfare expenditure refers to payments for employees’ social welfare system established by the government of the PRC, including social pension insurance, health care insurance, housing funds and other social welfare contributions. The Group contributes on a regular basis to these funds based on certain percentage of the employees’ salaries and the contributions are recognised in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group’s liabilities in respect of these funds are limited to the contribution payable in the reporting period.

Other long-term employee benefits

The Group’s net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in respect of their services in the current and prior periods.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Notes to the Consolidated Financial Statements

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**Taxation (Continued)***(ii) Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Tax exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.



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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

(i) *Recognition and measurement of financial assets and financial liabilities*

A financial asset or financial liability is recognised in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorised as follows:

Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition).

A financial asset or financial liability is classified at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

- the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;
- the financial assets or financial liabilities contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transaction costs that may occur on sale, and changes therein are recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

(i) Recognition and measurement of financial assets and financial liabilities (Continued)

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the investment revaluation reserve within equity. When the investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

(ii) Impairment of financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of the year to determine whether there is objective evidence of impairment. If any such evidence exists, impairment losses are provided and recognised in profit or loss of the current period. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial assets and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence that financial assets are impaired includes, but not limited to: significant financial difficulty of the borrower or issuer; a breach of contract by the borrower, such as a default or delinquency in interest or principal payments; it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; disappearance of an active market for financial assets because of financial difficulties of the issuer; significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

When assessing the impairment to financial assets on a collective basis, the Group is based on same assets or assets with similar credit risk characteristics and in accordance to the terms of the agreements, to use as an indicator to categories the assets by reflect the debtors' repayment ability when the debt is mature.

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

(ii) Impairment of financial assets (Continued)

Advances to customers, accounts and other receivable and loan receivables

The Group reviews its advances to customers, accounts and other receivable and loan receivables to assess impairment on a periodic basis. When there is objective evidence of impairment loss for advance to customers, accounts and other receivable and loan receivables, the Group takes into consideration the estimation of future cash flows. Specifically, the Group reviews the value of the securities collateral received from the customers firstly on an individual basis, then on a collective basis in determining the impairment.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in other comprehensive income to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost net of any principal repayment and amortization and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

For the available-for-sale equity investment, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. "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 investment is an indicator of impairment in such investments where a decline in the fair value of equity investment below its initial cost by 50% or more; or fair value below cost for one year or longer, upon which impairment loss is recognised.

The impairment of the available-for-sale equity investment was with reference to the industry practice, upon which circumstances an impairment loss is recognised.

If, in a subsequent period, the fair value of an impaired available-for-sale debt investments increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity investment is recognised in other comprehensive income.

For investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss. Any impairment loss in respect of available-for-sale equity investments carried at cost should not be reversed.

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

(iii) Derecognition of financial assets and financial liabilities

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or
- the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.

The difference between the carrying amount of the derecognised financial asset/(liability) and the consideration received and receivable paid and payables are recognised in profit or loss and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in investments revaluation reserve is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realizing the asset and settling the liability simultaneously.

(v) Equity instruments

An equity instrument is a contract that proves the ownership interest of the residual assets after deducting all liabilities of the Group. Considerations received from issuance of equity instruments net of transaction costs are recognised in equity. Considerations and transaction costs paid by the Group for repurchasing its own equity instruments are deducted from equity.

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

(vi) Derivative financial instruments

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments other than those designed as hedge instrument are recognised in profit or loss.

Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate.

All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative embedded in non-derivative host contracts are treated as separate derivative when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss.

(vii) Financial assets held under resale and sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the consolidated statement of financial position. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

(viii) Margin financing and securities lending

Margin financing and securities lending refer to the lending of funds by the Group to customers for purchase of securities, or lending of securities by the Group to customers for securities selling, for which the customers provide the Group with collateral.

The Group recognises margin financing receivables as loans and receivables, and recognises interest income using effective interest rate method. Securities lent are not derecognised when the risk and rewards are not transferred, and interest income is recognised using effective interest rate method.

Securities trading on behalf of margin financing or securities lending customers are accounted for as securities brokerage business.

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

(ix) Fair value measurement

When measuring fair value except for the Group's value in use of goodwill and interests in associates for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In estimating the fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

If there is an active market for a financial asset or financial liability, the quoted market price without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, the quoted price is the current asking price. Quoted prices from an active market are prices that are readily and regularly available from an exchange, dealer, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the year. Where other pricing models are used, inputs are based on market data at the end of the year.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.



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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents the amounts receivable for services provided in the normal course of business. Revenue is recognised when it is probable that the economic benefits will flow to the Group and when revenue can be measured reliably, on the following basis:

- i. Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Handling and settlement fee income arising from brokerage business is recognised when the related services are rendered;
- ii. Underwriting and sponsors fees are recognised as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed;
- iii. Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a timely basis using the effective interest method, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition;
- iv. Consultancy and financial advisory fee income is recognised when the relevant transactions have been arranged or the relevant services have been rendered;
- v. Asset and fund management fee income is recognised when the services are provided and the Group is entitled to receive the income under the asset management agreement;
- vi. Net Investment Gains
 - Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably);
 - Net realised gains or losses from disposal of available-for-sale financial assets, financial assets at fair value through profit or loss, financial liabilities at fair value through profit or loss and derivative financial instruments is recognised when the Group meets the relevant derecognition criteria. The difference between the carrying amount of the derecognised financial asset (liability) and the consideration received and receivable (paid or payable) is recognised in profit or loss, and any corresponding cumulative gain or loss that had been recognised in other comprehensive income and accumulated in investments revaluation reserve is recognised in profit or loss;
 - Unrealised fair value change of financial assets at fair value through profit or loss, financial liabilities at fair value through profit or loss and derivative financial instruments represented the change in the fair values subsequent to the initial recognition and recognised in profit or loss; and
- vii. Other income is recognised on an accrual basis.

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provision

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and the amount of the obligation can be reliably measured.

The amount recognised as provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organization, management requirements and internal reporting system. Each of the Group's operating segments represents a strategic business unit that offers services which are subject to risks and returns that are different from the other operating segments.

Two or more operating segments may be aggregated into a single operating segment if the segments have same or similar economic characteristics and are similar in respect of the nature of each products and service, the nature of production processes, the type or class of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Financial performance is regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance, and for which consolidated financial statements regarding financial position, financial performance and cash flows is available.

Intersegment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group include, but are not limited to:

- the Company's parent;
- the Company's subsidiaries;
- enterprises that are controlled by the Company's parent;
- investors that have joint control or exercise significant influence over the Group;
- enterprises or individuals if a party has control or joint control over both the enterprises or individuals and the Group;

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

- joint ventures of the Group, including subsidiaries of joint ventures;
- associates of the Group, including subsidiaries of associates;
- principal individual investors of the Group and close family members of such individuals;
- key management personnel of the Group and close family members of such individuals;
- key management personnel of the Company's parent;
- close family members of key management personnel of the Company's parent;
- other enterprises that are controlled or jointly controlled by the principal individual investors, key management personnel of the Group, and close family members of such individuals; and
- a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and option pricing models. To the extent practical market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments. Details are set out in note 66.

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**4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY
(Continued)****Key sources of estimation uncertainty (Continued)***Impairment of advances to customers, financial assets held under resale agreements and receivables*

The Group reviews its advances to customers, financial assets held under resale agreements and receivables to assess impairment on a periodic basis. In determining whether an impairment loss should be recognised in profit or loss, the Group assesses the balances of advances to customers and receivables by reviewing the customer credit status, mortgage securities, guarantee rate, solvency, willingness and other factors to make judgments when recognising impairment loss. When there is objective evidence of impairment loss for advance to customers and receivables, the Group takes into consideration the estimation of future cash flows. Specifically, the Group reviews the value of the securities collateral received from the customers firstly on an individual basis, then on a collective basis in determining the impairment.

The policy for impairment allowances for advances to customers, financial assets held under resale agreements and receivables of the Group is based on the evaluation of probability of default, loss given default and exposure at default of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of these financial assets, including the current creditworthiness, and the past collection history of each loan.

The amount of the impairment loss for receivables 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 been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. The methodology and assumptions used for estimating impairment loss are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Details are set out in notes 26, 27, 30 and 31.

Impairment of available-for-sale financial assets

The determination of whether available-for-sale financial assets are impaired requires significant judgment. For listed available-for-sale equity investments, funds and collective asset management schemes, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. The Group also takes into account other factors, such as the historical data on market volatility and the price of the specific investment, significant changes in technology, markets, economies or the law, as well as industry and sector performance and the financial information regarding the investee that provide evidence that the cost of the equity securities may not be recoverable. For available-for-sale debt instruments, trust investment, wealth management and targeted management products, the Group makes the judgments as to whether there is an objective evidence of impairment which indicates a measurable decrease in the estimated future cash flows of these debt instruments. This requires a significant level of management judgment which would affect the amount of impairment losses in profit or loss. Details are set out in note 25.

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4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Impairment of non-financial assets

Non-financial assets including goodwill, interests in associates are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgments are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption. Details are disclosed in notes 20 and 23.

Income taxes and deferred tax assets

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

The realization of a deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future.

In cases where it becomes probable that sufficient profits or taxable temporary differences are expected to be generated, deferred tax assets would be recognised in profit or loss in that period. On the contrary, if sufficient profits or taxable temporary differences are not expected to be generated, deferred tax assets would be reversed in profit or loss in that period. Details of the tax losses and deductible temporary differences are disclosed in note 28 to consolidated financial statements. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

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4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control sets out the following three elements of control: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor's returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For collective asset management schemes, investment funds and limited partnership where the Group involves as manager and also as investor, the Group assesses whether the combination of investments it holds together with its remuneration and credit enhancement creates exposure to variability of returns from the activities of the collective asset management schemes, investment funds and limited partnership that is of such significance that it indicates that the Group is a principal. The collective asset management schemes, investment funds and limited partnership are consolidated if the Group acts in the role of principal.

5 TAXATION

The Group's main applicable taxes and tax rates are as follows;

Tax type	Tax basis	Tax rate
Profit tax	Based on taxable profits	15%, 16.5%, 25%
Business tax	Based on taxable revenue	5%
Value added tax	Based on taxable revenue	6%
City maintenance and construction tax	Based on business tax and value added tax accrued	7%
Education surcharge	Based on business tax and value added tax accrued	2%–3%

Under the Law of the PRC on EIT and implementation regulation of the EIT Law, the tax rate of the Company and its subsidiaries established in the PRC is 25% during the year, except for as mentioned below.

Upon the approval of the Regulation on the EIT Preferential Policies for the Development of Western China by Ganzhou City (Trial) (「贛州市執行西部大開發企業所得稅優惠政策管理辦法(試行)」), from January 1, 2012 to December 31, 2020, the Company is subject to a tax rate of 15%. The subsidiaries of the Group incorporated in Ganzhou namely, Jiangxi Zhaolian Investment Management Co., Ltd., Ganzhou China Merchants Zhiyuan No. 1 Fund Management Co., Ltd., Jiangxi Zhiyuan Development Investment Management Co., Ltd. and Ganzhou Zhaoyuan Investment Management Co., Ltd., are subject to the above preferential tax rate of 15% from January 1, 2012 to December 31, 2020.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the year. Tax arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

According to the Ministry of Finance, State Administration of Taxation issued "On the comprehensive business tax reform VAT pilot pushed notice" requirement (Cai Shui [2016] 36), from May 1, 2016, the nationwide fully open business tax levy value-added tax (hereinafter referred to as "camp changed by") pilot, in which the taxpayers of financial industry has also been included in the scope of the pilot. From May 2016, the Group's implemented this regulation, by the payment of business tax as VAT.

Notes to the Consolidated Financial Statements

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6 FEE AND COMMISSION INCOME

	2016	2015
Securities and futures brokerage business	6,199,858	14,952,431
Underwriting and sponsorship business	2,111,569	2,423,440
Asset management and fund management business	1,172,949	1,214,599
Financial advisory business	355,342	426,533
Others ⁽¹⁾	462,934	300,425
	10,302,652	19,317,428

(1) Others mainly comprise of custodian fee income and consultancy fee income received or receivable by the Group.

7 INTEREST INCOME

Interest income, other than the investments interest income disclosed in note 8, is as follows:

	2016	2015
Deposits with exchanges and financial institutions	1,611,984	2,416,291
Advances to customers and securities lending	4,004,796	6,704,276
Securities-backed lending and stock repurchase agreement	828,876	691,871
Financial assets held under resale agreements	12,641	50,920
Loan receivables	12,109	42,703
	6,470,406	9,906,061

8 NET INVESTMENT GAINS

	2016	2015
Net realised gains from disposal of available-for-sale financial assets	297,664	341,779
Dividend and interest income from available-for-sale financial assets	900,932	709,273
Dividend and interest income from financial assets at fair value through profit or loss	2,824,453	3,206,901
Net realised (losses) gains from disposal of financial assets at fair value through profit or loss	(923,709)	6,383,927
Net realised gains from disposal of financial liabilities at fair value through profit or loss	188,864	56,504
Net realised losses from derivatives financial instruments	(297,250)	(4,867,083)
Unrealised fair value change of financial instruments at fair value through profit or loss		
— Financial assets at fair value through profit or loss	(2,368,554)	(844,032)
— Financial liabilities at fair value through profit or loss	(4,167)	14,295
Unrealised fair value change of derivative financial instruments	776,700	679,547
	1,394,933	5,681,111

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
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9 OTHER INCOME AND GAINS, NET

	2016	2015
Government grants ⁽¹⁾	60,956	37,841
Foreign exchange gains (losses), net	258,692	(37,163)
Rental income	8,412	8,871
Gains on disposal of property and equipment and other non-current assets	544	1,124
Commission from tax withholding and remitting	34,068	17,970
Others ⁽²⁾	21,055	55,325
	383,727	83,968

(1) Government grants represent the unconditional grants received by the Group from local government.

(2) Others represent compensation received from litigation and breach of employee contract and restrictive covenants from the Group's employees.

10 DEPRECIATION AND AMORTIZATION

	2016	2015
Depreciation of property and equipment	91,179	84,483
Amortization of other non-current assets	67,703	63,334
Amortization of other intangible assets	1,988	2,496
Depreciation of investment properties	820	820
	161,690	151,133

11 STAFF COSTS

	2016	2015
Salaries, bonus and allowances	2,498,895	7,571,476
Contributions to retirement benefits ⁽¹⁾	295,218	233,088
Other social welfare ⁽²⁾	320,973	205,627
Others	181,862	170,167
	3,296,948	8,180,358

(1) The domestic employees of the Group in the PRC participate in state-managed retirement benefits plans, operated by the relevant municipal and provincial governments. According to the relevant regulations, the premiums and retirement benefit contributions borne by the Group are calculated and paid to the relevant labour and social welfare authorities on a regular basis. These retirement benefits plans are defined contribution plans and contributions to the plans are expensed as incurred. In addition to the above retirement benefits plans, the Group also provides annuity schemes for certain qualified employees in the PRC. The employees' and the Group's contributions for the annuity schemes are calculated based on certain percentage of employees' salaries and recognised in profit or loss as expense. These annuity schemes are defined contribution plans.

The Group also operates the Mandatory Provident Fund Scheme for all qualified employees in Hong Kong. The Group contributes certain percentage of relevant payroll costs to the scheme, and the contribution is matched by employees but subject to a maximum amount for each employee. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

(2) The domestic employees of the Group in the PRC participate in state-managed social welfare plans, including social pension insurance, health care insurance, housing funds and other social welfare contributions, operated by the relevant municipal and provincial governments. These social welfare plans are defined contribution plans and contributions to the plans are recognised as expense as incurred.

Notes to the Consolidated Financial Statements

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12 FEE AND COMMISSION EXPENSES

	2016	2015
Securities and futures brokerage business	1,479,561	2,511,417
Underwriting and sponsorship business	271,647	217,810
Asset management business	30,369	72,482
Financial advisory business	40,852	66,988
Others	6,760	—
	1,829,189	2,868,697

13 INTEREST EXPENSES

	2016	2015
Accounts payable to brokerage clients	236,070	333,910
Financial assets sold under repurchase agreements	1,709,674	2,784,179
Margin and securities refinancing	54,351	101,935
Placements from other financial institutions	26,469	44,902
Long-term bonds payable	2,729,524	2,130,433
Short-term financing bills payables	13,901	251,869
Short-term bond payables	100,706	661,494
Principal of structured notes	588,235	816,407
Borrowings	95,037	92,378
Others	21,136	67,763
	5,575,103	7,285,270

14 OTHER OPERATING EXPENSES

	2016	2015
Operating lease rentals in respect of rented premises	339,896	288,216
General and administrative expenses	106,686	180,012
Data transmission expenses	130,759	131,377
IT expenses	139,406	130,663
Advertising and promotion expenses	212,280	234,864
Business travel expenses	161,719	134,122
Securities and futures investor protection funds	52,997	134,725
Stock exchange fees	75,704	102,969
Auditors' remuneration	3,515	2,450
Sundry expenses ⁽¹⁾	163,669	188,896
	1,386,631	1,528,294

(1) Included in sundry expenses, is an amount of RMB2,167 thousand (2015: RMB25,269 thousand) which represent the loss on disposal of property, plant and equipment for the year.

Notes to the Consolidated Financial StatementsFor the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)**15 IMPAIRMENT LOSSES, NET**

	2016	2015
Allowance (reversal of allowance) for impairment loss in respect of accounts and other receivables, net (note 31)	3,648	(5,152)
(Reversal of impairment) impairment loss in respect of advances to customers (note 30)	(29,944)	130,800
(Reversal of impairment) impairment loss in respect of financial assets held under resale agreements (note 27)	(15,115)	102,450
Impairment loss in respect of available-for-sale financial assets (note 25)	107,633	—
	66,222	228,098

16 INCOME TAX EXPENSES

	2016	2015
Current tax:		
— PRC Enterprise Income Tax (“EIT”)	1,581,794	3,041,920
— Hong Kong Profits Tax	4,236	22,282
	1,586,030	3,064,202
Under (over) provision in respect of prior years:		
— EIT	1,661	(9,886)
— Hong Kong Profits Tax	(562)	—
	1,099	(9,886)
Deferred taxation:		
— Origination and reversal of temporary differences (note 28)	(551,291)	(348,579)
	1,035,838	2,705,737

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16 INCOME TAX EXPENSES (Continued)

The reconciliation between the income tax expense at the statutory tax rate of 25% and the effective tax rate is as follows:

	2016	2015
Profit before income tax	6,452,920	13,633,991
Tax at the income tax rate of 25%	1,613,230	3,408,498
Tax effect of share of result of associates	(157,331)	(137,776)
Tax effect of expenses not deductible for tax purpose	95,724	110,854
Tax effect of income that are not taxable	(508,196)	(631,316)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(4,183)	(23,178)
Tax effect of the losses not recognised	4,834	4,656
Utilization of tax losses previously not recognised	(9,541)	(16,164)
Adjustment in respect of prior years	1,099	(9,886)
Others	202	49
Tax charge for the year	1,035,838	2,705,737

As at December 31, 2016, the estimated unused tax losses for the Group's subsidiaries were approximately RMB138,655 thousand (2015: RMB68,041 thousand), no deferred tax asset had been recognised in relation to such item in the consolidated statement of financial position due to the unpredictability of future profit streams of the subsidiaries. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax assets may arise, which would be recognised in the consolidated statement of profit or loss and other comprehensive income for the period in which such recognition takes place.

17 EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share attributable to owners of the Company is as follows:

	2016	2015
Earnings for the purpose of basic earnings per share:		
Profit for the year attributable to owners of the Company (RMB'000)	5,403,451	10,908,749
Number of shares:		
Weighted average number of shares in issue (in thousand)	5,956,681	5,808,136
Earnings per share:		
Earnings per share (RMB)	0.91	1.88

For the years ended December 31, 2016 and 2015, there were no potential ordinary shares in issue, thus no diluted earnings per share is presented.

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18 PROPERTY AND EQUIPMENT

	Leasehold land and buildings	Motor vehicles	Electronic and communication equipment	Office equipment	Construction in progress	Total
Cost						
As at January 1, 2016	359,492	62,817	379,077	75,846	1,067,210	1,944,442
Additions	—	5,919	198,872	3,813	160,221	368,825
Disposals	—	(3,336)	(34,126)	(23,889)	—	(61,351)
Transfer from investment properties (note 19)	25,890	—	—	—	—	25,890
Transfer to other non-current assets (note 29)	—	—	—	—	(21,191)	(21,191)
Exchange realignment	—	204	2,954	2,842	366	6,366
As at December 31, 2016	385,382	65,604	546,777	58,612	1,206,606	2,262,981
Accumulated depreciation and impairment						
As at January 1, 2016	151,837	35,958	189,105	49,027	—	425,927
Charge for the period	11,518	7,363	61,351	10,947	—	91,179
Disposals	—	(3,193)	(32,452)	(23,799)	—	(59,444)
Transfer from investment properties (note 19)	21,740	—	—	—	—	21,740
Exchange realignment	—	202	2,451	1,756	—	4,409
As at December 31, 2016	185,095	40,330	220,455	37,931	—	483,811
Carrying values						
As at December 31, 2016	200,287	25,274	326,322	20,681	1,206,606	1,779,170
Cost						
As at January 1, 2015	302,452	56,876	348,229	79,732	930,414	1,717,703
Additions	57,040	10,782	119,763	5,829	174,841	368,255
Disposals	—	(4,978)	(91,287)	(12,504)	—	(108,769)
Transfer to other non-current assets (note 29)	—	—	—	—	(38,279)	(38,279)
Exchange realignment	—	137	2,372	2,789	234	5,532
As at December 31, 2015	359,492	62,817	379,077	75,846	1,067,210	1,944,442
Accumulated depreciation and impairment						
As at January 1, 2015	142,259	34,004	202,138	41,335	—	419,736
Charge for the year	9,578	6,428	54,754	13,723	—	84,483
Disposals	—	(4,553)	(69,297)	(7,394)	—	(81,244)
Exchange realignment	—	79	1,510	1,363	—	2,952
As at December 31, 2015	151,837	35,958	189,105	49,027	—	425,927
Carrying values						
As at December 31, 2015	207,655	26,859	189,972	26,819	1,067,210	1,518,515

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18 PROPERTY AND EQUIPMENT (Continued)

As at December 31, 2016, included in leasehold land and buildings, there are carrying values of RMB8,839 thousand (2015: RMB9,460 thousand), for which the Group is in the progress to obtain the relevant land and building certificates. The directors of the Company considered that these will not have significant impact on the consolidated financial statements for the year ended December 31, 2016.

As at December 31, 2016, included in construction in progress, there are leasehold land with carrying values of RMB420,000 thousand (2015: RMB420,000 thousand) pledged as security for borrowing.

As the lease payments included in the Group's leasehold land and buildings cannot be allocated reliably between the land and buildings, the entire leases are classified as finance lease and accounted for as property and equipment.

The leasehold land and buildings of the Group are situated in the PRC and held under medium-term lease.

19 INVESTMENT PROPERTIES

	2016	2015
Cost		
At beginning of the year	25,890	25,890
Transfer to property and equipment (note 18)	(25,890)	—
At end of the year	—	25,890
Accumulated depreciation and impairment		
At beginning of the year	20,920	20,100
Charge for the year	820	820
Transfer to property and equipment (note 18)	(21,740)	—
At end of the year	—	20,920
Carrying values		
At end of the year	—	4,970

The fair value of the Group's investment properties as at December 31, 2015 was approximately RMB43,452 thousand. The fair value has been arrived at based on a valuation carried out by DTZ Limited as at December 31 2015, independent valuer not connected with the Group. The fair value was determined by the directors of the Company by reference to recent market prices for similar properties in same or similar conditions, and adjusted to reflect the condition of the Group's investment properties, including property age and floor level, etc.

The carrying values of Group investment properties included the leasehold interest in land as the leasehold payments cannot be allocated reliably between the land and building elements, as such the entire lease is accounted for as investment properties. The Group's investment properties are situated on land in the PRC under medium-term lease. As at December 31, 2016, the cost and accumulated depreciation of the investment properties were transferred to property and equipment upon the usage had been changed to owner-occupation purposes.

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20 GOODWILL

	2016	2015
Cost		
At beginning and end of the year		
Unit A — Shanghai securities brokerage branch	4,500	4,500
Unit B — Jutian securities brokerage branch	18,367	18,367
Unit C — China Merchants Futures Co., Limited	9,671	9,671
	32,538	32,538
Accumulated impairment losses		
At beginning and end of the year		
Unit A — Shanghai securities brokerage branch	4,500	4,500
Unit B — Jutian securities brokerage branch	18,367	18,367
Unit C — China Merchants Futures Co., Limited	—	—
	22,867	22,867
Carrying values		
At beginning and end of the year		
Unit A — Shanghai securities brokerage branch	—	—
Unit B — Jutian securities brokerage branch	—	—
Unit C — China Merchants Futures Co., Limited	9,671	9,671
	9,671	9,671

Impairment test

For the purpose of impairment testing, goodwill has been allocated into three individual cash generating units (“CGUs”), including Shanghai securities brokerage branch (“Unit A”), Jutian securities brokerage branch (“Unit B”) and China Merchants Futures Co., Limited (“Unit C”) acquired by the Company.

Unit A and B are securities brokerage branches acquired where the acquisition cost exceeds the fair value of net identifiable assets. As the CGU no longer generated future cash flows, Units A and B were fully impaired.

The directors of the Company had performed impairment testing on the goodwill acquired from Unit C as at December 31, 2016 and 2015. As the fair value of the CGU of China Merchants Futures Co., Limited exceeded its carrying amount, therefore no impairment was recognised.

The recoverable amounts of the CGUs have been determined on the basis of value-in-use calculation. The calculation used cash flow projections based on financial budgets approved by management covering a five-year period which reflected specific risks related to the CGU. Cash flows beyond the five-year period are extrapolated using an estimated annual growth rate based on industry growth forecasts. Management determined the budgeted gross margin based on past performance and its expectations on the market development. The discount rates used are the CGUs’ specific weighted average cost of capital, adjusted for the risks of the specific CGUs.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of the CGUs to exceed its recoverable amount.

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21 OTHER INTANGIBLE ASSETS

	Trading rights	Membership and others	Total
Cost			
As at January 1, 2016	81,557	1,609	83,166
Exchange realignment	1,248	15	1,263
As at December 31, 2016	82,805	1,624	84,429
Accumulated amortization and impairment			
As at January 1, 2016	58,706	209	58,915
Charge for the year	1,988	—	1,988
Exchange realignment	82	15	97
As at December 31, 2016	60,776	224	61,000
Carrying values			
As at December 31, 2016	22,029	1,400	23,429
Cost			
As at January 1, 2015	77,980	1,598	79,578
Additions	2,500	—	2,500
Exchange realignment	1,077	11	1,088
As at December 31, 2015	81,557	1,609	83,166
Accumulated amortization and impairment			
As at January 1, 2015	56,138	198	56,336
Charge for the year	2,496	—	2,496
Exchange realignment	72	11	83
As at December 31, 2015	58,706	209	58,915
Carrying values			
As at December 31, 2015	22,851	1,400	24,251

Trading rights mainly comprise the trading rights in Shanghai Stock Exchange, Shenzhen Stock Exchange, Hong Kong Stock Exchange (the "HKEX"), the Hong Kong Futures Exchange Limited (the "HKFE") and CME Group Inc. (the "CME"). These rights allow the Group to trade securities and futures contracts on or through these exchanges.

Membership and others held by the Group mainly comprises the membership with indefinite useful lives for the purposes of futures business in Futures Exchange.

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22 INTERESTS IN CONSOLIDATED STRUCTURED ENTITIES

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

The financial impact of these asset management products on the Group's financial position as at December 31, 2016 and 2015, and the results and cash flows for the years ended December 31, 2016 and 2015, though consolidated, are not significant and therefore not disclosed separately.

As at December 31, 2016, the Group consolidated 6 (2015: 7) structured entities. The total assets of the consolidated structured entities are RMB 4,689,802 thousand (2015: RMB 3,640,433 thousand) within which are RMB 3,513,471 thousand (2015: RMB 2,309,352 thousand) of investment accounted for as available-for-sale investments and financial assets at fair value through profit or loss.

23 INTERESTS IN ASSOCIATES

	As at December 31,	
	2016	2015
Cost of unlisted investments in associates	4,105,535	4,105,535
Share of post-acquisition profits and other comprehensive income, net of dividends received	1,852,121	1,461,429
	5,957,656	5,566,964
Impairment loss	(669,150)	(669,150)
	5,288,506	4,897,814

The following list contains only the particulars of material associates, all of which are unlisted corporate entities whose quoted market price is not available. All of the above associates are accounted for using the equity method in the consolidated financial statements:

Name of associate	Place and date of incorporation/ establishment	Equity interest held by the Group		Principal Activities
		As at December 31,		
		2016	2015	
Bosera Asset Management Co., Ltd.	PRC July 13, 1998	49.00%	49.00%	Fund Management
China Merchants Fund Management Limited	PRC December 27, 2002	45.00%	45.00%	Fund Management
Guangdong Equity Exchange Co., Ltd.	PRC October 29, 2013	32.50%	32.50%	Transaction settlement services
China Merchants Xiangjiang Industrial Investment Management Co., Ltd.	PRC March 13, 2008	40.00%	40.00%	Investment Management
Twenty-first Century Technology Investment Co., Ltd ⁽¹⁾	PRC June 19, 2000	23.88%	23.88%	Investment holding

* This associate does not have official English name, English translated name is for identification only.

(1) The associate has been suspended from business and the losses have been recognised to the consolidated statements of profit or loss.

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23 INTERESTS IN ASSOCIATES (Continued)

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

Bosera Asset Management Co., Ltd.

	2016	2015
Total assets	4,322,382	3,362,914
Total liabilities	(1,461,843)	(867,543)
Net assets	2,860,539	2,495,371
Revenue	2,414,829	1,900,636
Profit for the year	701,634	601,007
Other comprehensive income	3,534	9,737
Total comprehensive income	705,168	610,744
Dividend declared by the associate	166,600	83,300
Reconciliation to the Group's interest in the associate		
Net assets of the associate attributable to the parent company	2,860,539	2,495,371
The Group's share of net assets of the associate	1,401,665	1,222,732
Other adjustment		
— Goodwill	3,425,523	3,425,523
— Impairment loss recognised ⁽²⁾	(669,150)	(669,150)
Carrying amount in the consolidated financial statements	4,158,038	3,979,105

- (2) As at December 31, 2014, the Company had recognised an impairment loss amounted to approximately RMB669,150 thousand to the interests in Bosera Asset Management Co., Ltd. The recoverable amounts of approximately RMB3,763,141 thousand had been determined by Vocational International (Beijing) Asset Appraisal Co., Ltd., a qualified valuer not connected with the Group. The valuer determined the value-in-use by using cash flow projections which is based on financial budgets covering a five-year period approved by management. The pre-tax discount rates applied and growth rate used to extrapolate the cash flow projections is 10.78% and 9.2% respectively.

The growth rates beyond the five-year period is nil for the forecast period. As at December 31, 2016 and 2015, the management assesses the above investments' recoverable amount was higher than carrying amount and considered no further impairment is identified.

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23 INTERESTS IN ASSOCIATES (Continued)

China Merchants Fund Management Limited

	2016	2015
Total assets	3,883,798	3,211,344
Total liabilities	(1,980,116)	(1,771,957)
Net assets	1,903,682	1,439,387
Revenue	2,324,211	2,118,231
Profit for the year	628,211	547,506
Other comprehensive income	7,187	3,512
Total comprehensive income	635,398	551,018
Dividend declared by the associate	76,996	28,775
Reconciliation to the Group's interest in the associate		
Net assets of the associate attributable to the parent company	1,903,682	1,439,387
The Group's share of net assets of the associate	856,657	647,724
Other adjustment		
— Goodwill	199,545	199,545
Carrying amount in the consolidated financial statements	1,056,202	847,269

Aggregate information of associates that are not individually material:

	2016	2015
The Group's share of profit for the year	2,827	10,232
The Group's share of total comprehensive income	2,827	10,232
Aggregate carrying amount of the Group's interests in these associates	74,266	71,440

24 INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group is principally involved with structured entities through financial investments. These structured entities generally purchase assets through financing. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them. The interests held by the Group in the unconsolidated structured entities are set out as below:

(1) Structured entities sponsored by the Group

Unconsolidated structured entities sponsored by the Group mainly include asset management schemes and partnership. The nature and aim of the structured entities is to manage investors' assets and collect management fees. Financing is sustained through investment products issued to investors. The interests held by the Group in the unconsolidated structured entities mainly involve management fees and performance fees collected from managed or directly controlled structured entities.

As at December 31, 2016, the total assets of these unconsolidated structured entities managed by the Group amounted to approximately RMB631,739 million (2015: RMB425,605 million).

Investments and income derived from these unconsolidated structured entities held by the Group were not significant.

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24 INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES (Continued)**(2) Structured entities sponsored by third party institutions**

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

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

	As at December 31, 2016		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	13,153	17,306,828	17,319,981
Trust schemes	349,645	—	349,645
Wealth management products	100,790	852,847	953,637
Others	8,718,045	—	8,718,045
	9,181,633	18,159,675	27,341,308

	As at December 31, 2015		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	14,605	25,061,123	25,075,728
Trust schemes	604,387	—	604,387
Wealth management products	224,035	501,860	725,895
Others	8,829,032	—	8,829,032
	9,672,059	25,562,983	35,235,042

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25 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at December 31,	
	2016	2015
Non-current portion		
Measure at fair value		
— Equity securities ⁽⁴⁾	—	182,029
— Others ⁽¹⁾⁽²⁾	8,809,469	9,901,288
Measure at cost		
— Unlisted equity securities ⁽³⁾	—	13,975
	8,809,469	10,097,292
Analyzed as:		
Listed outside Hong Kong	—	182,029
Unlisted	8,809,469	9,915,263
	8,809,469	10,097,292
Current portion		
Measure at fair value		
— Equity securities ⁽⁵⁾	1,657,485	4,780,707
— Funds	13,153	14,605
— Debt securities	13,462,285	20,680,155
— Others ⁽¹⁾	779,794	169,885
	15,912,717	25,645,352
Analyzed as:		
Listed outside Hong Kong ⁽⁵⁾	11,689,891	16,734,653
Unlisted	4,222,826	8,910,699
	15,912,717	25,645,352

- (1) Others mainly represent investments in collective wealth management products, trust products, targeted asset management schemes and special accounts in China Securities Finance Corporation Limited (the "CSFCL"). The fair value are calculated by reference to the underlying assets and liabilities' fair value or maintain the leverage to a certain proportion as a product manager.

As at December 31, 2016, the Group has committed to hold its investments in collective asset management schemes and trust products and other wealth management products amounted to approximately of RMB9,358,016 thousand (2015: RMB10,069,996 thousand) that managed by the Company till the end of the investment period.

- (2) Others include an investment in a special account managed by the CSFCL, which mainly invest in debt securities and publicly traded equity securities listed in the PRC. Pursuant to the agreements of the Company entered into with the CSFCL, the Company contributed a total of approximately RMB9,287,030 thousand in July and September 2015 to the special account managed by the CSFCL. The Company is entitled to the profit or loss derived from the special account in proportion to the funding portion contributed. The Company determined the fair value of the investment in accordance with the evaluation report provided by the CSFCL. As at December 31, 2016, the fair value of the Company's contribution are RMB8,718,045 thousand (2015: RMB8,829,032 thousand).
- (3) The unlisted equity securities held by the Group are issued by private companies in other sectors. As the reasonable range of fair value estimation is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably, these equity securities are measured at cost less impairment at the end of each reporting period.
- (4) As at December 31, 2016, the listed equity securities of the Group included approximately RMB392,719 thousand (2015: RMB383,505 thousand) of restricted shares. The restricted shares are listed in the PRC with a legally enforceable restriction on these securities that prevents the Group to dispose of within the specified period. The fair value of the securities is determined by reference to the quoted market prices and discounted to reflect the effect of the restrictions.
- (5) As at December 31, 2016, the Group entered into securities lending arrangement with clients that resulted in the transfer of available-for-sale equity securities with total fair values of approximately RMB2,662 thousand (2015: RMB2,845 thousand) to clients. These securities continued to be recognised as financial assets of the Group.
- (6) During the year ended December 31, 2016, an impairment of RMB107,633 thousand (2015: nil) had been recognised in the profit or loss.
- (7) Fair value of the Group's available-for-sale investments are determined in the manner described in note 66.
- (8) In the opinion of the directors of the Company, non-current available-for-sale financial assets are expected to be realised or restricted for sale beyond one year from the end of the respective reporting periods.

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26 LOAN RECEIVABLES

	As at December 31,	
	2016	2015
Fixed-rate loan receivables	64,725	40,522
Variable-rate loan receivables	—	246,538
	64,725	287,060
Loan receivables, secured	—	287,060
Loan receivables, unsecured	64,725	—
	64,725	287,060

As at December 31, 2016 and 2015, the loan receivables are neither past due nor impaired and none of the loan receivables have been pledged as security for borrowings.

The main types of collateral and credit enhancement obtained are corporate guarantees, personal guarantees from the owner of the corporate, pledge of shares or debentures which are the borrowers' assets. Management monitors the market value of collateral and assesses the financial situation of the counterparties during its review of the adequacy of the allowance for impairment loss.

No single loan receivable is individually material, and terms and conditions of all loan receivables are presented by appropriate groupings.

As at December 31, 2016, the effective interest rate of loan receivables was ranged from 2% to 6.98% (2015: 2% to 6.98%) per annum.

Notes to the Consolidated Financial StatementsFor the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)**27 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS****(1) Analyzed by collateral type and market of financial assets held under resale agreements**

	As at December 31,	
	2016	2015
Non-current		
Analyzed by collateral type:		
Stock (Note)	6,479,114	3,532,271
Analyzed by market:		
Stock exchanges	6,479,114	3,532,271
Less: Allowance for impairment losses	(16,903)	(68,200)
Total	6,462,211	3,464,071
Current		
Analyzed by collateral type:		
Stock (Note)	10,312,528	6,631,581
Bond	2,248,836	4,273,354
	12,561,364	10,904,935
Analyzed by market:		
Stock exchanges	10,452,431	8,731,581
Interbank bond market	2,108,933	2,173,354
	12,561,364	10,904,935
Less: Allowance for impairment losses	(70,432)	(34,250)
	12,490,932	10,870,685

Note: The financial assets (pledged by stock) held under resale agreements and securities back-lending are those resale agreements which the qualified investors entered into with the Group with a commitment to purchase the specified securities at a future date with an agreed price. As at December 31, 2016, the fair value of securities of the Group which have been received as collateral were approximately RMB43,886,429 thousand (2015: RMB38,870,014 thousand).

(2) The movements of impairment losses are as below

	As at December 31,	
	2016	2015
At beginning of the year	102,450	—
Impairment losses recognised	—	102,450
Reversal of impairment losses	(15,115)	—
At end of the year	87,335	102,450

The Group determines the impairment losses based on: (i) the evaluation of collectability; (ii) the ageing analysis of accounts; and (iii) management judgment, including the assessment of liquidity of collateral and the past collection history of each client etc.

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28 DEFERRED TAX ASSETS (LIABILITIES)

The following is an analysis of the deferred tax balances for financial reporting purposes:

	As at December 31,	
	2016	2015
Deferred tax assets	1,207,996	726,238
Deferred tax liabilities	(98,754)	(446,349)
	1,109,242	279,889

The following are the major deferred tax assets (liabilities) recognised and movements thereon in the year:

	Financial instruments at fair value through profit and loss/ derivatives	Accrued staff cost	Deferred income	Allowance for impairment loss	Fair value change of available-for-sale financial assets	Property and equipment	Others	Total
At January 1, 2015	(280,522)	294,045	31,500	7,341	(75,372)	(1,920)	35,391	10,463
(Charge) credit to profit or loss	(6,051)	309,606	—	57,760	—	970	(13,706)	348,579
Charge to other comprehensive income	—	—	—	—	(79,153)	—	—	(79,153)
At December 31, 2015 and January 1, 2016	(286,573)	603,651	31,500	65,101	(154,525)	(950)	21,685	279,889
Credit (charge) to profit or loss	440,685	77,524	—	16,555	—	454	16,073	551,291
Credit to other comprehensive income	—	—	—	—	278,111	—	—	278,111
Exchange difference	—	—	—	—	—	(49)	—	(49)
At December 31, 2016	154,112	681,175	31,500	81,656	123,586	(545)	37,758	1,109,242

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29 OTHER NON-CURRENT ASSETS**(1) Analyzed by nature**

	As at December 31,	
	2016	2015
Leasehold improvements and deferred expenses	195,050	184,083

(2) The movements of leasehold improvements and deferred expenses are as below

	As at December 31,	
	2016	2015
At beginning of year	184,083	168,406
Additions	57,479	40,732
Transfer from construction in progress (note 18)	21,191	38,279
Amortization	(67,703)	(63,334)
At end of year	195,050	184,083

30 ADVANCES TO CUSTOMERS**(1) Analyzed by nature**

	As at December 31,	
	2016	2015
Loans to margin clients	53,462,881	64,520,142
Less: impairment loss in respect of advances to customers	(111,343)	(130,800)
	53,351,538	64,389,342

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

The majority of the loans to margin clients which are secured by the underlying pledged securities and cash collateral as disclosed in note 41 are interest bearing. The Group maintains a list of approved stocks for margin lending at a specified loan-to-collateral ratio. Any excess in the lending ratio will trigger a margin call upon which the customers have to make up the difference.

(2) Analyzed by fair value of collateral of margin financing and securities lending business

	As at December 31,	
	2016	2015
Collateral measured at fair value		
Cash	6,540,993	11,976,354
Debt securities	7,634,119	63,172
Equity securities	148,029,271	194,873,589
Funds	413,453	386,227
	162,617,836	207,299,342

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30 ADVANCES TO CUSTOMERS (Continued)

(3) The movements of allowance of impairment losses are as below

	As at December 31,	
	2016	2015
At beginning of the year	130,800	—
Impairment losses recognised	—	130,800
Transfer from accounts and other receivables (note 31)	10,487	—
Reversal of impairment losses	(29,944)	—
At end of the year	111,343	130,800

The Group determines the impairment loss of the advance to financing customers based on: (i) the evaluation of collectability; (ii) the ageing analysis of accounts; and (iii) management judgment, they include the assessment of changes in credit quality, collateral and the past collection history of each client.

The directors of the Company are of the opinion that the ageing analysis does not give additional value in view of the nature of the securities margin financing business. As a result, no ageing analysis is disclosed.

The concentration of credit risk is limited due to the size and uncorrelated nature of the customer base.

31 ACCOUNTS AND OTHER RECEIVABLES

(1) Analyzed by nature

	As at December 31,	
	2016	2015
Accounts and other receivables from/related to:		
Clearing houses, brokers and dealers	3,765,254	2,548,498
Margin clients	—	10,178
Commission and fee income	500,011	485,277
Other receivables	82,860	71,302
Interest receivables	1,261,981	888,671
Prepayments (note i)	51,546	35,592
Deposit for acquisition for interest in an associate (note ii)	945,405	—
Other tax assets	43,146	—
Others	184,647	26,219
	6,834,850	4,065,737
Less: Allowance for doubtful debts	(7,490)	(14,020)
	6,827,360	4,051,717

Note i: Prepayments comprise amount prepaid for construction expenditure and acquisition of a building.

Note ii: Pursuant to the board resolution on December, 2016, the Group acquired 30% of the issued share capital of Qingdao Asset Management Co., Ltd* for consideration of RMB945,405 thousand. The acquisition had not been accounted for as interests in an associate as at December 31, 2016 as the registration process was not completed.

* The company does not have official English name, English translated name is for identification only.

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31 ACCOUNTS AND OTHER RECEIVABLES (Continued)**(2) Analyzed by ageing**

As at the end of the year, the ageing analysis of accounts receivables based on trade day, is as follows:

	As at December 31, 2016		As at December 31, 2015	
	Amount	Impairment allowance	Amount	Impairment allowance
Within 1 year	618,637	(216)	2,905,817	(3,803)
Between 1 and 2 years	45,881	(4,156)	6,083	(717)
Between 2 and 3 years	—	—	132,053	(6,383)
After 3 years	—	—	—	—
	664,518	(4,372)	3,043,953	(10,903)

(3) The movement in the allowance for doubtful debts

	As at December 31,	
	2016	2015
At beginning of the year	14,020	18,818
Impairment losses recognised	3,648	—
Reversal of impairment losses	—	(5,152)
Transfer to advances to customers (note 30)	(10,487)	—
Exchange realignment	309	354
At end of the year	7,490	14,020

(4) Accounts receivable that is not impaired

Accounts receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

32 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**(1) Analyzed by type**

	As at December 31,	
	2016	2015
Financial assets held-for-trading	46,973,821	61,236,003
Financial assets designated at fair value through profit or loss	1,270,634	1,590,490
	48,244,455	62,826,493

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32 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(2) Financial assets held-for-trading

	As at December 31,	
	2016	2015
Debt securities	17,512,973	23,767,220
Equity securities	9,874,657	11,119,575
Funds	17,786,171	25,061,123
Others ⁽¹⁾	1,800,020	1,288,085
	46,973,821	61,236,003
Analyzed as:		
Listed in Hong Kong	221,033	466,304
Listed outside Hong Kong ⁽²⁾	16,464,160	18,643,891
Unlisted ⁽³⁾	30,288,628	42,125,808
	46,973,821	61,236,003

- (1) Others mainly represent investments in collective asset management schemes, commodities, wealth management products issued and managed by bank.
- (2) Equity securities and funds traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange are included in the "Listed outside Hong Kong" category.
- (3) Unlisted securities mainly comprise of debt securities traded on Interbank Bond Market. The fair value of these securities is estimated using valuation techniques.

As at December 31, 2016, the Group entered into securities lending arrangement with clients that resulted in the transfer of equity securities under held for trading with total fair values of RMB197,405 thousand (2015: RMB2,434 thousand) to clients. These securities continued to be recognised as financial assets of the Group.

(3) Financial assets designated at fair value through profit or loss

	As at December 31,	
	2016	2015
Equity securities	354,798	588,212
Others ⁽¹⁾	915,836	1,002,278
	1,270,634	1,590,490
Analyzed as:		
Unlisted⁽²⁾	1,270,634	1,590,490

- (1) Others mainly represent investments in funds and partnership invested by the Group.
- (2) Unlisted securities mainly comprise of unlisted equity securities, funds and partnerships invested by the Group.

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33 DERIVATIVE FINANCIAL INSTRUMENTS

	As at December 31,			
	2016	2016	2015	2015
	Assets	Liabilities	Assets	Liabilities
Interest derivative instrument				
Interest rate swaps ⁽¹⁾	162,268	211,660	154,168	165,456
Bond futures ⁽²⁾	210	1,347	383	—
Equity derivative instrument				
Equity return swaps ⁽³⁾	9,393	98,414	218,871	994,495
Stock index futures ⁽⁴⁾	467	173	—	—
Options ⁽⁵⁾	12,456	55,831	7,035	65,327
Credit derivatives				
Credit default swap	404	146	—	—
Other derivative instrument				
Commodity futures ⁽²⁾	813,111	1,475,232	635,890	305,418
Commodity swaps ⁽⁶⁾	105,608	—	—	332,836
Forward contracts ⁽⁷⁾	5,696	—	—	2,840
	1,109,613	1,842,803	1,016,347	1,866,372

(1) Interest rate swaps: The notional principal amounts of the Group's interest rate swaps contracts as at December 31, 2016, were approximately RMB18,780,000 thousand (2015: RMB21,660,000 thousand).

(2) Bond futures and commodity futures: As at December 31 2016, the Group's principal of bond futures were approximately RMB1,082,978 (2015: RMB2,802,398 thousand). The Group's principal commodity futures were approximately RMB26,173,131 thousand (2015: RMB203,569,840 thousand).

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Company's position in the bond futures and commodity futures were settled daily and the corresponding receipts and payments were included in "clearing settlement funds" as at December 31, 2016 and 2015. Accordingly, the net position of the bond future contracts and commodity future contracts was nil at the end of each reporting period.

(3) Equity return swaps: The notional principal amounts of the Group's equity return swaps contracts as at December 31, 2016 were approximately RMB1,045,073 thousand (2015: RMB3,386,772 thousand).

(4) Stock index futures: The notional principal amounts of the Group's stock futures contracts as at December 31, 2016, were approximately RMB956,299 thousand (2015: RMB1,046,121 thousand).

Under the daily mark-to-market and settlement arrangement, any gains or losses of the stock index futures were settled daily and the corresponding receipts and payments were included in "clearing settlement funds" as at December 31, 2016 and 2015. Accordingly, the net position of the stock index futures contracts was nil at the end of each reporting period.

(5) Options: Included in options are over-the counter options, exchange-traded options and embedded options.

The notional principal amounts of the Group's options contracts as at December 31, 2016, were approximately RMB3,141,120 thousand (2015: RMB1,599,562 thousand).

(6) Commodity swaps: As of December 31, 2016, the notional principal of commodity swap contracts the Group invested are RMB10,527,965 thousand (2015: RMB4,575,511 thousand).

(7) Forward contracts: As at December 31, 2016, the notional principal of forward contracts the Group invested are RMB206,385 thousand (2015: RMB887,704 thousand).



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34 DEPOSITS WITH EXCHANGES AND NON-BANK FINANCIAL INSTITUTIONS

	As at December 31,	
	2016	2015
Deposits with stock exchanges and clearing house:		
Shanghai Clearing House	13,199	8,610
China Beijing Equity Exchange	3,556	2,398
London Stock Exchange	50,579	27,616
Hong Kong Stock Exchange	716	670
Hong Kong Securities Clearing Company Limited	17,167	36,590
China Securities Depository and Clearing Corporation Limited	373,027	619,498
Deposits with futures and commodity exchanges and financial institutions:		
China Financial Futures Exchange	10,057	10,069
Chicago Mercantile Exchange	3,469	—
Shanghai Gold Exchange	5,345	4,467
Hong Kong Futures Exchange	16,507	4,713
Yongan Futures Co., Ltd.	12,186	35,515
Nanhua Futures Co., Ltd.	3,275	—
CITIC Futures Co., Ltd.	31,359	107,296
	540,442	857,442

35 CLEARING SETTLEMENT FUNDS

	As at December 31,	
	2016	2015
Clearing settlement funds held with clearing house for:		
House accounts	1,574,905	2,291,385
Clients	17,468,564	16,874,803
	19,043,469	19,166,188

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

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36 CASH AND BANK BALANCES

	As at December 31,	
	2016	2015
House accounts	10,750,913	8,263,176
Pledge and restricted bank deposits		
— Restricted bank deposit for purchase of bond and stock	194,364	938,613
Bank balances — house account	10,945,277	9,201,789
Cash held on behalf of customers	50,326,986	72,416,265
	61,272,263	81,618,054

Note: Pledged bank deposits represent deposits pledged to banks to secure bank facilities granted to the Group.

37 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the followings:

	As at December 31,	
	2016	2015
Bank balances — house accounts (note 36)	10,945,277	9,201,789
Clearing settlement funds — house accounts (note 35)	1,574,905	2,291,385
	12,520,182	11,493,174
Less: Pledged and restricted bank deposit (note 36)	(194,364)	(938,613)
	12,325,818	10,554,561

38 BORROWINGS

	As at December 31,	
	2016	2015
Unsecured Bank loans	3,251,970	3,090,227

(1) As at December 31, 2016, the short-term borrowing were all borrowed in Hong Kong. The effective interest rate for the borrowings was ranged from 2% to 2.50% (2015: 0.82% to 2.60%) per annum. The short-term borrowing is repayable on demand or within one year.

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39 SHORT-TERM DEBT INSTRUMENTS

	Nominal interest rate	As at January 1, 2016	Issuance/ Other Transferred	Redemption	As at December 31, 2016
Short-term financing bill payables ⁽¹⁾	3.05%	2,000,000	—	(2,000,000)	—
Short-term bond payables ⁽²⁾	4.65%–5.40%	11,000,000	1,000,000	(11,000,000)	1,000,000
Principals of structured notes ⁽³⁾	2.85%–6.10%	14,878,320	22,495,710	(16,591,700)	20,782,330
		27,878,320	23,495,710	(29,591,700)	21,782,330

	Nominal interest rate	As at January 1, 2015	Issuance/ Other Transferred	Redemption	As at December 31, 2015
Short-term financing bill payables ⁽¹⁾	2.75%–6.20%	8,400,000	21,500,000	(27,900,000)	2,000,000
Short-term bond payables ⁽²⁾	5.30%–5.40%	4,000,000	15,000,000	(8,000,000)	11,000,000
Principals of structured notes ⁽³⁾	3.60%–6.50%	1,963,147	22,537,918	(9,622,745)	14,878,320
		14,363,147	59,037,918	(45,522,745)	27,878,320

(1) Short-term financing bill payables

As at December 31, 2015, short-term financing bills were debt securities issued in the PRC inter-bank market by the Group, bearing interest rates ranging from 2.75% to 6.20% per annum. There is no short-term financing bill payable outstanding as at December 31, 2016.

(2) Short-term bond payables

As at December 31, 2016, the short-term bond payables issued by company bearing interest rate 4.65% to 5.40%. The short-term bonds are repayable upon maturity within three months to one year.

(3) Principals of structured notes

As at December 31, 2016, the amount represents principals received from investors for subscription of structured notes issued by the Group. The structured notes bear fixed interest rate ranging from 2.85% to 6.10% (2015: 3.60% to 6.50% per annum), or variable rate linked to certain stock index. The interests are repayable upon maturity within one year. The notes with variable rate contain non-closely related derivative as their returns are linked to the fluctuation of stock index. For those embedded derivatives, they are accounted for in these consolidated financial statements under note 33 after being bifurcated from their respective host contracts.

40 PLACEMENTS FROM OTHER FINANCIAL INSTITUTIONS

	As at December 31,	
	2016	2015
Placements from banks	1,500,000	4,000,000

As at December 31, 2016, the effective interest rate on due to banks is 3.85% (2015: 2.15%) per annum. The amount was repayable within seven days from the end of the reporting period.

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41 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

	As at December 31,	
	2016	2015
Clients' deposits for margin financing and securities lending	6,540,993	12,016,071
Clients' deposits for other brokerage business	61,040,727	76,732,973
	67,581,720	88,749,044

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

The majority of the accounts payable balances are repayable on demand except where certain accounts payable to brokerage clients represent money received from clients for their margin financing activities under normal course of business, such as margin financing and securities lending. Only the excessive amounts over the required margin deposits and cash collateral stipulated is repayable on demand.

The directors of the Company are of the opinion that the ageing analysis does not give additional value in view of the nature of these businesses. As a result, no ageing analysis is disclosed.

42 ACCRUED STAFF COSTS

	As at December 31,	
	2016	2015
Non-current portion		
Salaries, bonus and allowances	787,540	787,540
Current portion		
Salaries, bonus and allowances	4,635,863	7,060,212
Social welfare	44,152	40,233
Others	27,647	24,766
	4,707,662	7,125,211

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43 OTHER PAYABLES AND ACCRUED CHARGES

	As at December 31,	
	2016	2015
Deposits of equity return swaps ⁽¹⁾	1,036,441	2,558,705
Settlement payables to brokers and clearing house	2,395,811	2,722,763
Commission and handling fee payable	99,076	134,316
Futures risk reserve	55,832	45,996
Other tax payable	197,786	339,821
Interest payables	2,780,945	3,385,453
Others ⁽²⁾	153,234	162,410
	6,719,125	9,349,464

- (1) As at December 31, 2016 and 2015, the balance represents deposits received from investors for equity return swaps which is refundable with the contract terms upon the expiry date. The deposit will be mature within one year from the end of the reporting period. These instruments contain non-closely related embedded derivatives as their returns are linked to the fluctuation of certain stock index or specific stock price. For those embedded derivatives with significant fair values, they are accounted for in this consolidated financial statements under note 33 after being bifurcated from their respective host contracts.
- (2) Others mainly represent payable to joint bonds underwriters, share offering cost payable, and other payables arising from normal course of business.

44 PROVISION

	As at December 31,	
	2016	2015
At the beginning of the year	96	118
Reversal for the year	(96)	(22)
At the end of the year	—	96

45 OTHER LIABILITIES

	As at December 31,	
	2016	2015
Third-party interests in consolidated structured entities	—	545,735

Third-party unit holders' interests in these consolidated structured entities are reflected as a liability since they can be put back to the Group for cash.

The realization of third-party interests in consolidated structured entities cannot be predicted with accuracy since these represent the interests of third-party unit holders in consolidated structured entities which are held to back investment contract liabilities and are subject to market risk and the actions of third-party investors.

During the year ended December 31, 2016, the Group has derecognised of and deconsolidated two structured entities, which are not individually significantly to the Group.

Notes to the Consolidated Financial Statements

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46 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December 31,	
	2016	2015
Financial liabilities held for trading		
— Equity securities	192,538	101,960
— Debt securities	2,565,535	857,974
— Others	38,512	190,566
Financial liabilities designated at fair value through profit or loss		
— Structured entities	1,643,371	1,218,780
	4,439,956	2,369,280

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

47 FINANCIAL ASSETS SOLD UNDER REPRUCHASE AGREEMENTS

	As at December 31,	
	2016	2015
Non-current		
Analyzed by collateral type:		
Rights and interests in margin loans	—	10,865,000
Analyzed by market:		
Over-the-counter	—	10,865,000
Current		
Analyzed by collateral type:		
Bonds	8,533,988	14,788,027
Rights and interests in margin loans	10,865,000	17,300,000
	19,398,988	32,088,027
Analyzed by market:		
Stock exchange	7,359,988	5,375,068
Interbank bond market	1,174,000	9,412,959
Over-the-counter	10,865,000	17,300,000
	19,398,988	32,088,027

Sales and repurchase agreements are transactions in which the Group sell a security as well as rights and interests in margin loans and simultaneous agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group are still exposed to substantially all the credit risks, market risk and rewards of those securities sold. These securities are not derecognised from the financial statements but regarded as “collateral” for the liabilities because the Group retain substantially all the risk and rewards of these securities and margin loans.

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48 SHARE CAPITAL

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

	As at December 31,	
	2016	2015
Registered, issued and fully paid ordinary shares of RMB1 each:		
— Domestic shares	5,719,009	5,808,136
— Foreign invested shares	980,400	—
	6,699,409	5,808,136
At beginning of the year	5,808,136	5,808,136
Issuance of shares ⁽¹⁾	891,273	—
At end of the year	6,699,409	5,808,136

- (1) On October 7, 2016, the Company completed its initial public offering of 891,273 thousand H shares to foreign investors on the Main Board of the Hong Kong Stock Exchange with the offer price of HK\$12 per share. Through the issuance of the H shares, the total funds raised was HK\$10,695,285 thousand (equivalent to RMB9,208,320 thousand), and after deducting underwriting and sponsorship and other transaction costs of RMB260,881 thousand in all (included in the transaction costs, an amount of RMB73,896 thousand was paid to the Group's subsidiary, China Merchants Securities International Company Limited. The cost was eliminated at consolidation and the net transaction cost is RMB186,985 thousand), includes the increased registered capital of RMB891,273 thousand and the capital reserve of RMB8,130,062 thousand.

According to the relevant requirements of PRC regulators, the existing shareholder of the state-owned shares of the Company have transferred an aggregate number of 89,127 thousand state-owned shares of the Company to the National Social Security Fund of the PRC, and such shares were then converted into H Shares on a one-for-one basis. The corresponding transferred A shares was deregistered accordingly.

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

49 INVESTMENT REVALUATION RESERVE

The movement in the Group's investment revaluation reserve is set out as below:

	As at December 31,	
	2016	2015
At beginning of the year	462,366	218,556
Available-for-sale financial assets		
Net fair value changes during the year	(494,632)	357,577
Reclassification adjustment to profit or loss	(566,505)	(40,966)
Income tax impact	278,111	(79,153)
Share of fair value gain on available-for-sale financial assets of associates	4,965	6,352
At end of the year	(315,695)	462,366

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50 GENERAL RESERVES

General reserves include statutory reserve, reserve for general risk and transaction risk reserve.

Pursuant to the Company Law of the PRC and the Company's articles of association, 10% of the net profit of the Company, as determined under the relevant accounting rules and financial regulations applicable to enterprises in the PRC, is required to be transferred to the statutory reserve until such time when this reserve reaches 50% of the share capital of the Company. The reserve appropriated can be used for expansion of business and capitalization. If the statutory reserve is capitalised into share capital, the remaining reserve is required to be no less than 25% of the Company's registered capital before capitalization.

In accordance with the Financial Rules for Financial Enterprises, the Company is required to appropriate 10% of net profit derived in accordance with PRC GAAP before distribution to shareholders as general risk reserve from retained profits.

Pursuant to the Securities Law of the PRC, the Company is required to appropriate 10% of net profit derived in accordance with PRC GAAP before distribution to shareholders as transaction risk reserve from retained profits and cannot be distributed or transferred to share capital.

The movements of the general reserves are set out below:

For the year ended December 31, 2016

	Opening	Addition	Closing
Statutory reserve	3,415,540	460,325	3,875,865
Reserve for general risk	3,415,540	460,325	3,875,865
Transaction risk reserve	3,286,727	460,326	3,747,053
	10,117,807	1,380,976	11,498,783

For the year ended December 31, 2015

	Opening	Addition	Closing
Statutory reserve	2,400,212	1,015,328	3,415,540
Reserve for general risk	2,400,212	1,015,328	3,415,540
Transaction risk reserve	2,271,395	1,015,332	3,286,727
	7,071,819	3,045,988	10,117,807

51 DEFERRED INCOME

	As at December 31,	
	2016	2015
Government grant	126,000	126,000

In 2009, the Group received a government subsidy from Shenzhen Municipal Finance Bureau of RMB126,000 thousand towards the cost of building including construction in progress. The amount is transferred to income over the useful lives of the relevant assets once completed.

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52 LONG-TERM BORROWINGS DUE WITHIN ONE YEAR

	As at December 31,	
	2016	2015
Secured bank loans	368,596	—

As at December 31, 2016, the long-term borrowings due within one year was secured by the leasehold land of the Group, which was included in construction in progress. Details of the carrying amounts of pledged leasehold land were disclosed in note 18. The effective interest rate for the loan was 2% below benchmark interest rate, which was 4.655% per annum and is repayable within one year.

53 LONG-TERM BORROWINGS

	As at December 31,	
	2016	2015
Secured bank loans ⁽¹⁾	—	370,194
Unsecured bank loan	—	83,778
	—	453,972

(1) As at December 31, 2015, the non-current borrowing was secured by the leasehold land of the Group, which was included in construction in progress. The portion of long-term borrowings that repayable within one year were disclosed in note 52.

54 BONDS PAYABLE DUE WITHIN ONE YEAR

	As at December 31,	
	2016	2015
Subordinated bonds	5,000,000	—

The following table presents an analysis of subordinated bonds:

Name	Issue amount	Value date	Maturity date	Coupon rate
15CM05	5,000,000	24/4/2015	24/10/2017	5.57%

With the approval of the shareholders' general meeting and the board of directors of the Company, the Company issued a subordinated bond of 2.5 years with a face value of RMB5 billion in April 2015. As at December 31, 2016, the balance represented the bond series — 15CM05 would be due within one year and classified as current liabilities. Details of the bonds were disclosed in note 55.

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55 BONDS PAYABLE

	As at December 31,	
	2016	2015
Non-convertible corporate bonds ⁽¹⁾	15,465,206	15,460,871
Subordinated bonds ⁽²⁾	30,000,000	35,000,000
Principal of structured note ⁽³⁾	—	2,500,000
	45,465,206	52,960,871

(1) The following table presents an analysis of non-convertible corporate bonds.

Name	Issue amount	Value date	Maturity date	Coupon rate
12CM01	3,000,000	5/3/2013	5/3/2018	4.45%
12CM02	1,500,000	5/3/2013	5/3/2018	4.80%
12CM03	5,500,000	5/3/2013	5/3/2023	5.15%
14CM bond	5,500,000	26/5/2015	26/5/2025	5.08%

Pursuant to the approval by the CSRC, shareholders and the directors of the Company, the Company issued non-convertible corporate bonds with face value of RMB10,000,000 thousand on March 5, 2013. These bonds, which are bearing fixed interest rate, comprise a 3 plus 2-year bond with a face value of RMB3,000,000 thousand, a 5-year bond with a face value of RMB1,500,000 thousand and a 10-year bond with a face value RMB5,500,000 thousand. These bonds were listed in Shanghai Stock Exchange on March 15, 2013.

Pursuant to the approval by the CSRC, shareholders and directors of the Company, the Company issued 10-year non-convertible bond with face value of RMB5,500,000 thousand and interest rate 5.08% per annum on May 26, 2015. The bond is listed on Shanghai Exchange on June 9, 2015.

(2) The following table presents an analysis of subordinated corporate bonds.

Name	Issue amount	Value date	Maturity date	Coupon rate
15CM01	10,000,000	19/3/2015	19/3/2018	5.48%
15CM02	10,000,000	24/3/2015	24/3/2020	5.58%
15CM03	5,000,000	13/4/2015	13/4/2018	5.60%
15CM04	5,000,000	13/4/2015	13/4/2018	5.75%

Pursuant to the approval by shareholders meeting and board of directors meeting, the Company was authorised to issue up to RMB35,000,000 thousand (inclusive) subordinated corporate bonds. The Company issued five tranches of 3 to 5 years bonds with aggregate face value of RMB35,000,000 thousand in March and April 2015. As at December 31, 2016, the subordinated bond — 15CM05, which is due within one year was disclosed in note 54.

(3) As at December 31, 2015, the amount represents principals received from investors for subscription of structured notes issued by the Company. The structured notes bear a fixed rate interest ranging from 5.60% to 6.10% per annum and interest was payable within one year. The structured notes has been redeemed as at December 31, 2016.

56 DIVIDENDS

	As at December 31,	
	2016	2015
Dividends recognised as distribution	2,329,062	4,466,456

Pursuant to the resolution of the shareholders meeting of 2014, the Company distributed cash dividends of RMB2.65 for every 10 shares (tax included) based on 5,808,135,529 shares held amounting to approximately RMB1,539,156 thousand in 2015.

Pursuant to the resolution of the sixth temporary shareholders meeting of 2015, the Company distributed cash dividends of RMB5.04 for every 10 shares (tax included) based on 5,808,135,529 shares held amounting to approximately RMB2,927,300 thousand in 2015.

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56 DIVIDENDS (Continued)

Pursuant to the resolution of the shareholders meeting of 2015, the Company distributed cash dividends of RMB2.47 for every 10 shares (tax included) based on 5,808,135,529 shares held amounting to approximately RMB1,434,610 thousand in 2015.

Pursuant to the resolution of the shareholders meeting of 2016, the Company distributed cash dividends of RMB1.54 for every 10 shares (tax included) based on 5,808,135,529 shares held amounting to approximately RMB894,453 thousand in 2016.

57 TRANSFER OF FINANCIAL ASSETS

Repurchase agreements

The Group entered into repurchase agreements with certain counterparties to sell Group's securities and interests in margin loans and the proceeds are presented as financial assets sold under repurchase agreements. In accordance with the terms of the repurchase agreements, the legal title of those securities and interests in margin loans are not transferred to the counterparties during the year and both parties simultaneously agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group are still exposed to substantially all the credit risks, market risks and rewards of those securities and rights and interests in margin loans sold. These securities and margin loans are not derecognised from the financial statements but regarded as "collateral" for the liabilities because the Group retain substantially all the risks and rewards of these securities and rights and interest in margin loans.

The following tables provide a summary of carrying amounts and fair values related to transferred financial assets that are not derecognised in their entirety and the associated liabilities:

As at December 31, 2016

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Advances to customers	Securities lending arrangements	Financial assets held under resale arrangements	Total
Carrying amount of transferred assets	1,954,340	8,031,578	13,111,476	4,409,122	—	27,506,516
Carrying amount of associated liabilities	1,158,615	4,761,459	10,865,000	2,613,914	—	19,398,988
Net position	795,725	3,270,119	2,246,476	1,795,208	—	8,107,528

Notes to the Consolidated Financial StatementsFor the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)**57 TRANSFER OF FINANCIAL ASSETS (Continued)****Repurchase agreements (Continued)****As at December 31, 2015**

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Advances to customers	Securities lending arrangements	Financial assets held under resale arrangements	Total
Carrying amount of transferred assets	6,127,584	13,064,697	33,341,323	2,033,753	830,332	55,397,689
Carrying amount of associated liabilities	4,108,332	8,759,425	28,165,000	1,363,561	556,709	42,953,027
Net position	2,019,252	4,305,272	5,176,323	670,192	273,623	12,444,662

Securities lending arrangements

The Group entered into securities lending agreements with clients to lend out its financial assets classified as available-for-sale financial assets and financial assets at fair value through profit or loss with carrying amount totaling RMB200,067 thousand (2015: RMB117,855 thousand) as at December 31, 2016, which are secured by client's securities and deposits held as collateral. As stipulated in the securities lending agreements, the legal ownership of these securities is transferred to the clients. Although the clients are allowed to sell these securities during the covered period, they have obligations to return these securities to the Group at specified future dates. The Group have determined that it retains substantially all the risks and rewards of these securities and therefore have not derecognised these securities in the consolidated financial statements.

Securities borrowing arrangements

The Group borrowed securities from interbank securities market platform used for the business of financial assets sold under repurchase agreements and securities short selling, and simultaneously offers debt securities classified as available-for-sale financial assets and financial assets at fair value through profit and loss as collateral to the counterparties. As at December 31, 2016 and 2015, the type and fair values of available-for-sale financial assets to the Group borrowed from banks through interbank securities market trading platform for the purpose of financial assets sold under repurchase agreements are as follows:

	As at December 31,	
	2016	2015
Treasury bonds	9,179,280	3,370,542

The above securities borrowing transactions as at December 31, 2016, are due before February 17, 2017 (2015: March 25, 2016).

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57 TRANSFER OF FINANCIAL ASSETS (Continued)**Securities borrowing arrangements (Continued)**

As at December 31, 2016 and 2015, the type and fair values of securities pledged for the Group's securities borrowing arrangements are as follows:

	As at December 31,	
	2016	2015
Corporate bonds	8,184,024	2,310,786

58 CAPITAL COMMITMENTS

	As at December 31,	
	2016	2015
Commitments contracted but not provided for in respect of		
— Construction in progress	244,923	170,738

59 OPERATING LEASE COMMITMENTS**The Group as lessee**

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of renting of premises which fall due as follows:

	As at December 31,	
	2016	2015
Within one year (inclusive)	256,764	234,566
One to two years (inclusive)	195,197	193,264
Two to three years (inclusive)	117,044	136,765
Over three years	354,613	389,805
	923,618	954,400

Operating lease payments represent rentals payable by the Group for certain of its office properties. Lease of rented premises are negotiated with fixed lease term for 1 to 20 years.

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60 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments of directors and supervisors of the Company paid and/or payable by the Group for the years ended December 31, 2016 and 2015 are set out below:

Year ended December 31, 2016

Name	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Bonuses	Total emoluments
Executive directors:					
GONG Shaolin	—	2,367	260	2,574	5,201
WANG Yan	—	2,406	242	2,574	5,222
	—	4,773	502	5,148	10,423
Non-executive directors:					
HONG Xiaoyuan ⁽¹⁾	—	—	—	—	—
GUO Jian	—	—	—	—	—
PENG Lei	—	—	—	—	—
SUN Yueying ⁽²⁾	—	—	—	—	—
HUNAG Jian	—	—	—	—	—
CAO Dong	—	—	—	—	—
HUA Li	—	—	—	—	—
SU Min ⁽³⁾	—	—	—	—	—
WANG Daxiong ⁽⁴⁾	—	—	—	—	—
XIONG Xianliang	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors:					
LIU Jialin	160	—	—	—	160
YANG Jun	160	—	—	—	160
YI Xiqun ⁽⁵⁾	—	—	—	—	—
XU Hua ⁽⁶⁾	—	—	—	—	—
DING Huiping	160	—	—	—	160
ZHU Haiwu ⁽⁷⁾	100	—	—	—	100
	580	—	—	—	580
Supervisors:					
ZHOU Yuhan	—	1,905	212	2,060	4,177
LIU Chong	—	—	—	—	—
FANG Xiaobing	—	—	—	—	—
ZHANG Zehong	—	—	—	—	—
ZHU Haibing	—	—	—	—	—
HE Min	—	788	138	48	974
YIN Hongyan	—	943	159	69	1,171
ZHAN Guifeng	—	881	159	54	1,094
LI Xiaofei	—	—	—	—	—
	—	4,517	668	2,231	7,416
	580	9,290	1,170	7,379	18,419

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60 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Year ended December 31, 2015

Name	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Bonuses	Total emoluments
Executive directors:					
GONG Shaolin	—	2,163	259	2,794	5,216
WANG Yan	—	2,184	241	2,794	5,219
	—	4,347	500	5,588	10,435
Non-executive directors:					
HONG Xiaoyuan	—	—	—	—	—
GUO Jian	—	—	—	—	—
PENG Lei	—	—	—	—	—
SUN Yueying	—	—	—	—	—
HUNAG Jian	—	—	—	—	—
CAO Dong	—	—	—	—	—
HUA Li	—	—	—	—	—
XIONG Xianliang	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors:					
LIU Jialin	120	—	—	—	120
YANG Jun	120	—	—	—	120
YI Xiqun	120	—	—	—	120
XU Hua	120	—	—	—	120
DING Huiping	120	—	—	—	120
	600	—	—	—	600
Supervisors:					
ZHOU Yuhan	—	1,741	215	2,142	4,098
LIU Chong	—	—	—	—	—
FANG Xiaobing	—	—	—	—	—
ZHANG Zehong	—	—	—	—	—
ZHU Haibing	—	—	—	—	—
HE Min	—	610	136	96	842
YIN Hongyan	—	783	157	174	1,114
ZHAN Guifeng	—	728	157	159	1,044
LI Xiaofei	—	—	—	—	—
	—	3,862	665	2,571	7,098
	600	8,209	1,165	8,159	18,133

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60 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

- (1) HONG Xiaoyuan was resigned in February 2016.
- (2) SUN Yueying was resigned on May 2016.
- (3) SU Min was appointed as non-executive director in June 2016.
- (4) WANG Daxiong was appointed as non-executive director in September 2016.
- (5) YI Xiqun was appointed as independent non-executive director in August 2013 and resigned on November 2014 but there has not been successor.
- (6) XU Hua was appointed as independent non-executive director in July 2013 and resigned on January 2016, officially departure on July 2016.
- (7) ZHU Haiwu was appointed as independent non-executive director.

The total compensation packages for these directors and supervisors for the year ended December 31, 2016 had not yet been finalised in accordance with regulations of the relevant authorities in the PRC. The final compensation will be disclosed when determined.

No directors of the Company waived or agreed to waive any emolument paid by the Group during the year. No emoluments were paid by the Group to the directors of the Company as an incentive payment for joining the Group or as compensation for loss of office during the year.

61 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments; two (2015: none) were directors of the Company whose emoluments are included in the disclosures in Note 60 above. The emoluments of the remaining three individuals (2015: five) with the highest emoluments are as below:

	As at December 31,	
	2016	2015
Basic salaries and allowances	3,305	2,492
Bonuses	15,391	29,231
Contributions to retirement benefit scheme	386	547
	19,082	32,270

Bonus was determined with reference to results of the Group and performance of individuals. No emoluments were paid by the Group to these individuals as an incentive payment for joining the Group or as compensation for loss of office during the year.

The emoluments of the individuals with the highest emoluments are within the following bands:

	As at December 31,	
	2016	2015
Emolument bands		
Nil to HKD3,000,000	—	—
HKD3,000,001 to HKD5,000,000	—	—
HKD5,000,001 to HKD7,000,000	3	2
HKD7,000,001 to HKD9,000,000	—	2
HKD9,000,001 to HKD11,000,000	—	1
HKD11,000,001 to HKD13,000,000	—	—

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62 SIGNIFICANT RELATED PARTY TRANSACTIONS**(1) Relationship of related parties***(a) Major shareholders*

Major shareholders include shareholders of the Company with 5% or above ownership.

Share percentage in the Company

	As at December 31,	
	2016	2015
China Merchants Finance Investment Holdings Co., Ltd.	20.93%	24.71%
Shenzhen Jisheng Investment Development Co., Ltd.	19.56%	23.09%
China Ocean Shipping (Group) Company	6.25%	6.85%

(b) Principal subsidiaries of the Company

The details information of the Company's principal subsidiaries is set out in note 69.

(c) Associates of the Group

The details information of the Group's associates is set out in note 23.

(d) Other related parties

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

(2) Related parties transaction and balances

(a) During the year ended December 31, 2016 and 2015, the Group's major transactions and balances with its associate are as below:

Transaction between the Group and the associate:

	As at December 31,	
	2016	2015
Commission and fee income		
— Funds managed by Bosera Asset Management Co., Ltd. and China Merchants Fund Management Limited	80,758	93,968

Balance between the Group and the associate:

	As at December 31,	
	2016	2015
Commission receivables		
— Funds managed by Bosera Asset Management Co., Ltd. and China Merchants Fund Management Limited	27,288	44,172

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(Expressed in thousands of Renminbi, unless otherwise stated)**62 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)****(2) Related parties transaction and balances (Continued)***(b) The Group's major transactions and balances with its other related parties are as below:*

Transactions between the Group and other related parties:

	As at December 31,	
	2016	2015
Commission and fee income		
— China Merchants Bank Co., Ltd.	45,098	64,684
— China Merchants Holdings (International) Company Limited	—	1,859
— China Merchants Property Development Company Limited	—	500
— China Merchants Steam Navigation Company Limited	—	3,200
— China Merchants Energy Shipping Company Limited	—	8,000
— China Merchants Group Limited	—	9,033
— China Merchants Industry Holdings Co., Ltd.	—	163
— China Merchants Land Limited	346	9,114
— China Merchants Chongqing Communications Technology Research & Design Institute Co., Ltd	456	200
— China Merchants Finance Investment Holdings Co., Ltd.	472	—
— China Merchants Logistics Holding Co., Ltd.	1,344	—
— China International Marine Containers (Group) Ltd.	472	—
— China Merchants Shekou Industrial Zone Holdings Co., Ltd	—	53,000
— China Merchants Finance Holdings Co., Ltd	—	1,254
Interest income		
— China Merchants Bank Co., Ltd.	538,147	833,640
Fee and commission expenses		
— China Merchants Bank Co., Ltd.	(250,843)	(354,996)
Interest expenses		
— China Merchants Bank Co., Ltd.	(31,498)	(40,802)
Business and management income		
— China Merchants Chongqing Communications Technology Research & Design Institute Co., Ltd.	(182)	—
— China Merchants (Shanghai) Investment Co., Ltd *	(2,663)	—

* This related party does not have official English name, English translated name is for identification only.

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62 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)**(2) Related parties transaction and balances (Continued)**

(b) *The Group's major transactions and balances with its other related parties are as below: (Continued)*

The Group also has the following balances with its other related parties.

	As at December 31,	
	2016	2015
Accounts and other receivables		
— China Merchants Land Limited	346	—
— China Merchants Chongqing Communications Technology Research & Design Institute Co., Ltd	16	—
— China Merchants (Shanghai) Investment Co., Ltd *	3,643	—
— Bosera Asset Management Co., Ltd	83,300	—
— China Merchants Fund Management Limited	76,996	—
Bank balances		
— China Merchants Bank Co., Ltd.	25,730,016	36,016,487
Borrowings		
— China Merchants Bank Co., Ltd.	645,894	453,972
Placements from banks		
— China Merchants Bank Co., Ltd.	500,000	4,000,000
Other payables and accrued charges		
— China Merchants Bank Co., Ltd.	567	937

* This related party does not have official English name, English translated name is for identification only.

(3) Key management personnel

The remuneration of the key management personnel of the Group was as below:

	As at December 31,	
	2016	2015
Short-term benefits:		
— Salaries, allowance and bonuses	37,264	36,573
Post-employment benefits:		
— Contribution to retirement schemes	2,281	2,257
	39,545	38,830

(4) Other related parties transaction

In December 2015, China Merchants Shekou Industrial Zone Holdings Co., Ltd. issued A Shares for the purpose to acquire China merchants Property Development Co., Ltd. and issued A Shares to certain specific targets for fund raising purpose. The Company, through its wholly-owned subsidiary, China Merchants Zhiyuan Capital Investment Co., Ltd. and its corporate entities to indirectly subscribed China Merchants Shekou Industrial Zone Holdings Co., Ltd. non-public offering 84,746 thousand shares. As at December 31, 2016, the fair value of the above shares was approximately RMB1,388,983 thousand.

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63 SEGMENT INFORMATION**(1) Business segment**

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 unit that offers services which are subject to risks and returns that are different from the other operating segments. Segment information is measured in accordance with the accounting policies and measurement criteria adopted by each segment when reporting to the board of directors, which are consistent with the accounting and measurement criteria in the preparation of the consolidated financial statements. The Group's operating segments are as follows:

- (a) Brokerage and wealth management segment engages in the trading of stocks and futures contracts on behalf of clients. Moreover, the activities of providing margin financing, securities lending and selling financial products and other wealth management products are included in this segment.
- (b) Investment banking segment provides investment banking services to the Group's institutional clients, including financial advisory, equity underwriting, debt underwriting and sponsorship.
- (c) Investment management segment primarily engages in assets management, investing advisory and deal execution services. Moreover, the investment income from private equity investment management and alternative investment are included in this segment.
- (d) Investment and trading segment engages in trading equity securities, fixed-income securities, derivatives, other financial products and market maker service.
- (e) Others segment primarily includes head office operations, investment holding as well as interest income and interest expense incurred for generating working capital for general operation.

No operating segments above have been aggregated in presentation. Management monitors the operating results of the Group's business units separately for the purpose of resource allocation and other operating decisions. Segment performance is measured consistently with operating profit or loss in the consolidated financial statements. However, income taxes are managed on the Company level and are not allocated to operating segments.

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63 SEGMENT INFORMATION (Continued)

(1) Business segment (Continued)

The operating and reportable segment information provided to the chief operating decision maker (hereinafter refer as "CODM") for the years ended December 31, 2016 and 2015 are as follows:

	Brokerage and wealth management	Investment banking	Investment management	Investment and trading	Others	Elimination	Total
For the year ended December 31, 2016							
Segment revenue and results							
Segment revenue	12,758,948	2,459,479	1,322,651	1,286,558	403,305	(62,950)	18,167,991
Segment other income and gains	722	—	—	—	383,005	—	383,727
Segment revenue and other income	12,759,670	2,459,479	1,322,651	1,286,558	786,310	(62,950)	18,551,718
Segment expenses	(9,139,145)	(1,126,736)	(505,540)	(955,441)	(1,064,209)	62,950	(12,728,121)
Segment result	3,620,525	1,332,743	817,111	331,117	(277,899)	—	5,823,597
Share of results of associates	—	—	599	—	628,724	—	629,323
Profit before income tax	3,620,525	1,332,743	817,710	331,117	350,825	—	6,452,920
As at December 31, 2016							
Segment assets and liabilities							
Segment assets	128,337,161	379,108	7,820,342	90,714,086	20,496,715	(4,688,984)	243,058,428
Segment liabilities	(109,073,344)	(1,112,938)	(6,583,650)	(47,055,471)	(24,006,970)	4,688,984	(183,143,389)
Other segment information							
Amounts included in the measure of segment profit or loss or segment assets:							
Interest income	6,096,156	—	21,036	12,859	403,305	(62,950)	6,470,406
Interest expense	(4,169,655)	—	(82,637)	(491,746)	(894,015)	62,950	(5,575,103)
Capital expenditure	(276,508)	(6,048)	(2,669)	(5,890)	(162,730)	—	(453,845)
Depreciation and amortization	(135,108)	(2,566)	(2,138)	(2,964)	(18,095)	—	(160,871)
Impairment reversal (losses)	41,411	—	—	(107,633)	—	—	(66,222)
For the year ended December 31, 2015							
Segment revenue and results							
Segment revenue	24,404,304	2,843,768	1,313,328	5,732,157	611,043	—	34,904,600
Segment other income and gains	63	—	15	—	83,890	—	83,968
Segment revenue and other income	24,404,367	2,843,768	1,313,343	5,732,157	694,933	—	34,988,568
Segment expenses	(13,702,071)	(1,352,410)	(610,409)	(3,212,078)	(3,028,711)	—	(21,905,679)
Segment result	10,702,296	1,491,358	702,934	2,520,079	(2,333,778)	—	13,082,889
Share of results of associates	—	—	7,406	—	543,696	—	551,102
Profit (loss) before income tax	10,702,296	1,491,358	710,340	2,520,079	(1,790,082)	—	13,633,991
As at December 31, 2015							
Segment assets and liabilities							
Segment assets	158,457,197	341,752	6,795,378	111,766,652	18,817,798	(4,523,192)	291,655,585
Segment liabilities	(150,586,832)	(1,237,839)	(6,662,965)	(76,692,000)	(12,567,351)	4,523,192	(243,223,795)
Other segment information							
Amounts included in the measure of segment profit or loss or segment assets:							
Interest income	9,151,447	—	114,741	28,829	611,044	—	9,906,061
Interest expense	(5,857,287)	—	(70,028)	(1,223,357)	(134,598)	—	(7,285,270)
Capital expenditure	(238,214)	(4,440)	(3,516)	(3,935)	(162,132)	—	(412,237)
Depreciation and amortization	(129,228)	(1,907)	(1,871)	(1,933)	(16,194)	—	(151,133)
Impairment losses	(228,098)	—	—	—	—	—	(228,098)

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63 SEGMENT INFORMATION (Continued)

(2) Geographical segments

The Group has two major geographical operation in the PRC, namely Mainland China and Hong Kong, which is also the Group's revenue from external customer and the Group's assets located. The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property and equipment, investment properties, goodwill, other intangible assets, interests in associates and other non-current assets ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property and equipment and other non-current assets, they are based on the location of operation to which they are allocated, in the case of goodwill and other intangible assets, they are based on the location of operations.

	Mainland China	Outside Mainland China	Total
For the year ended December 31, 2016			
Segment Revenue			
Revenue from external customers	17,588,971	579,020	18,167,991
Other income and gains	385,724	(1,997)	383,727
	17,974,695	577,023	18,551,718
For the year ended December 31, 2015			
Segment Revenue			
Revenue from external customers	33,843,708	1,060,892	34,904,600
Other income and gains	124,500	(40,532)	83,968
	33,968,208	1,020,360	34,988,568

Specified non-current assets

	Mainland China	Outside Mainland China	Total
As at December 31, 2016			
Specified non-current assets	7,227,722	68,104	7,295,826
As at December 31, 2015			
Specified non-current assets	6,580,364	58,938	6,639,302

(3) Information about major customers:

There were no customers (2015: no customers) for the year ended December 31, 2016 contributing over 10% of the total revenue of the Group.

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64 FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at December 31,	
	2016	2015
Financial assets		
Loans and receivables (including cash and cash equivalents)	158,988,491	184,668,967
Available-for-sale financial assets	24,722,186	35,742,644
Derivative financial assets	1,109,613	1,016,347
Financial assets at fair value through profit or loss	48,244,455	62,826,493
	233,064,745	284,254,451
Financial liabilities		
Derivative financial liabilities	1,842,803	1,866,372
Financial liabilities at fair value through profit or loss	4,439,956	2,369,280
Financial liabilities at amortised cost	170,870,149	229,640,839
	177,152,908	233,876,491

65 FINANCIAL RISK MANAGEMENT

(1) Risk management structure

The Group has been engaged in developing an all around, innovative and forward-looking risk management system aligning with its operation strategy and focusing on departments at the business level since its establishment. The structure of the risk management of the Company consists of five levels, including the strategical arrangement by the Board of Directors, supervision and scrutiny by the Supervisory Committee, risk management decision-making by the senior management and the Risk Management Committee, collaboration and internal control maintained by relevant risk management departments and direct management on other departments, branches and its wholly-owned subsidiaries.

The Group adopts a three-level risk management organization structure system. First level refers to self-implementation of effective control on risk management on all departments and branches. Second level refers to risk management and internal control measures implemented by relevant risk management departments. Third level refers to supervisory follow-up supervision and evaluation by the Audit and Supervision Department.

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65 FINANCIAL RISK MANAGEMENT (Continued)

(1) Risk management structure (Continued)

The overall risk management duties of departments or positions under the risk management organization structure are as follows: (i) the Board of Directors and the Risk Management Committee are responsible for considering and approving the Company's risk appetite, risk tolerance and various risk limit indicators. They are also responsible for considering and approving the Company's economic capital allocation plan, convening quarterly meetings, reviewing quarterly risk reports and reviewing the Company's overall risk management; (ii) the Supervisory Committee of the Company is responsible for supervising and examining the operation of the comprehensive risk management system of the Company; (iii) the senior management comprising the president and vice presidents of the Company is responsible for the risk management of business operation, determine risk control measures and formulate risk limit indicators on a regular basis by reference to the risk evaluation reports. The Risk Management Committee set up by the senior management is the ultimate risk decision-making body. The Chief Risk Officer of the Company is responsible for establishing comprehensive risk management system, monitoring, evaluating and reporting the overall risk level of the Company and providing risk management suggestion on business decisions; (iv) the Risk Management Department, as the leading department for the management of market, credit and operational risks of the Company. It is responsible for managing market risk and credit risk, assisting and guiding all units in performing risk management work. The Finance Department is responsible for managing liquidity risk, and facilitating the establishment of the systems, rules and policies of liquidity risk management. Legal Compliance department is responsible for leading the company's legal compliance and risk management, to assist the compliance director on reviewing, supervising and scrutinizing on the compliance issues of the management and practice of the Group. Internal Audit Department is responsible for monitoring the effectiveness and implementation of the Company's risk management process toward audit review, and responsible for initiating the evaluation of the whole internal control system at least once a year and (v) all departments, branches and wholly-owned subsidiaries of the Company are responsible for directly managing and supervising risks of their own businesses and management scopes.

In accordance to the Company according Administration of Risk Control Indexes of Securities Companies 《證券公司風險控制指標管理辦法》 and relevant rules, to adjust the internal risk management system and control mechanism of risk indicator of the Company, and included the subsidiaries into the comprehensive risk management system in 2016.

(2) Credit risk

The Group's exposure to credit risk represents the potential economic loss that may arise from the failure of a debtor or counterparty to meet its obligation according to their contractual commitment. The Group is primarily exposed to four types of credit risk: (i) risk arising from default of customers to repay debts in businesses of margin financing and securities lending, securities-backed lending or stock repurchase; (ii) risk of losses of principal and interests for investments in debt securities, trust products and other credit products due to default of the issuer or borrower; (iii) risk arising from default of counterparty to meet its payment obligation in trading of OTC derivatives such as equity swaps, interest rate swap and OTC futures; (iv) risk of losses arising from the default of customers in businesses of brokerage trading of securities, futures and other financial products after liquidation of client's accounts due to their insufficiency of funds on the settlement date.

In respect of margin financing and securities lending, securities-backed lending, stock repurchase business and other financing businesses, the Group has established a multi-level authorization system for business management and a comprehensive risk management system covering the whole process through due diligence investigation of customers, approval of credit grant, post-loan evaluation, dynamic adjustment to collaterals, mark to market system, mandatory liquidation and disposal on default.

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65 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

For debt securities investment business, the Group has developed an internal credit rating mechanism to control risks of default and degradation of debt securities as well as default of counterparties. The Group sets the minimum rating requirements for various types of investments and counterparties by the business authorization system and minimises the loss arising from different types of investments and default of counterparties through the strategy of diversification.

For OTC derivatives trading business, the Group has formulated a set of management measures and rules to determine eligibility of investors, due diligence of customers, grant of credit to counterparties, discount rate of securities, effective monitoring of gearing ratio, management of collaterals and follow-up measures on default of customers, in order to strengthen the management before, during and after the transactions.

For brokerage business, the securities trading of domestic customers of whom the Group is an agent are settled by full margin. With regard to the trading of securities and other financial products for overseas customers, the Group has effectively controlled the relevant credit risk by strengthen the monitor on credit grant and margin ratio.

The table below sets forth the Group's maximum credit risk exposure as at the end of the reporting period, which is the carrying amount of financial assets recognised without taking into account of the effect of collaterals or other credit enhancements:

(a) Maximum credit risk exposure

	As at December 31,	
	2016	2015
Available-for-sale financial assets ⁽¹⁾	13,814,592	21,287,386
Financial assets at fair value through profit or loss ⁽²⁾	17,710,378	23,882,230
Derivative financial assets	1,109,613	1,016,347
Advances to customers	53,351,538	64,389,342
Financial assets held under resale agreements	18,953,143	14,334,756
Loan receivables	64,725	287,060
Accounts and other receivables	5,787,264	4,016,125
Deposit with exchanges and non-bank financial institutions	540,442	857,442
Clearing settlement funds	19,043,469	19,166,188
Cash and bank balances	61,272,263	81,618,054
	191,647,427	230,854,930

(1) Available-for-sale financial assets represent the investment in debt securities, trust products and equity securities lent to customers.

(2) Financial assets at fair value through profit or loss subjected to credit risk represent the investment in debt securities, trust products and equity securities lent to customers.

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65 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(b) Risk concentration

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

As at December 31, 2016

	Mainland China	Outside Mainland China	Total
Available-for-sale financial assets ⁽¹⁾	13,814,592	—	13,814,592
Financial assets at fair value through profit or loss ⁽²⁾	15,347,505	2,362,873	17,710,378
Derivative financial assets	184,151	925,462	1,109,613
Advances to customers	50,744,636	2,606,902	53,351,538
Financial assets held under resale agreements	18,953,143	—	18,953,143
Loan receivables	—	64,725	64,725
Accounts and other receivables	2,050,061	3,737,203	5,787,264
Deposits with exchanges and non-bank financial Institutions	448,430	92,012	540,442
Clearing settlement funds	19,043,469	—	19,043,469
Cash and bank balances	55,989,805	5,282,458	61,272,263
	176,575,792	15,071,635	191,647,427

As at December 31, 2015

	Mainland China	Outside Mainland China	Total
Available-for-sale financial assets ⁽¹⁾	21,287,386	—	21,287,386
Financial assets at fair value through profit or loss ⁽²⁾	21,211,483	2,670,747	23,882,230
Derivative financial assets	374,784	641,563	1,016,347
Advances to customers	62,619,481	1,769,861	64,389,342
Financial assets held under resale agreements	14,334,756	—	14,334,756
Loan receivables	—	287,060	287,060
Accounts and other receivables	1,485,538	2,530,587	4,016,125
Deposits with exchanges and non-bank financial Institutions	786,252	71,190	857,442
Clearing settlement funds	19,166,188	—	19,166,188
Cash and bank balances	76,044,153	5,573,901	81,618,054
	217,310,021	13,544,909	230,854,930

(1) Available-for-sale financial assets represent the investment in debt securities, trust products and equity securities lent to customers.

(2) Financial assets at fair value through profit or loss subjected to credit risk represent the investment in debt securities, trust products and equity securities lent to customers.

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65 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(c) Credit rating analysis of financial assets

The carrying amounts of debt securities at the end of the year are categorised by rating distribution as follows:

	As at December 31,	
	2016	2015
Rating		
Issuers in Mainland China		
— PRC sovereign bonds	8,748,217	11,969,332
— AAA	6,489,911	9,892,418
— AA+	4,529,270	8,548,975
— AA	1,861,249	2,915,081
— AA-	—	—
— AA- below	—	—
— A-1	—	859,329
	21,628,647	34,185,135
Non-rated	6,983,738	7,591,491
Sub-total	28,612,385	41,776,626
Issuers in Hong Kong and other regions		
— A	82,669	23,577
— B	1,535,375	492,338
— C	434,703	1,265,346
	2,052,747	1,781,261
Non-rated	310,126	889,488
Sub-total	2,362,873	2,670,749
Total	30,975,258	44,447,375

Note: PRC sovereign bonds represent the rating of bonds issued by the government of PRC. AAA~A rating represents the bonds with maturity over 1 year, which AAA rating is representing the highest rating. A-1 rating represents the bonds with maturity within 1 year. Non-rated represents the bonds are not rated by independent rating agencies.

Credit rating of the bonds issued in Hong Kong and other regions were derived from the lowest of Moody's, Standard & Poor's and Fitch Rating, if any. The bonds, which are not rated by the above agencies, are classified as non-rated. Including in A rating are the bonds comprising Aaa~Aa3 rating of Moody's, AAA~AA- rating of Standard & Poor's and AAA~AA- rating of Fitch; and including in B rating are the bonds comprising A1~Baa3 rating of Moody's, A+~BBB- rating of Standard & Poor's and A+~BBB- rating of Fitch; including in C rating are the bonds comprising Ba1~B3 rating of Moody's, BB+~B- rating of Standard & Poor's and BB+~B- rating of Fitch; and including D rating are the bonds comprising Caa1~D rating of Moody's, CCC+~C rating of Standard & Poor's and CCC+~C- rating of Fitch.

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65 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk

(a) *Origin and management of market risk*

Market risks of the Group refer to the risks of loss resulting from adverse changes in the market. Securities held by the Group are derived from the proprietary investment, market-making business and other investment activities. Movements in securities holding primarily arise from the relevant strategies of proprietary investment and market-making necessity. The securities of the Group are measured at fair value which will be fluctuated daily according to the market factors and change in the portfolios of the securities. Market risks of the Group primarily include: (i) equity price risk, which represents the exposures arise from fluctuation in the spot price, future price and volatility of indices such as stocks, equity portfolio, commodities and stock index futures; (ii) interest rate risk, which primarily represents the exposures arise from movements in the yield curve of fixed income investment, fluctuation in interest rates and credit spreads; and (iii) commodity risk, which represents exposures arise from changes in the spot price, future price and volatility of foreign currency rates of securities held; and (iv) exchange rate risk, which represents the exposures arise from changes in the spot price, future price and volatility of foreign currency rates of securities held.

The Group collectively allocates the economic capital in accordance with the risk preference and risk tolerance indicators set by the directors of the Company. By considering the risk associated with each type of investments and their interrelationship, the Group diversifies the overall risk limitation to different business departments/business lines. The front-office business departments are responsible for market risk management. The person in charge and investment manager shall utilise their extensive experience and in-depth knowledge of the markets and products to conduct risk management in trading transactions within their authorities and dynamic regulate the risk exposures to the securities held in open position by taking initiative measures to mitigate or hedge against the associated market risks. The chief risk management officer (the "CRMO") is in charge of the risk management department of the Group (the "Risk Management Department"), which is independent from other business departments. By applying professional risk management tools and methods to the investment strategies, business departments/business lines and to the whole Company, Risk Management Department aims to control, evaluate and manage market risk at different levels. Reports of evaluation and risk analysis are generated and delivered to the responsible officers of the business departments/business lines and operation management of the Company on a daily, monthly or quarterly basis to facilitate decision making. When risk level is approaching or exceeds the threshold values, the Risk Management Department will warn relevant management officers in advance and discuss with the respective business management officers. According to the opinion reached through discussions, the business departments/business lines will mitigate the exposures to a level within the limits, or the respective business departments/business lines may apply for a temporary or permanent upgrade in the limits, subject to the resolutions of the relevant committees. Risk Management Department will continuously monitor and communicate directly with the respective business departments/business lines with regard to information on risk exposures, and discuss the status of risk portfolios and the losses in extreme situations.

(b) *Price risk*

Value at Risk ("VaR")

The Group adopts Value at Risk ("VaR") as the risk evaluation tool for measuring the market risk of the entire securities investment portfolio which comprises various financial instruments. VaR analysis is a statistical technique that estimates the potential maximum losses that could occur on risk positions due to movements in interest rates, stock prices or currency rates over a specified time period and at a given level of confidence.

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65 FINANCIAL RISK MANAGEMENT (Continued)**(3) Market risk (Continued)**

(b) Price risk (Continued)

Value at Risk ("VaR") (Continued)

The analysis of the Group's VaR (confidence level of 95% and a holding period of one trading day) by types of risks is as follows:

As at year end

	As at December 31,	
	2016	2015
Market risk of equity	442,101	690,742
Market risk of interest rate	32,583	64,551
Market risk of commodity	5,178	11,564
Market risk of foreign exchange	829	2,117
Diluted effect	(37,360)	(58,884)
Total portfolio VaR	443,331	710,090

Highest

	As at December 31,	
	2016	2015
Market risk of equity	705,178	712,141
Market risk of interest rate	55,950	53,180
Market risk of commodity	4,670	9,593
Market risk of foreign exchange	2,810	549
Diluted effect	(98,578)	(57,381)
Total portfolio VaR	670,030	718,082

Lowest

	As at December 31,	
	2016	2015
Market risk of equity	442,101	62,899
Market risk of interest rate	32,583	41,080
Market risk of commodity	5,178	5,061
Market risk of foreign exchange	829	250
Diluted effect	(37,360)	(28,028)
Total portfolio VaR	443,331	81,262

Average

	As at December 31,	
	2016	2015
Market risk of equity	571,088	353,433
Market risk of interest rate	55,805	58,619
Market risk of commodity	6,377	6,678
Market risk of foreign exchange	1,358	460
Diluted effect	(66,403)	(49,855)
Total portfolio VaR	568,225	369,335

Note: The VaR of market risk of equity included the specific direction investment for 2015 market stabilisation and the equity investments produced by Trusted Certificates Companies, these Trusted Certificates Investments' VaR are calculated based on CSI 300 Index floating rate.

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65 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(c) Interest rate risk

The tables below summarise the Group's interest-bearing financial assets and liabilities as at year by their remaining terms to repricing or contractual maturity date, whichever is earlier. Other financial assets and liabilities not included below are not exposed to significant interest rate risk.

	At December 31, 2016						
	Less than 1 month	More than 1 month but less than 3 months	More than 3 month but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
Financial assets							
Available-for-sale financial assets	972,824	689,490	1,519,322	8,309,948	1,970,701	11,259,901	24,722,186
Financial assets at fair value through profit or loss	759,672	1,919,665	3,835,255	8,151,351	2,581,310	30,997,202	48,244,455
Derivative financial assets	—	—	—	—	—	1,109,613	1,109,613
Advances to customers	4,503,245	6,817,636	42,030,657	—	—	—	53,351,538
Financial assets held under resale agreements	2,749,087	1,067,422	8,674,423	6,462,211	—	—	18,953,143
Loan receivables	—	—	64,725	—	—	—	64,725
Accounts and other receivables	—	—	—	—	—	660,146	660,146
Deposit with exchanges and non-bank financial institutions	540,442	—	—	—	—	—	540,442
Clearing settlement funds	19,043,469	—	—	—	—	—	19,043,469
Cash and bank balances	61,272,263	—	—	—	—	—	61,272,263
Sub-total	89,841,002	10,494,213	56,124,382	22,923,510	4,552,011	44,026,862	227,961,980
Financial liabilities							
Borrowings	2,111,469	—	1,509,097	—	—	—	3,620,566
Short-term debt instruments	9,425,290	11,318,930	1,038,110	—	—	—	21,782,330
Placements from other financial institutions	1,500,000	—	—	—	—	—	1,500,000
Bonds payable	—	10,000,000	10,000,000	19,499,396	10,965,810	—	50,465,206
Financial assets sold under repurchase agreements	11,498,988	500,000	7,400,000	—	—	—	19,398,988
Derivative financial liabilities	—	—	—	—	—	1,842,803	1,842,803
Financial liabilities at fair value through profit or loss	2,447,097	—	—	—	—	1,992,859	4,439,956
Accounts payable to brokerage clients	67,581,720	—	—	—	—	—	67,581,720
Other payables and accrued charges	374	—	—	—	—	3,624,376	3,624,750
Sub-total	94,564,938	21,818,930	19,947,207	19,499,396	10,965,810	7,460,038	174,256,319
Net position	(4,723,936)	(11,324,717)	36,177,175	3,424,114	(6,413,799)	36,566,824	53,705,661

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65 FINANCIAL RISK MANAGEMENT (Continued)**(3) Market risk (Continued)***(c) Interest rate risk (Continued)*

	At December 31, 2015						
	Less than 1 month	More than 1 month but less than 3 months	More than 3 month but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
Financial assets							
Available-for-sale financial assets	831,838	1,367,351	3,747,889	10,321,269	4,411,807	15,062,490	35,742,644
Financial assets at fair value through profit or loss	1,770,813	2,644,473	5,609,826	11,000,811	2,595,390	39,205,180	62,826,493
Derivative financial assets	—	—	—	—	—	1,016,347	1,016,347
Advances to customers	3,293,208	5,040,418	56,055,716	—	—	—	64,389,342
Financial assets held under resale agreements	4,589,014	884,890	5,396,781	3,464,071	—	—	14,334,756
Loan receivables	25,064	244,396	17,600	—	—	—	287,060
Accounts and other receivables	—	—	—	—	—	3,033,050	3,033,050
Deposit with exchanges and non-bank financial institutions	857,442	—	—	—	—	—	857,442
Clearing settlement funds	19,166,188	—	—	—	—	—	19,166,188
Cash and bank balances	81,618,054	—	—	—	—	—	81,618,054
Sub-total	112,151,621	10,181,528	70,827,812	24,786,151	7,007,197	58,317,067	283,271,376
Financial liabilities							
Borrowings	1,854,501	167,556	1,068,170	453,972	—	—	3,544,199
Short-term debt instruments	4,750,040	11,154,570	11,973,710	—	—	—	27,878,320
Placements from other financial institutions	4,000,000	—	—	—	—	—	4,000,000
Bonds payable	—	—	—	41,998,734	10,962,137	—	52,960,871
Financial assets sold under repurchase agreements	14,788,027	—	17,300,000	10,865,000	—	—	42,953,027
Derivative financial liabilities	—	—	—	—	—	1,866,372	1,866,372
Financial liabilities at fair value through profit or loss	818,420	155,086	11,140	18,112	—	1,366,522	2,369,280
Accounts payable to brokerage clients	88,749,044	—	—	—	—	—	88,749,044
Other liabilities	7,813	81,000	374,460	—	—	82,462	545,735
Other payables and accrued charges	374	—	—	—	—	5,519,296	5,519,670
Sub-total	114,968,219	11,558,212	30,727,480	53,335,818	10,962,137	8,834,652	230,386,518
Net position	(2,816,598)	(1,376,684)	40,100,332	(28,549,667)	(3,954,940)	49,482,415	52,884,858

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65 FINANCIAL RISK MANAGEMENT (Continued)**(3) Market risk (Continued)***(c) Interest rate risk (Continued)***Sensitivity analysis**

The Group conduct sensitivity analysis on interest rates to measure the impact of a reasonably possible change in interest rates on the Group's revenue and equity, assuming all other variables were held constant. Assuming a parallel change in market interest rate and without taking into account of any possible risk management activities that may be taken by the management to reduce interest rate risks, the Group's interest rate sensitivity analysis is as follows:

Sensitivity to revenue

	As at December 31,	
	2016	2015
Change in basis points		
Increase by 100bps	(97,865)	(353,762)
Decrease by 100bps	109,593	355,853

Sensitivity to equity

	As at December 31,	
	2016	2015
Change in basis points		
Increase by 100bps	(406,320)	(944,513)
Decrease by 100bps	429,626	948,672

(d) Foreign currency rate risk

Foreign exchange rate risk represents the adverse changes in the financial position and cash flows of the Group due to changes in foreign exchange rates. The Group conducts sensitivity analysis on foreign exchange rates to measure its foreign exchange rate risks. The table below indicates the sensitivity analysis on exchange rate changes in currencies that the Group has significant exposure, which calculates the impacts of a reasonably possible change in the exchange rate of a foreign currency against Renminbi on the revenue and equity, assuming all other variables were held constant. A negative amount reflects a potential decrease in profit before tax or equity, and a positive amount reflects a potential increase in revenue or equity.

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65 FINANCIAL RISK MANAGEMENT (Continued)**(3) Market risk (Continued)**

(d) *Foreign currency rate risk (Continued)*

Sensitivity analysis of exchange rate

	Sensitivity of revenue or equity	
	2016	2015
Change in exchange rate		
Depreciation of USD by 3%	(91,058)	65,207
Depreciation of HKD by 3%	(42,283)	10,215

The table above indicates the impacts on the revenue and equity of a depreciation of 3% in USD and HKD against Renminbi. There will be an opposite impact with the same amount as shown in the above table if the above exchange rates appreciate by the same percentage.

(4) Operational risk

The Company's operational risks arising from imperfect on the internal processes, people and systems or external events, the operational risk factors of the Company summarised into seven categories, including: internal fraud, external fraud, employee policies and workplace safety, clients, products and business activities, physical property damage, business interruption and IT system failures, execution, settlement and process management.

The Company emphasis on balance of the business scale, profitability and risk tolerance level, adhere to carry out various operations in the context of prudent operation, and will not expense the operational risk management and control. During the year 2016, the Company continued to strengthen the operational risk management, and established a sound operational risk management system gradually, which was matched with the business nature, scale and complexity so as to improve the operation management system. Through the implementation on operational risk self-examination process and data collection tools in relation to the operational risk events and losses, the Company gradually began to set up a pilot application with key operational risk indicators in order to achieve the operational risk in the next three endogenous closed-loop management tools.

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65 FINANCIAL RISK MANAGEMENT (Continued)

(5) Liquidity risk

(a) Origin and management of liquidity risk

The Group's exposure to liquidity risk mainly arises from failure to obtain sufficient funds at reasonable costs and in a timely manner to repay due debts, perform other payment obligations and satisfy capital needs for normal business operation. If there is material and adverse changes in the operating condition of the Company in the future and the Company is not able to maintain their gearing ratio at a reasonable level, and the operational management of the Company experiences unusual changes, the Company may not be able to repay the principal or interests of relevant debts in full when due.

In order to prevent liquidity risk, the Group has established high-quality current asset reserves and minimum excess reserve quota system. The Group has formulated liquidity emergency management plans to store minimum excess reserve in the capital plan. The Group has reserved treasury bond, Central Bank bills and other high-liquid assets which can be liquidised at any time under extreme circumstances for unexpected expenses. In addition, the Company has actively developed management for financing gaps. By using management tools of cash flow gap, sensitivity analysis and stress testing, the Group can identify potential risks as early as possible to arrange financing and adjust the pace of fund usage for business purposes in advance to effectively manage the payment risk. The Group has also continuously expanded their financing channels and balanced the distribution of debt maturity, so as to avoid the payment risk caused by single financing channel or servicing debts when due. Besides, the Company has established internal risk reporting system to promptly monitor the liquidity risk in the operation of each business and at each branch. Moreover, the Company takes measures to promote the safe, sound and sustainable operation of each business and each branch.

(b) Undiscounted cash flow by contractual maturities

	As at December 31, 2016							Total
	Carrying amount	On demand	Less than 1 months	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	
Borrowings	3,620,566	1,047,015	1,066,773	13,175	1,544,637	—	—	3,671,600
Short-term debt instruments	21,782,330	—	9,505,928	11,624,098	1,052,996	—	—	22,183,022
Placements from other financial institutions	1,500,000	—	1,501,074	—	—	—	—	1,501,074
Bonds payable (note)	50,465,206	—	—	11,594,750	11,125,400	22,801,600	12,684,100	58,205,850
Financial assets sold under repurchase agreements	19,398,988	—	11,518,085	613,236	7,891,435	—	—	20,022,756
Derivative financial liabilities	1,842,803	1,842,803	—	—	—	—	—	1,842,803
Financial liabilities at fair value through profit or loss	4,439,956	2,816,736	—	—	—	1,624,572	—	4,441,308
Accounts payable to brokerage clients	67,581,720	67,581,720	—	—	—	—	—	67,581,720
Other payables and accrued charges	3,624,750	3,624,750	—	—	—	—	—	3,624,750
Total	174,256,319	76,913,024	23,591,860	23,845,259	21,614,468	24,426,172	12,684,100	183,074,883

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65 FINANCIAL RISK MANAGEMENT (Continued)**(5) Liquidity risk (Continued)**

(b) *Undiscounted cash flow by contractual maturities (Continued)*

	As at December 31, 2016							Total
	Carrying amount	On demand	Less than 1 months	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	
Borrowings	3,544,199	704,898	1,245,096	262,249	965,105	463,501	—	3,640,849
Short-term debt instruments	27,878,320	—	4,938,196	11,621,799	12,816,094	—	—	29,376,089
Placements from other financial institutions	4,000,000	—	4,000,956	—	—	—	—	4,000,956
Bonds payable (note)	52,960,871	—	—	1,594,750	1,125,400	47,858,827	13,246,750	63,825,727
Financial assets sold under repurchase agreements	42,953,027	—	14,792,959	347,695	18,205,047	11,427,631	—	44,773,332
Derivative financial liabilities	1,866,372	1,866,372	—	—	—	—	—	1,866,372
Financial liabilities at fair value through profit or loss	2,369,280	185,656	820,156	155,709	11,223	443,121	755,857	2,371,722
Accounts payable to brokerage clients	88,749,044	88,749,044	—	—	—	—	—	88,749,044
Other payables and accrued charges	5,519,670	5,519,670	—	—	—	—	—	5,519,670
Other liabilities	545,735	82,462	83,670	82,757	397,354	—	—	646,243
Total	230,386,518	97,108,102	25,881,033	14,064,959	33,520,223	60,193,080	14,002,607	244,770,004

Note: For the bonds payable that includes redemption rights held by the Group, for the presentation in the undiscounted cash flow by contractual maturities above, the respective original contractual maturity date of the underlying instruments are over than 1 year.

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65 FINANCIAL RISK MANAGEMENT (Continued)

(6) Capital Management

The Group's objectives of capital management are:

- To ensure the Group maintain sufficient capital level to retain market competitiveness, based on the Group's strategic direction;
- Adequately manage its capital resource allocation to maximise the profit and capital return;
- To actively explore the Group's source of funding, optimise the Group's assets and debt structure to enhance the use of balance sheet financing; and
- To comply with the relevant capital requirements under the PRC, Hong Kong and overseas regulations.

The Company is required to meet the following standards for risk indicators on a continual basis:

1. The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100% ("Ratio 1");
2. The ratio of net capital divided by net assets shall be no less than 40% ("Ratio 2");
3. The ratio of net capital divided by liabilities shall be no less than 8% ("Ratio 3");
4. The ratio of net assets divided by liabilities shall be no less than 20% ("Ratio 4");
5. The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100% ("Ratio 5"); and
6. The ratio of the value of fixed income securities held divided by net capital shall not exceed 500% ("Ratio 6").

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

During the reporting period, the Company's net capital and other risk control indicators, both comply with 《證券公司管理辦法》 and 《證券公司控制指標管理辦法》.

As at December 31, 2016 and 2015, the Company maintained the above ratios as follows:

	As at December 31,	
	2016	2015
		(Restated)
Net capital	45,524,144	48,705,316
Ratio 1	319.28%	301.28%
Ratio 2	80.03%	105.25%
Ratio 3	43.03%	33.53%
Ratio 4	53.77%	31.86%
Ratio 5	37.01%	43.58%
Ratio 6	98.12%	148.24%

Note: In June 2016, China Securities Regulatory Commission issued 《證券公司風險控制指標管理辦法》 revised and 《證券公司風險控制指標計算標準》. The above provisions implemented since October 1, 2016. At the beginning of 2016, the risk control indexes of the Company were simulated according to the relevant regulations.

The above ratio are calculated based on the underlying financial statements prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprise in the PRC.

Certain subsidiaries of the Company are also subject to capital requirements under the PRC, Hong Kong and overseas regulations, imposed by the CSRC, the Hong Kong Securities and Futures Commission and the UK Financial Conduct Authority, respectively.

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66 FAIR VALUE OF FINANCIAL INSTRUMENTS

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1: Inputs are quoted prices (unadjusted) in active market for identical assets or liabilities that the entity can access at the measurement date;

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

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

(1) Fair value of the financial assets and financial liabilities that are not measured on a recurring basis

The fair value of financial assets and financial liabilities not measured at fair value on a recurring basis is estimated using discounted cash flow method.

The directors of the Company consider that the carrying amounts of the financial assets and financial liabilities not measured at fair value on a recurring basis (including available-for-sale financial assets and financial liabilities included in the statement of financial position of the Group at amortised cost or at cost less impairment) approximate their fair values as at December 31, 2016 and 2015.

(2) Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

Since the level 2 and level 3 of financial assets and liabilities are not quoted in an active market, valuation technique is used to estimate the fair value. When estimating fair value using valuation technique, observable inputs and data from the practical market (e.g. yield curve of interest rate products, foreign currency exchange rate, implied volatility, etc) are adopted. If the observable inputs in the market cannot be obtained, the observable input data that are calibrated as closely as possible to the market observable data are used for estimating the fair value. Meanwhile, the credit risk, volatility, correlation, etc of the Group and the counterparty are estimated by the management. The changing of these factors will affect the estimated fair value of the financial instruments, therefore there were uncertainty of accounting estimation on the level 2 and level 3 of financial assets and liabilities.

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66 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

The valuation techniques and input used in the fair value measurements of financial instruments as set out below:

Financial assets/ financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2016	2015				
1) Financial assets at fair value through profit or loss						
<i>Debt securities</i>						
— Traded on stock exchanges	4,008,889	3,473,039	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded on inter- bank market	13,504,084	20,294,181	Level 2	Discounted cash flows with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	N/A	N/A
<i>Equity securities</i>						
— Traded on stock exchanges	7,631,195	8,629,684	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded National Securities Exchange and Quotation System	854,479	606,817	Level 1	Based on recent trading prices in an active market.	N/A	N/A
— Traded on stock exchange (Restricted share)	1,388,983	1,883,074	Level 2	Based on the quoted market prices with an adjustment of discount for lack of marketability.	N/A	N/A

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66 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Financial assets/ financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2016	2015				
— Unlisted	—	195,279	Level 3	Discounted cash flow with future cash flow that are estimated based on returns using the general discount rate.	Based on Management's judgment, consider the industry specific growth rate and using the discount rate indicators.	The higher the growth rate, the higher the fair value. The higher the discount, the lower the fair value.
	78,270	66,615	Level 3	Recent transaction prices.	Recent transaction prices	The higher the recent transaction price, the higher the fair value.
	276,528	326,318	Level 3	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	Third party valuation of underlying investment portfolio.	The higher the third party valuation, the higher the fair value.
<i>Funds</i>						
— Listed	2,547,904	4,527,731	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Unlisted	15,238,267	20,533,392	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
<i>Others</i>						
— Wealth management and trust products and others	253,743	84,757	Level 1	Quoted closing prices in an active market.	N/A	N/A
	1,543,113	1,144,300	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
	919,000	1,061,306	Level 3	Based on the net asset values of the investment, determined with reference to third party valuation of underlying investment portfolio and adjustments of related expenses.	Third party valuation of underlying investment portfolio.	The higher the third party valuation,

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66 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Financial assets/ financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2016	2015				
2) Available-for-sale financial assets						
<i>Debt securities</i>						
— Traded on stock exchanges	10,029,318	11,965,175	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded on inter- bank market	3,432,967	8,714,980	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
<i>Equity securities</i>						
— Traded on stock exchanges	1,164,766	4,404,218	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded National Securities Exchange and Quotation System	100,000	—	Level 1	Based on recent trading prices in an active market.	N/A	N/A
— Restricted share	190,177	558,518	Level 2	Discounted cash flows. The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.	N/A	N/A
— Traded on National Securities Exchange and Quotation System (Restricted share)	202,542	—	Level 2	Discounted cash flows. The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.	N/A	N/A
<i>Funds</i>						
— Listed	3,088	2,745	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Unlisted	10,065	11,860	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
Others	9,589,263	10,071,173	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A

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66 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Financial assets/ financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2016	2015				
3) Derivative financial instruments						
— Interest rate swap — assets	162,268	154,168	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
— Interest rate swap — liabilities	211,660	165,456	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the Reporting Period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
— Equity return swap — asset	9,393	218,871	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
— Equity return swap — liabilities	98,414	994,495	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
— Stock index future — assets (note)	467	—	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Stock index future — liabilities (note)	173	—	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Treasury bond futures — assets (note)	210	383	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Treasury bond futures — liabilities (note)	1,347	—	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Commodity swap — assets	105,608	—	Level 2	Quoted closing prices in an active market.	N/A	N/A

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66 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Financial assets/ financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2016	2015				
— Commodity swap — liabilities	—	332,836	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty.	N/A	N/A
— Commodity futures — assets (note)	813,111	635,890	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Commodity futures — liabilities (note)	1,475,232	305,418	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Options — assets	9,400	7,035	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Options — liabilities	43,823	23,074	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Over-the-counter options — assets	3,056	—	Level 2	Option pricing model	N/A	N/A
— Over-the-counter options — liabilities	12,008	42,253	Level 2	Option pricing model	N/A	N/A
— Forward contracts — assets	132	—	Level 2	Discounted cash flows with future cash flows that are estimated based on future rates and contractual rates, discounted at a rate that reflects the credit risk of counterparty	N/A	N/A
	5,564	—	Level 2	Measured at fair value based on brokers quoted price — Market brokers' quoted price	N/A	N/A
— Forward — liabilities	—	2,840	Level 2	Discounted cash flows with future cash flows that are estimated based on future rates and contractual rates, discounted at a rate that reflects the credit risk of counterparty	N/A	N/A
— Credit default swap-asset	404	—	Level 2	Measured at fair value based on brokers quoted price — Market brokers' quoted price	N/A	N/A
— Credit default swap-liabilities	146	—	Level 2	Measured at fair value based on brokers quoted price — Market brokers' quoted price	N/A	N/A

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66 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Financial assets/ financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2016	2015				
4) Financial liabilities at fair value through profit or loss						
— Designated at fair value through profit or loss	1,643,371	1,218,780	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
— Financial liabilities held for trading	231,050	126,300	Level 1	Quoted closing prices in an active market.	N/A	N/A
	2,565,535	857,974	Level 2	Discounted cash flows with future cash flows, that are estimated based on yield curves.	N/A	N/A
	—	166,226	Level 2	Underlying commodity price	N/A	N/A

Note: Under the daily mark-to-market and settlement arrangement, any gains or losses of the stock index futures, treasury bond futures, commodity futures and options were settled daily and the corresponding receipts and payments were included in "clearing settlement funds" as at December 31, 2016 and 2015. Accordingly, the net position of the stock index futures contracts was nil at the end of each reporting period.

Analysis of financial instruments, measured at fair value at the end of the year, by level in the fair value hierarchy into which the fair value measurement is categorised as follows:

	At December 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
— Debt securities	4,008,889	13,504,084	—	17,512,973
— Equity investments	8,485,674	1,388,983	354,798	10,229,455
— Funds	2,547,904	15,238,267	—	17,786,171
— Others	253,743	1,543,113	919,000	2,715,856
Derivative financial assets	823,188	286,425	—	1,109,613
Available-for-sale financial assets				
— Debt securities	10,029,318	3,432,967	—	13,462,285
— Equity investments	1,264,766	392,719	—	1,657,485
— Funds	3,088	10,065	—	13,153
— Others	—	9,589,263	—	9,589,263
	27,416,570	45,385,886	1,273,798	74,076,254
Financial liabilities				
Financial liabilities at fair value through profit or loss	231,050	4,208,906	—	4,439,956
Derivative financial liabilities	1,520,575	322,228	—	1,842,803
	1,751,625	4,531,134	—	6,282,759

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(Expressed in thousands of Renminbi, unless otherwise stated)**66 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

	At December 31, 2015			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
— Debt securities	3,473,039	20,294,181	—	23,767,220
— Equity investments	9,236,501	1,883,074	588,212	11,707,787
— Funds	4,527,731	20,533,392	—	25,061,123
— Others	84,757	1,144,300	1,061,306	2,290,363
Derivative financial assets	643,308	373,039	—	1,016,347
Available-for-sale financial assets				
— Debt securities	11,965,175	8,714,980	—	20,680,155
— Equity investments	4,404,218	558,518	—	4,962,736
— Funds	2,745	11,860	—	14,605
— Others	—	10,071,173	—	10,071,173
	34,337,474	63,584,517	1,649,518	99,571,509
Financial liabilities				
Financial liabilities at fair value through profit or loss	126,300	2,242,980	—	2,369,280
Derivative financial liabilities	328,492	1,537,880	—	1,866,372
	454,792	3,780,860	—	4,235,652

As at December 31, 2016 and 2015, there were no significant transfers between Level 1, 2 and 3.

Reconciliation of Level 3 fair value measurements

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
As at January 1, 2016	1,649,518	—	1,649,518
Gain or losses for the year	26,846	—	26,846
Changes in fair value recognized in other comprehensive income	—	—	—
Purchases	461,005	—	461,005
Sales and settlements	(863,571)	—	(863,571)
As at December 31, 2016	1,273,798	—	1,273,798
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	26,846	—	26,846

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66 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**Reconciliation of Level 3 fair value measurements (Continued)**

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
As at January 1, 2015	1,299,183	70,520	1,369,703
Gain or losses for the year	90,355	20,484	110,839
Changes in fair value recognised in other comprehensive income	—	(20,521)	(20,521)
Purchases	437,791	—	437,791
Sales and settlements	(177,811)	(70,483)	(248,294)
As at December 31, 2015	1,649,518	—	1,649,518
Total gains or losses for the year included in profit or loss for assets held at the end of the reporting period	90,355	20,484	110,839

67 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group offsets the following financial assets and financial liabilities since the Group currently has a legally enforceable right to set off the balances, and intends either to settle on a net basis, or to realise the balances simultaneously.

The Group maintains accounts with the Hong Kong Securities Clearing Company Limited through which they conduct securities trading transactions and settlement on a net basis.

Type of financial assets	December 31, 2016					
	Gross amounts of recognise financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
Advances to customers	53,351,538	—	53,351,538	(46,810,545)	(6,540,993)	—
Accounts receivable from clearing houses, brokers and dealers	297,691	(284,764)	12,927	—	—	12,927
Derivatives instruments	1,140,969	(31,356)	1,109,613	—	—	1,109,613
	54,790,198	(316,120)	54,474,078	(46,810,545)	(6,540,993)	1,122,540

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67 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Type of financial liabilities	December 31, 2016					
	Gross amounts of recognise financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
Settlement payables to clearing house	414,376	(284,764)	129,612	—	—	129,612
Derivatives instruments	1,842,803	—	1,842,803	—	—	1,842,803
	2,257,179	(284,764)	1,972,415	—	—	1,972,415

Type of financial assets	December 31, 2015					
	Gross amounts of recognise financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
Advances to customers	64,389,342	—	64,389,342	(52,412,988)	(11,976,354)	—
Account receivable from clearing houses, brokers and dealers	305,164	(293,918)	11,246	—	—	11,246
Derivatives instruments	1,020,822	(4,475)	1,016,347	—	—	1,016,347
	65,715,328	(298,393)	65,416,935	(52,412,988)	(11,976,354)	1,027,593

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67 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Type of financial liabilities	December 31, 2015					Net amount
	Gross amounts of recognise financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		
				Financial instruments	Cash collateral	
Settlement payables to clearing house	946,248	(293,918)	652,330	—	—	652,330
Derivatives instruments	1,911,949	(45,577)	1,866,372	—	—	1,866,372
	2,858,197	(339,495)	2,518,702	—	—	2,518,702

The Group has entered into master netting arrangements with counterparties for the derivative instruments and also with clearing house for un-settled trades.

Except for the enforceable master netting arrangements and the offset-right of the financial assets under the similar agreements disclosed above, the collateral of which, such as financial assets held under resale agreement, financial assets sold under repurchase agreement, secured loan receivables and margin accounts receivable, are disclosed in the corresponding notes, which are generally not on the net basis in financial position.

However, assuming the fair value of the collateral is presented on net basis, the risk exposure of the corresponding accounts will be lowered accordingly. As at December 31, 2016 and 2015, due to the fair value of the collateral is higher than the book value of the financial instruments, collateral net exposure after offset and net amount is considered non-significant.

68 CONTINGENCIES

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

69 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

	As at December 31	
	2016	2015
Unlisted shares, at cost	6,108,019	4,508,019

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69 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares hold is ordinary unless otherwise stated.

Name of subsidiary	Place of incorporation/ establishment/ date of establishment	Proportion ownership interest held by the Company		Issued and fully paid share capital	Principal Activities
		December 31,			
		2016	2015		
China Merchants Securities International Company Limited ⁽¹⁾	HK July 14, 1999	100%	100%	HK\$1,803,627,390	Investment holding
China Merchants Securities (HK) Co., Limited	HK October 4, 1986	100%	100%	HK\$3,500,000,000	Securities brokerage
China Merchants Futures (HK) Co., Limited	HK January 19, 2001	100%	100%	HK\$200,000,000	Futures brokerage
China Merchants Securities Investment Management (HK) Co., Limited	HK September 18, 2006	100%	100%	HK\$400,000,000	Investment holding
CMS Capital (HK) Co., Limited	HK August 1, 2003	100%	100%	HK\$5,000,000	Assets management
CMS Asset Management (HK) Co., Limited	HK August 13, 2008	100%	100%	HK\$10,000,000	Assets management
China Merchants Futures Co., Ltd. ⁽¹⁾	PRC April 4, 1993	100%	100%	RMB630,000,000	Futures brokerage
China Merchants Zhiyuan Capital Investment Co., Ltd. ⁽¹⁾	PRC August 28, 2009	100%	100%	RMB1,700,000,000	Investment advisory
Shenzhen China Merchants Zhiyuan Consultancy Services Co., Ltd.	PRC July 25, 2011	100%	100%	RMB3,000,000	Consulting services
Shenzhen Yuansheng Investment Management Co., Ltd.	PRC December 20, 2012	60%	60%	RMB5,000,000	Investment management
Beijing Zhiyuan Lixin Investment Management Co., Ltd.	PRC April 23, 2013	100%	100%	RMB10,000,000	Investment management
Shenzhen China Merchants Zhiyuan Equity Investment and Funds Management Co., Ltd.	PRC May 29, 2013	70%	70%	RMB15,000,000	Investment management
Ganzhou China Merchants Zhiyuan No. 1 Fund Management Co., Ltd.	PRC June 7, 2013	100%	100%	RMB10,000,000	Investment management
Jiangxi Zhiyuan Development Investment Management Co., Ltd.	PRC July 2, 2013	51%	51%	RMB10,000,000	Investment management
Ganzhou Zhaoyuan Investment Management Co., Ltd.	PRC October 14, 2013	100%	100%	RMB10,000,000	Investment management
Anhui China Merchants Innovative Investment Management Co., Ltd.	PRC March 4, 2015	100%	100%	RMB25,000,000	Investment management
Shenzhen Zhiyuan Business Development and Funds Investment Management Co., Ltd.	PRC January 23, 2015	53.85%	53.85%	RMB10,000,000	Investment management

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69 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation/ establishment/ date of establishment	Proportion ownership interest held by the Company		Issued and fully paid share capital	Principal Activities
		December 31,			
		2016	2015		
Qingdao Guoxin China Merchants and Business Development Investment Management Co., Ltd.	PRC February 6, 2015	65%	65%	RMB10,000,000	Investment management
Shenzhen China Merchants Business Development Investment Co., Ltd.	PRC June 24, 2015	100%	100%	RMB5,000,000	Investment management
Shenyang China Merchants Business and Development Investment Management Co., Ltd.	PRC July 10, 2015	70%	70%	RMB4,000,000	Investment management
China Merchants Securities Investment Co., Ltd. ⁽¹⁾	PRC December 2, 2013	100%	100%	RMB300,000,000	Investment holding
China Merchants Securities Asset Management Co., Ltd. ⁽¹⁾	PRC April 3, 2015	100%	100%	RMB1,000,000,000	Assets management
China Merchants Securities (UK) Limited	UK October 25, 2013	100%	100%	US\$22,000,000	Futures brokerage
Qingdao China Merchants Zhiyuan Investment Management Co., Ltd.	PRC January 12, 2016	100%	—	RMB10,000,000	Venture capital, investment in fund and financial assets
Anhui Zhiyuan Smart City Fund Management Co., Ltd.	PRC March 15, 2016	100%	—	RMB4,500,000	Equity fund management, investment advisory service, investment management, financial consultancy service
China Merchants Securities (HK) Finance Co., Limited	HK May 14, 2016	100%	—	HK\$500,000	Investment and financing Management
China Merchants Securities Capital Investment Co., Ltd.*	PRC August 8, 2016	100%	—	—	Financial services
Shenzhen China Merchants Zhiyuan Culture Investment Management Co., Ltd.*	PRC November 16, 2016	72%	—	RMB10,000,000	Investment management and financial consultancy

* These subsidiaries do not have official English names. English translated names are for identification only.

- (1) These subsidiaries are directly held by the Company. In June 2016, the Company increased the capital of RMB700,000 thousand to the wholly-owned subsidiary of China Merchants Securities Assets Management Co., Ltd., and the registered capital of China Merchants Securities Assets Management Co., Ltd. was RMB1,000,000 thousand. In December 2016, Subsidiary China Merchants Securities Investment Co., Ltd. increased its capital by RMB900,000 thousand. After the capital increase, the registered capital of China Merchants Securities Investment Co., Ltd. was RMB1.2 billion.
- (2) The directors of the Company considered that none of the non-wholly owned subsidiaries is having material non-controlling interests at the end of the year, therefore there are no further information presented.
- (3) None of the subsidiaries had issued any debt securities during the current and prior year.

Notes to the Consolidated Financial StatementsFor the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)**70 STATEMENTS OF FINANCIAL POSITION AND RESERVES OF THE COMPANY**

	Notes	As at December 31	
		2016	2015
Non-current assets			
Property and equipment		1,720,961	1,469,937
Investment properties		—	4,970
Other intangible assets		3,645	5,633
Investments in subsidiaries, at cost	69	6,108,019	4,508,019
Interests in associates		5,251,349	4,861,256
Available-for-sale financial assets		8,718,046	9,750,692
Financial assets held under resale agreements		6,462,211	3,464,071
Deferred tax assets		1,038,103	700,805
Other non-current assets		185,027	172,061
Total non-current assets		29,487,361	24,937,444
Current assets			
Advances to customers		50,744,636	62,619,481
Accounts and other receivables		1,981,422	1,512,207
Current tax assets		409,151	—
Amount due from a subsidiary		1,502,860	1,500,000
Available-for-sale financial assets		15,090,640	25,257,561
Financial assets held under resale agreements		12,351,029	10,323,700
Financial assets at fair value through profit or loss		38,512,887	54,030,551
Derivative financial assets		184,151	374,784
Deposits with exchanges and non-bank financial institutions		604,736	954,435
Clearing settlement funds		15,212,214	16,552,024
Cash and bank balances		51,334,290	71,602,634
Total current assets		187,928,016	244,727,377
Total assets		217,415,377	269,664,821

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

70 STATEMENTS OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

	Notes	As at December 31	
		2016	2015
Current liabilities			
Short-term debt instruments		21,782,330	27,878,320
Placements from other financial institutions		1,500,000	4,000,000
Accounts payable to brokerage clients		54,745,985	78,135,079
Accrued staff costs		4,315,034	6,727,898
Other payables and accrued charges		4,228,039	6,545,078
Provision		—	96
Current tax liabilities		—	433,346
Financial liabilities at fair value through profit or loss		2,447,097	984,646
Derivative financial liabilities		365,905	1,225,418
Financial assets sold under repurchase agreements		19,398,988	32,088,027
Long-term borrowings due within one year		368,596	—
Bonds payable due within one year		5,000,000	—
Total current liabilities		114,151,974	158,017,908
Net current assets		73,776,042	86,709,469
Total assets less current liabilities		103,263,403	111,646,913
Equity			
Share capital	48	6,699,409	5,808,136
Capital reserve		27,460,042	19,403,876
Investment revaluation reserve		(517,487)	93,907
General reserves		11,498,783	10,117,807
Retained profits		11,743,572	10,850,355
Total equity		56,884,319	46,274,081
Non-current liabilities			
Financial assets sold under repurchase agreements		—	10,865,000
Accrued staff costs		787,540	787,540
Deferred tax liabilities		338	263,227
Deferred income		126,000	126,000
Bonds payable		45,465,206	52,960,871
Borrowings		—	370,194
Total non-current liabilities		46,379,084	65,372,832
Total equity and non-current liabilities		103,263,403	111,646,913

Notes to the Consolidated Financial StatementsFor the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)**70 STATEMENTS OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)**

The movements in the Company's reserves are set out as below:

*Capital reserve***For the year ended December 31, 2016**

	Opening	Addition	Closing
Capital reserve	19,403,877	8,056,165	27,460,042

For the year ended December 31, 2015

	Opening	Addition	Closing
Capital reserve	19,403,877	—	19,403,877

Investment revaluation reserve

	As at December 31,	
	2016	2015
At beginning of the year	93,907	64,978
Available-for-sale financial assets		
Net fair value changes during the year	(515,122)	55,718
Reclassification adjustment to profit or loss	(306,691)	(25,615)
Income tax impact	205,453	(7,526)
Share of fair value gain on available-for-sale financial assets hold by associates	4,966	6,352
At end of the year	(517,487)	93,907

*General reserves***For the year ended December 31, 2016**

	Opening	Addition	Closing
Statutory reserve	3,415,540	460,325	3,875,865
Reserve for general risk	3,415,540	460,325	3,875,865
Transaction risk reserve	3,286,727	460,326	3,747,053
	10,117,807	1,380,976	11,498,783

For the year ended December 31, 2015

	Opening	Addition	Closing
Statutory reserve	2,400,212	1,015,328	3,415,540
Reserve for general risk	2,400,212	1,015,328	3,415,540
Transaction risk reserve	2,271,395	1,015,332	3,286,727
	7,071,819	3,045,988	10,117,807

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

70 STATEMENTS OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

The movements in the Company's reserves are set out as below: (Continued)

Retained profits

The movements of retained profits of the Company are set out below:

	As at December 31,	
	2016	2015
At the beginning of the year	10,850,355	8,209,506
Profit for the year	4,603,255	10,153,293
Appropriation to general reserves	(1,380,976)	(3,045,988)
Dividends recognised as distribution	(2,329,062)	(4,466,456)
At the end of the year	11,743,572	10,850,355

The Company's distributable profits are based on the retained profits of the Company as determined under Accounting Standards of Business Enterprises and IFRSs, whichever is lower.

71 EVENTS AFTER THE REPORTING DATE**i. Issuance of perpetual subordinated bonds**

From January 1, 2017 to the date of approval of this report, the Group issued the first and second tranche of the 2017 perpetual subordinated bonds, with the face value of RMB4,000,000 thousand and RMB5,000,000 thousand respectively. The coupon rate is 5.18% per annum and 5.15% per annum respectively, with the option for issuer to renew at end of the fifth year.

ii. Issuance of short-term corporate bonds

From January 1, 2017 to the date of approval of this report, the Group issued the first, second and third tranche of the 2017 short-term corporate bonds, with the face value of RMB3,800,000 thousand, RMB3,000,000 thousand and RMB2,000,000 thousand respectively. The short-term corporate bonds are repayable upon maturity of four months, one hundred days and five months respectively with coupon rates 3.98% per annum, 4.48% per annum and 4.60% per annum respectively.

iii. Redemption of subordinated bonds

The Group exercised the right to redeem "15CM01" on March 20, 2017. After the redemption was completed, the subordinated bonds were delisted on the Shanghai Stock Exchange's integrated electronic platform of fixed income securities; the Group published 《關於行使“15招商03”次級債券發行人贖回選擇權的提示性公告》 at Shanghai Stock Exchange on 1 March 2017, noticed related subordinated bond holders about the redemption of "15CM03". The Company would exercise the right of redemption on April 13, 2017.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2016
(Expressed in thousands of Renminbi, unless otherwise stated)

71 EVENTS AFTER THE REPORTING DATE (Continued)**iv. Profit distribution**

Pursuant to the resolution on the 47th meeting of the 5th board of directors of the Company held on March 28, 2017, it was resolved that the interim profit distribution scheme in 2016 was: cash dividends of RMB1.89 for every 10 shares (inclusive of tax) in 2016. The proposed distribution will be brought in the annual general meeting of the Company for approval.

v. Capital increase for subsidiaries

On February 10, 2017, the 46th meeting of the 5th board of directors of the Company examined and approved the proposal 《關於公司向全資子公司招證國際增資26億港元(或等值人民幣)並由招證國際向其全資子公司招證香港增資20億港元的議案》 for the Company to inject HK\$2,600,000 thousand (or in equivalent renminbi) to China Merchants Securities International Company Ltd; and for China Merchants Securities International Company Ltd to inject HK\$2,000,000 thousand to China Merchants Securities (HK) Co., Limited; and authorized the management of China Merchants Securities International Company Limited to process in accordance with the relevant provisions in relation to the capital increase.



Chapter 11: Documents Available for inspection

Documents available for inspection	(I) Financial statements with signatures and seals of the authorized representative of the Company, person-in-charge of accounting and the head of accounting department.
Documents available for inspection	(II) Original copy of the auditor's report stamped with the seals of the accounting firm and signatures and seals of the registered accountants.
Documents available for inspection	(III) Original copies of all documents and announcements published by the Company during the Reporting Period on the designated websites of the place where the Company's securities are listed.
Documents available for inspection	(IV) Other relevant information.

Chairman of the Board: GONG Shaolin

Submission date approved by the Board: March 28, 2017

Chapter 12: Information Disclosure of a Securities Company

I. Relevant information on the major administrative approvals of the Company

No.	Issuing authority	Title	Document No.	Date of announcement
1	CSRC Shenzhen Office	Approval of CSRC Shenzhen Office on the Amendment to Major Provisions of the Articles of Association of China Merchants Securities Co., Ltd.	Shen Zheng Ju Xu Ke Zi [2016] No.30	March 16, 2016
2	CSRC Guangxi Office	Decision of CSRC Guangxi Office regarding the Order of Rectification against the Minzu Boulevard Branch in Nanning of China Merchants Securities Co., Ltd.	[2016] No.7	April 8, 2016
3	CSRC Shenzhen Office	Approval of CSRC Shenzhen Office on the Qualification of SU Min as a Director of a Securities Company	Shen Zheng Ju Xu Ke Zi [2016] No. 46	June 14, 2016
4	CSRC Shenzhen Office	Approval of CSRC Shenzhen Office on the Opening of 26 Branches by China Merchants Securities Co., Ltd.	Shen Zheng Ju Xu Ke Zi [2016] No. 70	July 22, 2016
5	CSRC Shenzhen Office	Approval of CSRC Shenzhen Office on the Qualification of ZHU Haiwu as an Independent Director of a Securities Company	Shen Zheng Ju Xu Ke Zi [2016] No. 64	July 22, 2016
6	CSRC Shenzhen Office	Notice of CSRC Shenzhen Office on the Classification Results of Securities Firms for 2016	Shen Zheng Ju Ji Gou Zi [2016] No.56	August 1, 2016
7	NSSF	Circular of NSSF on the Reduction and Conversion of Shares of China Merchants Securities Co., Ltd. for its Listing in Hong Kong	She Bao Ji Jin Fa [2016] No.102	August 3, 2016
8	CSRC	Approval for the Issuance of Overseas Listed Foreign Shares by China Merchants Securities Co., Ltd.	Zheng Jian Xu Ke [2016] No.1735	August 3, 2016
9	The Hebei Office of the CSRC	Regulatory Concern Letter regarding China Merchants Securities Co., Ltd.	Ji Zheng Jian Han [2016] No.426	September 20, 2016
10	CSRC Shenzhen Office	Approval of CSRC Shenzhen Office on the Qualification of WANG Daxiong as a Director of a Securities Company	Shen Zheng Ju Xu Ke Zi [2016] No.99	September 22, 2016
11	SSE	Notice regarding the Expansion of Collateralized Stock Repurchase Business of China Merchants Securities Co., Ltd.	Shang Zheng Han [2016] No.1860	September 27, 2016
12	The People's Bank of China	Notice on Preparation for Connection with Notes Transaction Platform	Yin Ban Fa [2016] No.224	November 2, 2016
13	SZSE	Notice on the Grant of Trading Authority for Access to Southbound Trading Business under Shenzhen-Hong Kong Stock Connect to Guosen Securities and Other Members	Shen Zheng Hui [2016] No. 326	November 3, 2016
14	CSRC Shenzhen Office	Approval of CSRC Shenzhen Office on the Establishment of a Branch by China Merchants Securities Co., Ltd.	Shen Zheng Ju Xu Ke Zi [2016] No.105	November 4, 2016

**Chapter 12: Information Disclosure of a Securities Company****II. Classification of the Company by the regulatory department**

Year	Results
2016	AA (Class A)
2015	AA (Class A)
2014	AA (Class A)



招商证券股份有限公司
China Merchants Securities Co., Ltd.

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