中信建投証券股份有限公司

CSC Financial Co., Ltd.

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

Stock Code: **6066**

2017 Annual Report

CONTENTS

DEFINITIONS

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

"A Share(s)"	the ordinary shares with a nominal value of RMB1.00 each proposed to be issued by the Company under the A Share Offering, to be listed on the Shanghai Stock Exchange and traded in RMB
"A Share Offering"	the proposed initial public offering of not more than 400,000,000 A Shares in the PRC by the Company
"Articles of Association" or "Articles"	the articles of association of CSC Financial Co., Ltd.
"AUM"	assets under management
"Board" or "Board of Directors"	the Board of Directors of our Company
"BSCOMC"	Beijing State-owned Capital Operation and Management Center (北京國有資本經營管理中心)
"Company Law"	Company Law of the People's Republic of China
"Central Huijin"	Central Huijin Investment Limited (中央匯金投資有限責任公司)
"Century Jinyuan"	Century Jinyuan Investment Group Limited (世紀金源投資集團有限公司)
"China Jianyin"	China Jianyin Investment Limited (中國建銀投資有限責任公司)
"China Securities Capital"	China Capital Management Limited (中信建投資本管理有限公司)
"China Securities Funds"	China Securities Funds Management Limited (中信建投基金管理有限公司)
"China Securities Futures"	China Futures Co., Ltd. (中信建投期貨有限公司)
"China Securities International"	China Securities (International) Finance Holding Company Limited (中信建投(國際)金融控股有限公司)
"China Securities Investment"	China Securities Investment Limited (中信建投投資有限公司)

"CITIC Group"	CITIC Group Corporation Ltd. (中國中信集團有限公司)
"CITIC Limited"	CITIC Limited (中國中信股份有限公司)
"CITIC Securities"	CITIC Securities Co., Ltd. (中信證券股份有限公司)
"connected transaction(s)"	has the meaning ascribed thereto under the Listing Rules of the HKEX
"CSC", "Company" or "our Company"	CSC Financial Co., Ltd. (中信建投証券股份有限公司)
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)
"CSRF"	China Structural Reform Fund Co., Ltd. (中國國有企業結構調整基金有限公司)
"Director(s)"	director(s) of our Company
"Domestic Shareholders"	holders of Domestic Shares
"Domestic Shares"	ordinary Shares issued by our Company in the Share capital of our Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in Renminbi
"FICC"	Fixed income securities, currencies and commodities
"Glasslake Holdings"	Glasslake Holdings Limited (鏡湖控股有限公司)
"Group"	CSC Financial Co., Ltd. and its subsidiaries
"H Share(s)"	overseas listed foreign Shares in the Share capital of our Company with a nominal value of RMB1.00 each, listed on the HKEX and traded in HK dollars
"H Shareholders"	holders of H Shares
"HKEX"	The Stock Exchange of Hong Kong Limited

"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules" or "Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"IPO"	initial public offering
"Latest Practicable Date"	16 April 2018, being the latest practicable date prior to the printing of this annual report for the purposes of ascertaining the information contained herein
"Listing Date"	9 December 2016, being the date on which the H Shares of the Company are listed and from which dealings therein are permitted to take place on the HKEX
"NEEQ Company"	National Equities Exchange and Quotations Co., Ltd.
"PRC"	the People's Republic of China
"PwC"	PricewaterhouseCoopers
"PwC Zhong Tian"	PricewaterhouseCoopers Zhong Tian LLP
"QDII"	Qualified Domestic Institutional Investor (合格境內機構投資者)
"QFII"	Qualified Foreign Institutional Investor (合格境外機構投資者)
"Reporting Period"	from 1 January 2017 to 31 December 2017
"RMB" or "Renminbi"	the lawful currency of the PRC
"RQFII"	Renminbi Qualified Foreign Institutional Investor (人民幣合格境外機構投資者), a pilot program launched in the PRC which allows Hong Kong subsidiaries of PRC securities and funds companies to facilitate investments of offshore Renminbi into PRC capital markets
"SFO"	Securities and Futures Ordinance (with subsidiary legislation) (as amended from time to time)

"Shanghai and Shenzhen Stock Exchanges"	Shanghai Stock Exchange and Shenzhen Stock Exchange
"Shanghai Shangyan"	Shanghai Shangyan Investment Center (Limited Partnership) (上海商言投資中心(有限合夥))
"Shannan Jinyuan"	Xizang Shannan Century Jinyuan Investment Management Limited (西藏山南世紀金源投資管理有限公司)
"Share(s)"	ordinary Shares in the share capital of our Company with a nominal value of RMB1.00 each, comprising Domestic Shares and H Shares
"Shareholder(s)"	holder(s) of the Share(s)
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"the end of the Reporting Period"	31 December 2017
"US$"	United States dollar, the lawful currency of the United States
"Wind Info" or "Wind"	Wind Information Co., Ltd. (上海萬得信息技術股份有限公司), a joint-stock company with limited liability incorporated in the PRC and a service provider of financial data, information and software

CHAIRMAN'S STATEMENT

Dear Shareholders:

In 2017, global economic growth had seen noticeable acceleration, and domestic economy had been steadily improving in the process of structural adjustment. Although domestic capital market presented fluctuations, the secondary stock market showed steady growth, and IPO issuances were at an accelerated pace, while there was a substantial decline in the scale of equity and debt financings. During the past year, the successive introduction and implementation of various rules and regulations had imposed more stringent supervision and punishment to the securities industry. The stringent review of IPO transactions has become normal. The National Financial Work Conference proposed to strive to achieve the stable operation of the capital market, and stick to the bottom line of preventing systemic financial risks with the core task of "serving the real economy, preventing and controlling financial risks and further implementing financial reform". This indicates that stringent and comprehensive supervision in accordance with the laws will become the main theme of the capital market for a long time to come.

Faced with the complex and ever-changing external environment, CSC strengthened its foundation to improve quality and efficiency. On the basis of strictly guarding the bottom line for compliance, the Company adhered to the strategy of developing of major customers and vigorously explored with intensive efforts, hence achieving satisfactory operating results for all businesses. In 2017, the Group recorded total revenue and other income of RMB16,421 million in aggregate, net profit attributable to equity holders of the Company of RMB4,015 million, and the return on weighted average net assets of 9.92%, maintaining its leading position in the industry. In 2017, the Company was rated "Class A Grade AA" for eight consecutive years, and has newly established China Securities Investment Limited, 77 securities business branches and two futures business branches.

In 2017, the investment banking business of the Company continued to maintain the leading position in the industry. According to Wind Info, the Company ranked third and second in the industry in terms of the number of equity financing offerings and bond offerings underwritten by us as lead underwriter respectively, and remained the top three in the industry for five consecutive years. The number of projects in the refinancing business, M&A business and corporate bond underwriting business ranked first in the industry. The Group summarized and formulated the "316 Common Guidelines" for the investment banking business to continuously enhance and deepen the business development and service concepts of employees, and made new progress in the development of major customers with an increase in the income from the investment banking business much higher than that of the industry level.

The Group attaches great importance to and has been proactively developing the brokerage and wealth management business. In 2017, the Company ranked ninth in the industry in terms of the trading volume of stocks and funds, ranked tenth in terms of net income from the securities brokerage business, and ranked fifth in terms of net income from third-party financial products and market value of entrusted securities, respectively. The Group promoted the transformation of the wealth management business, and achieved remarkable results in the construction of its online platform by continuous introduction of new versions of the Uwen platform (優問平台), striving to build an online brand that people would think of when looking for an investment advisor. The Qingting Dianjin App (蜻蜓點金) of CSC won the "2017 Best Intelligent Securities Company" award issued by Securities Daily.

As an important point of income growth, the investment management business has also achieved delightful results in 2017. The headquarters of the Company ranked seventh in the industry in terms of the entrusted AUM with significant increase in the proportion of active management scale and continuous enhancement of active management capability. Net income from the asset management business of the Company hit an all-time high. China Securities Funds vigorously advanced the development of industrial fund and other projects, achieving favorable absolute returns from stocks.

The capability of trading and institutional customer services was strengthened, along with business innovation. The Company expedited the improvement and upgrading of its trading system. Diversified investment and innovative products had better satisfied customer demands to a larger extent. The research business of the Company also took the initiative in conducting industry research by utilizing big data, and has achieved good results in the assessment by New Fortune, in which the Company won the ninth prize of the best local research teams, the eighth prize of the most influential research institutions and the first prize in terms of research in the communication and military field.

Following the successful listing of the Company on the HKEX on 9 December 2016, the Company proactively facilitated the A Share IPO in 2017, which will contribute to the Company in further opening up direct financing channels and expanding the capital scale according to the demands for business development so as to rapidly promote the comprehensive service capability of the Company.

At present, domestic economy has shifted from the stage of speedy growth to that of high quality development. Looking ahead in 2018, with finance returning to its origin, the capital market will further strengthen its function of serving the real economy, and the securities industry in the PRC is also transitioning from the stage of speedy growth to that of high quality development. The stable economic growth, the continuous accumulation of the wealth of Chinese citizens and the deepening of the reform of the capital market are the strong guarantee for the quality development of the securities industry in the PRC. To this end, the Company upholds the principle of "healthy development by attaching equal importance to quality and quantity". This principle requires the Company to pursue both quality and quantity by prioritizing quality. The capability of the Company to pursue quality means improving the capability of serving the real economy, the capability of serving the structural reforms on the supply side, and the capability of satisfying people's increasing demands for a better life. We shall better implement the capability of pursuing quality in the operation of all business lines, and constantly enhance the comprehensive capability of the Company to serve our customers, so as to build the core competitiveness of the Company.

CSC has always been dedicated to becoming a respectable top-grade listed securities company equipped with comprehensive strengths, advanced management, excellent reputation and sound development. Since the date of inception of the Company, CSC has deeply borne in mind the ideal for and belief in the pursuit of excellence. We believe that, with the fullest support and assistance of all Shareholders and the joint efforts of all people in CSC under the core value of "recognition for achievement", we will definitely be able to achieve the development goals for the next five years, and fulfill the mission of "attracting talents, serving customers, creating values and rewarding the society"!

WANG Changqing
Chairman
16 April 2018

SECTION 1 IMPORTANT NOTICE

The Board of Directors, the Supervisory Committee of the Company, the Directors, the Supervisors and the senior management warrant the truthfulness, accuracy and completeness of this annual report and that there is no misrepresentation on, misleading statement in, or material omission from, this annual report, and will assume joint and several liabilities.

This annual report was considered and approved at the second meeting of the second session of the Board of Directors of the Company. All Directors of the Company attended the meeting. No Director or Supervisor raised any objection to this annual report.

The domestic and international financial reports of the Company for the year were audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, respectively, and the auditor's reports with standard unqualified audit opinion were issued thereby.

Mr. WANG Changqing, chairman of the Board, Mr. Li Geping, executive director and general manager, and Mr. PENG Heng, the person-in-charge of finance and the head of the Company's Financial Planning Department, warrant that the financial statements set out in this annual report are true, accurate and complete.

According to the relevant requirements of the CSRC, and taking into consideration the A Share Offering and listing, development of the Company, the Shareholders' interests and other factors, the 2018 first extraordinary general meeting of the Company considered and approved the resolution in relation to the 2017 Profit Distribution Plan of the Company. Profits of the Company in 2017 would not be distributed to Shareholders. To safeguard the reasonable return on investment of investors and implement sustainable and stable profit distribution policy, the Company will consider the interim profit distribution for 2018 based on the process of A Share Offering and listing, which will be separately considered at shareholders' general meeting.

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

The Company prepared this annual report in both English and Chinese. In the event of any discrepancies in interpretation between the English version and Chinese version of this annual report, the Chinese version shall prevail. In this annual report, the discrepancies in the decimal place between the sum of the amount of each sub-item and the grand total are due to rounding to the nearest integer.

SECTION 2 MATERIAL RISK FACTORS

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

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

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

PROFILE

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

REGISTERED CAPITAL AND NET CAPITAL

Unit: RMB Yuan

	As at the end of the Reporting Period (31 December 2017)	As at the end of the previous year (31 December 2016)
Registered Capital	7,246,385,238.00	6,100,000,000.00 *Note*
Net Capital (the Company)	37,025,325,451.93	36,198,482,225.10

Note: Due to the IPO of H Shares of the Company, the total number of Shares of the Company as of 31 December 2016 was 7,176,470,000. The change of registration of the Company with the Administration for Industry and Commerce for the registered capital was not completed at that time, and thus, the registered capital with the Administration for Industry and Commerce was still RMB6,100,000,000.00.

SCOPE OF BUSINESS AND BUSINESS QUALIFICATIONS FOR EACH INDIVIDUAL BUSINESS OF THE COMPANY

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

In addition, the Company also possesses the following individual business qualifications (items 55–57 were business qualifications newly obtained in 2017):

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

31 Business of autonomous option exercise with respect to share incentive schemes of listed companies
32 Opening accounts for clients remotely
33 Securities refinancing business
34 Contractual repurchase business of securities transaction on Shenzhen Stock Exchange
35 Lead underwriter for debt financing instruments of non-financial institutions
36 Counter trading business
37 Provision of agency service for registration of pledge of securities
38 Qualification for consultation services for military confidential business
39 Contractual repurchase securities transaction business on Shanghai Stock Exchange
40 Refinancing business
41 Interest rate swap using its proprietary funds of securities
42 Dealing of CRMW business
43 License for foreign exchange operation in the securities business
44 License for telecommunications and information service business
45 Business of bond collateralized repurchase with quotes on Shanghai Stock Exchange
46 Member of the underwriting syndicate for financial bonds of The Export-Import Bank of China
47 Member of the underwriting syndicate for financial bonds of Agricultural Development Bank of China
48 Member of book-entry treasury bond underwriting syndicates
49 Providing trading units for insurance agency investors by securities companies
50 Primary trader for Shanghai Stock Exchange fixed income securities consolidated electronic trading platform
51 Chief agency broker for agent of Share transfer business
52 Implementation of the broker system
53 Direct investment business
54 Member of the inter-bank market
55 Operating licenses for market information enhancement service (online version) of Shenzhen Stock Exchange
56 Market maker of quotation and service system for private equity products
57 Market maker of white sugar option on Zhengzhou Commodity Exchange

BASIC INFORMATION

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

CONTACT PERSONS AND DETAILS

Contact Person:	WANG Guangxue
Contact Address:	No. 188 Chaonei Avenue, Dongcheng District, Beijing
Telephone:	+8610–85130852
Facsimile:	+8610–65186399
Email:	investorrelations@csc.com.cn

PLACES WHERE ANNUAL REPORTS OF THE COMPANY ARE AVAILABLE

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

SUMMARY INFORMATION OF THE SHARES

Class of Shares	Stock Exchange of Listing	Stock Name	Stock Code
H Shares	HKEX	CSC	6066

HISTORY AND SHAREHOLDING STRUCTURE

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

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

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

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

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

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

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

On 9 December 2016, the Company was listed on the HKEX and trading of its Shares commenced. In January 2017, upon partial exercise of the over-allotment option, the Company issued or sold and converted from Domestic Shares a total of 1,261,023,762 H Shares. The total Share capital of the Company increased to 7,246,385,238 Shares, of which 82.60% are Domestic Shares and 17.40% are H Shares, and the registered capital of the Company was changed to RMB7,246,385,238.

Changes of Registration during the Reporting Period

On 9 June 2017, the Company filed the changes of category of the business license and registered capital with Beijing Administration for Industry and Commerce.

The H Shares of the Company were listed and traded on the HKEX on 9 December 2016. Upon partial exercise of the over-allotment option, the number of the H Shares of the Company in issue or sold or converted from domestic shares in aggregate amounted to 1,261,023,762 and the registered capital of the Company changed to RMB7,246,385,238.

Upon the change, the Company became categorized as a joint stock company with limited liability (listed and state-owned).

The Company's registered capital was changed to RMB7,246,385,238.

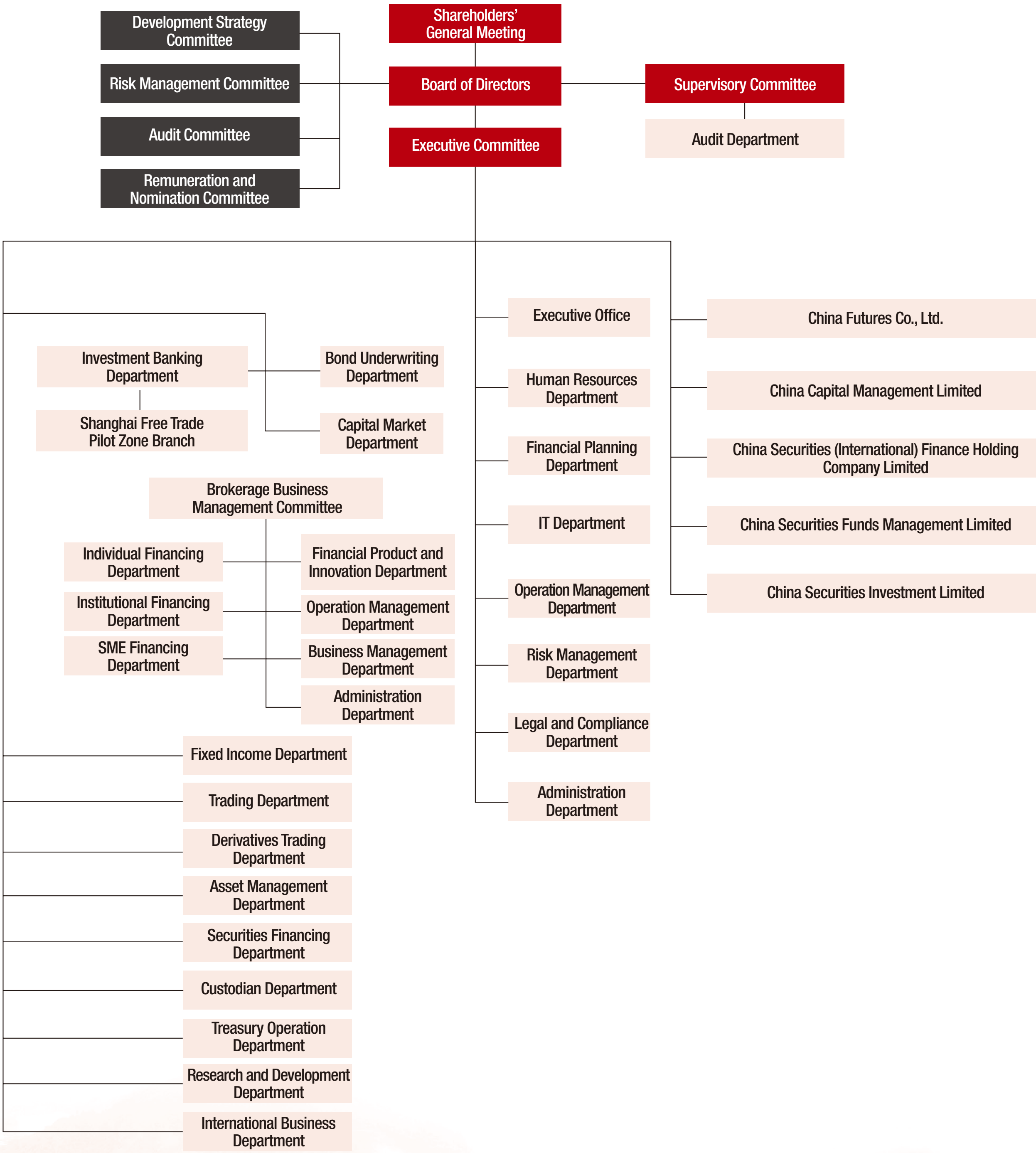
Relevant Information of the First Registration

Date of first registration: 2 November 2005
Address of first registration: Unit 4, No. 66 Anli Road, Chaoyang District, Beijing
Registration number of corporate legal person business license: 1100001901768
Certificate of organization code: 78170345–3

CHANGE OF SUBSTANTIAL SHAREHOLDERS

Please refer to "Company Information – History and Shareholding Structure" of this annual report for details.

ORGANIZATION AND STRUCTURE CHART OF THE COMPANY



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

NUMBER AND NETWORK OF SECURITIES BRANCHES OF THE COMPANY

As of the end of the Reporting Period, the Company had established a network of 302 securities branches in total as follows:

Province/autonomous regions/municipalities	Number of branches
Beijing	57
Shanghai	18
Tianjin	6
Chongqing	11
Heilongjiang	3
Jilin	2
Liaoning	6
Hebei	7
Shandong	13
Shanxi	2
Henan	8
Anhui	4
Jiangsu	21
Hubei	16
Hunan	14
Jiangxi	16
Zhejiang	16
Fujian	15
Guangdong	30
Hainan	4
Shaanxi	10
Sichuan	9
Yunnan	1
Guizhou	2
Gansu	3
Inner Mongolia	1
Guangxi	2
Xinjiang	3
Qinghai	1
Ningxia	1
Total	302

OTHER RELEVANT INFORMATION

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

AWARDS TO THE COMPANY IN 2017

The Company

1. Education Base for National Securities and Futures Investors

   Licensed by: CSRC

2. "Pioneer Workers" Honorary Title ("工人先鋒號")

   Issued by: All-China Federation of Trade Unions

3. Excellent Underwriter for Corporate Bonds

   Issued by: Shanghai Stock Exchange

4. Excellent Underwriter for Local Government Bonds

   Issued by: Shanghai Stock Exchange

5. Excellent Participating Institution for PPP Assets Securitization

   Issued by: Shanghai Stock Exchange

6. Excellent Innovation Institution for Fixed Income Service

   Issued by: Shenzhen Stock Exchange

7. Excellent Underwriting Institution for Local Bonds

   Issued by: Shenzhen Stock Exchange

8. "15th New Fortune Best Analyst Selection"

   Awards collectively granted:

   ① Ranked No. 9 – "New Fortune Best Local Research Team"

   ② Ranked No. 7 – "Best Local Sales Service Team"

   ③ Ranked No. 8 – "Most Influential Research Institution"

   ④ Ranked No. 4 – "Fastest-growing Research Team"

   Team:

   ① Ranked No. 1 for "telecommunication industry"

   ② Ranked No. 1 for "military industry"

   ③ Ranked No. 2 for "coal mining"

   ④ Ranked No. 3 for "papermaking in light industry"

   ⑤ Ranked No. 3 for "real estate industry"

   ⑥ Ranked No. 3 for "research of SME market value"

⑦ Ranked No. 4 for "fixed income"

⑧ Ranked No. 5 for "household appliances industry"

⑨ Beijing Sales Team ranked No. 2 for "Best Sales Service Team in Beijing Region"

⑩ Four industries awards for "petrochemical industry", "environment protection industry", "electricity and public utilities industry" and "basic chemical industry"

Issued by: New Fortune

9. 10th Best New Fortune "Investment Banks in China"

Team awards:

① Ranked No. 2 – "Best Local Investment Bank"

② Ranked No. 2 – "Best Equity Underwriting Investment Bank"

③ Ranked No. 1 – "Best Bond Underwriting Investment Bank"

④ Ranked No. 3 – "Best Investment Bank of Financial and Real Estate Industry"

⑤ Ranked No. 3 – "Best Investment Bank of TMT Industry"

⑥ Ranked No. 2 – "Best Investment Bank of NEED (Listing)"

⑦ Ranked No. 4 – "Best Asset Securitization Investment Bank"

Project awards:

① First Tranche of 2016 Nong Ying Non-performing Assets Securitization Project: Ranked No. 3 for "Best Assets Securitization Project (Credit Category)"

② Asset-backed Scheme for Trust Beneficial Right of China Securities-Huayi Brothers Cinema: Ranked No. 3 for "Best Assets Securitization Project (Assets Category)"

③ Ranked No. 1 for "Best IPO Project": China Film IPO

④ Bankruptcy Reorganization and Material Assets Reorganization of Sainty Marine: Ranked No. 2 for "Best Financial Adviser Project"

⑤ Material Assets Reorganization of CNPC Jinan Diesel: Ranked No. 3 for "Best Financial Adviser Project"

⑥ Wangfujing: Ranked No. 8 for "Best Re-financing Project"

⑦ G16 Beijing Enterprises 1: Ranked No. 1 for "Best Corporate Bond Project"

⑧ G16 Three Gorges 1: Ranked No. 2 for "Best Corporate Bond Project"

⑨ 16 Guandong Roads and Bridges 02: Ranked No. 3 for "Best Corporate Bond Project"

⑩ 16 Chaoyang State-owned Capital Bond: Ranked No. 4 for "Best Corporate Bond Project"

Issued by: New Fortune

10. 2017 Junding Award for Comprehensive Service Investment Bank in China

11. 2017 Junding Award for Investment Bank of Mergers and Acquisition in China

12. 2017 Junding Award for Investment Bank of Bond in China

    Issued by: Securities Times

13. Dianjin Award: 2017 Annual Ceremony for NEEQ in China

    Best Securities Firm on NEEQ, Best Quotation Securities Firm, Best Steering Securities Firm, Best Securities Firm for Investment and Financing

    Issued by: Dudong.com

China Securities Futures

1. "10th Best Futures Analyst Selection in China for 2017": "Best Futures Company in China", "Best Service Award for Financial Futures", "Best Award for Brand Building and Promotion", "Best Futures Award for Private Equity", "Most Popular Official Account for Futures Operation Institution", "Best IT System Construction Award for Futures" and "Excellent Business Department of Futures Company in China (Shanghai Shiji Avenue Business Department)" issued by: Futures Daily, Securities Times

2. Award for Excellent Investor Service in the 11th National Competition of Futures Trading

   Issued by: Futures Daily

China Securities Funds

1. "Top 300 Banks in Inter-bank Renminbi Market Transactions for 2017"

   Issued by: National Interbank Funding Center

2. "Outstanding Member of CCDC for 2017"

   Issued by: China Central Depository & Clearing Co., Ltd.

China Securities International

1. "Key Business Partner in FIC Market"

   Issued by: HKEX

2. "Caring Company Award"

   Issued by: The Hong Kong Council of Social Service

SECTION 4 FINANCIAL SUMMARY

KEY ACCOUNTING DATA

Unit: RMB million

Items	2017	2016	Increase/ decrease as compared to the same period last year (%)	2015
Total revenue and other income	16,421	17,584	-6.61	24,512
Operating profit	5,349	7,060	-24.24	11,461
Total profit	5,355	7,057	-24.12	11,461
Net profit attributable to equity holders of the Company	4,015	5,259	-23.65	8,639
Net cash flow from operating activities	-30,447	20,411	N/A	-11,418

Unit: RMB million

Items	31 December 2017	31 December 2016	Increase/ decrease as compared to the same period last year (%)	31 December 2015
Total assets	205,883	181,695	13.31	183,188
Total liabilities	161,885	140,432	15.28	153,005
Equity attributable to equity holders of the Company	43,754	41,063	6.55	30,106
Total share capital	7,246	7,176	0.98	6,100

KEY FINANCIAL INDICATORS

Items	2017	2016	Increase/ decrease as compared to the same period last year *(%)*	2015
Basic earnings per Share *(RMB Yuan/Share)*	0.51	0.81	-37.04	1.37
Diluted earnings per Share *(RMB Yuan/Share)*	0.51	0.81	-37.04	1.37
Return on weighted average equity *(%)*	9.92	18.10	Decreased by 8.18 percentage points	40.00

Items	2017	2016	Increase/ decrease as compared to the same period last year *(%)*	2015
Net assets per Share attributable to equity holders of the Company *(RMB Yuan/Share)*	6.04	5.72	5.59	4.94
Gearing ratio *(%)*	73.25	66.98	Increased by 6.27 percentage points	72.84

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

In calculating the net assets per Share attributable to equity holders of the Company as indicated in the table above, the perpetual bonds of RMB5 billion issued by the Company was included in the net assets attributable to equity holders of the Company .

NET CAPITAL AND RELEVANT RISK CONTROL INDICATORS OF THE COMPANY

As at 31 December 2017, the net capital of the Company amounted to RMB37,025 million, representing an increase of RMB827 million as compared to net capital of RMB36,198 million as at 31 December 2016, mainly due to the increase in net profit of the Company during the Reporting Period. All risk control indicators including net capital of the Company complied with the relevant requirements of the Administrative Measures for Risk Control Indicators of Securities Companies (Revision in 2016) (《證券公司風險控制指標管理辦法》) (2016年修訂版) issued by the CSRC.

Items	31 December 2017	31 December 2016
Net capital *(RMB million)*	37,025	36,198
Net assets *(RMB million)*	42,472	40,068
Total risk capital reserves *(RMB million)*	17,013	15,778
Risk coverage ratio *(%)*	217.63	229.43
Capital leverage ratio *(%)*	21.80	27.83
Liquidity coverage ratio *(%)*	173.80	172.00
Net stable funding ratio *(%)*	136.24	154.52
Net capital/net assets *(%)*	87.18	90.34
Net capital/liabilities *(%)*	34.71	52.92
Net assets/liabilities *(%)*	39.81	58.58
Proprietary equity securities and securities derivatives/net capital *(%)*	12.64	14.02
Proprietary non-equity securities and securities derivatives/net capital *(%)*	145.12	127.56

FINANCIAL POSITION FOR THE LAST FIVE YEARS

Profit Status

Unit: RMB million

Items	2017	2016	2015	2014	2013
Total revenue and other income	16,421	17,584	24,512	11,452	7,322
Total expenses	11,072	10,524	13,051	6,909	4,901
Share of profits and losses of associates	6	-3	–	–	–
Profit before income tax	5,355	7,057	11,461	4,543	2,421
Net profit attributable to equity holders of the Company	4,015	5,259	8,639	3,407	1,787

Assets Status

Unit: RMB million

Items	31 December 2017	31 December 2016	31 December 2015	31 December 2014	31 December 2013
Share capital	7,246	7,176	6,100	6,100	6,100
Total equity	43,999	41,263	30,183	16,728	13,154
Equity attributable to equity holders of the Company	43,754	41,063	30,106	16,669	13,091
Total liabilities	161,885	140,432	153,005	106,678	54,786
Accounts payable to brokerage clients	41,417	56,736	72,045	43,487	19,653
Total assets	205,883	181,695	183,188	123,406	67,940

KEY FINANCIAL INDICATORS

Items	31 December 2017	31 December 2016	31 December 2015	31 December 2014	31 December 2013
Dividends per Share *(RMB Yuan)*	–	0.18	–	–	0.03
Basic earnings per Share *(RMB Yuan)*	0.51	0.81	1.37	0.56	0.29
Diluted earnings per Share *(RMB Yuan)*	0.51	0.81	1.37	0.56	0.29
Return on weighted average equity *(%)*	9.92	18.10	40.00	22.90	14.30
Gearing ratio *(%)*	73.25	66.98	72.84	79.07	72.76

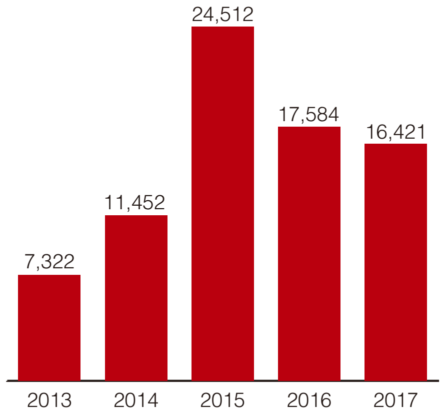
Notes:

(1) Accounts payable to brokerage clients represent the amount received from and repayable to clients arising from the normal course of the Group's securities brokerage business. Such amounts are subject to regulation of third-party depository institutions.

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

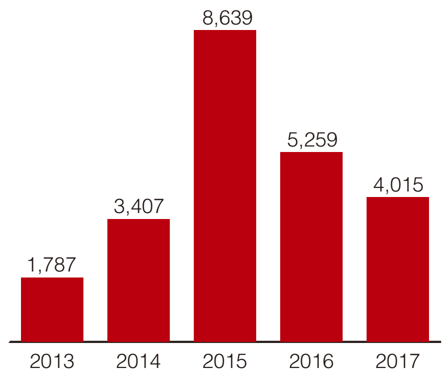
Total revenue and other income

(Unit: RMB million)



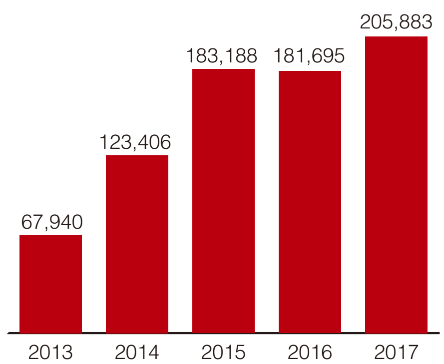
Net profit attributable to the equity holders of the Company

(Unit: RMB million)



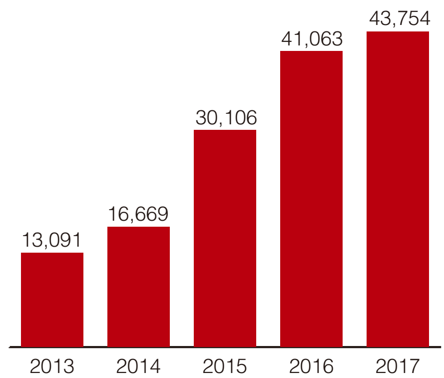
Total assets

(Unit: RMB million)

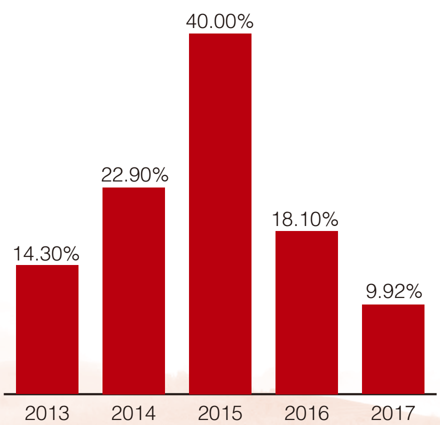


Equity attributable to the equity holders of the Company

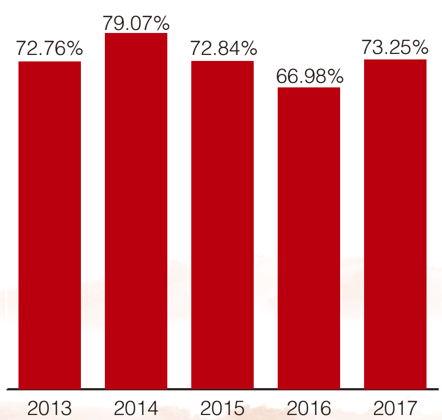
(Unit: RMB million)



Return on weighted average equity



Gearing ratio



STRATEGY AND OPERATING MODEL

Industry Competition Pattern and Development Trend

In 2017, developed economies and emerging markets saw continuous recovery, with global investments, industrial prices and employment indicators improved. The Chinese economy continued to optimize and upgrade its economic structure amidst its steady growth. As financial regulatory authorities of China had a firm stance on "deleveraging and stringent regulation", Chinese financial market witnessed a sound development with rigorous risk prevention. For equity primary market, a total of 401 enterprises were approved to launch their respective IPO by the CSRC in 2017; both IPO approval and issuance procedures were accelerated. Nevertheless, the CSRC promulgated new regulations on refinancing to curb excessive financing activities in the market. For secondary market, the A Share market was less volatile, showing steady growth in trading volume and turnover as compared to previous year and a prevailing sentiment for value investing. The bond market, though, affected by tightened monetary policy and a number of policies aimed at deleveraging and regulating production and transaction in 2017, recorded a significant increase in returns but a significant decrease in net financing proceeds as compared to last year. Further opening up of the capital markets in China in 2017 would help China's capital market to improve its attractiveness to investors. In June 2017, China A Shares were included into MSCI Emerging Markets Index. The Ministry of Finance announced in November 2017 that China would relax foreign investment proportion restrictions on financial sectors including banking, securities investment funds and insurance. For asset and wealth management, regulatory authorities rolled out tightened policies and regulations in respect of channel businesses in 2017, emphasizing that "the financial sector shall go back to their fundamental purposes". However, as China's economy continues to develop, people will have greater demands for asset and wealth management, which would push forward the continuous growth of asset management businesses of securities brokers. On the whole, China's financial sector will not relax its leverage and risk control, and will record a steady growth in 2018.

Analysis on Core Competitiveness

In 2017, the Company continued to adhere to the core value of "recognition for achievement, ability and status", as well as the concepts of "risk management as priority" and "healthy development" to strive for better service for existing customers and realize mutual growth with the enterprise. In the meantime, the Company penetrated the local market and moved towards the international market to explore potential quality customers. The Company aimed at taking the advantages of investment banking business as the starting point to steadily develop innovative business, becoming a large best-in-class full-service investment bank based in the PRC with global vision leveraging the development trends in the PRC and global capital market.

Investment bank business of the Company continued to stay at a leading position in the industry. In 2017, the number of equity financing projects underwritten by us as a lead underwriter and the amount of lead underwriting ranked No. 3 and No. 4 in the industry, respectively. The number of bond business underwritten by us as a lead underwriter ranked No. 2 and the amount of lead underwriting ranked No. 2 in the industry, among which, both the number of projects underwritten by us as a lead underwriter and the amount of lead underwriting of corporate bonds ranked No. 1. For merger and acquisition business, the Company ranked No. 1 in the market by the number of MAR (material asset restructuring) projects and No. 2 in terms of transaction amount. The Company ranked the second among lead securities brokers by the number of innovation-level companies which were listed on the NEEQ and under continuous supervision of the Company (Sources: Wind Info, NEEQ Company and statistics of the Company).

Wealth management business of the Company remained at the top of the market. In 2017, agency of stock and fund trading amount of the Company was RMB6.91 trillion and the market share was 3.01%, ranked No. 9 in the industry. As of the end of 2017, the balance of the Company's margin financing and securities lending amounted to RMB46,409 million, and the market share was 4.52%, representing an increase of 1.34 percentage points as compared to that of last year and ranked No. 9 in the industry (Sources: Shanghai and Shenzhen Stock Exchanges, China Securities Depositary and Clearing Corporation Limited, The Securities Association of China, Wind Info and statistics of the Company).

The performance of trading and institutional customer service business of the Company remained at a leading position. For fixed income, the sales size of corporate bonds ranked No. 1 in the industry. For investment research, the research team of the Company ranked No. 1 from "15th New Fortune" in two industries, namely, the communications sector and the military sector.

The Company continued to optimize its asset management business. As of the end of 2017, the AUM of the Company reached approximately RMB639,300 million, among which, the AUM of actively managed products reached approximately RMB154,300 million, representing an increase of 5 percentage points in terms of the proportion of the AUM of actively managed assets to the AUM of total assets compared to the end of 2016. (Source: The Securities Association of China)

Business Plan for 2018

In 2018, the Company will strive to enhance its market position by expanding business. It will strengthen risk control in a comprehensive manner and strictly follow the philosophy of operating according to laws and regulations. Customer development and services will be prioritized, and the Company will go all out to expand the customer base. Strategy research and plan setting will always be enhanced to ensure that the Company is always on the right track. The Company will invest more in reserve cadres training, so as to forge a high-quality cadres team. The initiative of "Cost-Benefit Year" will be carried out in depth for the purpose of effective cost control, and workforce building in middle offices and back offices will be strengthened to improve operation quality and efficiency.

Capital Requirement

In 2018, the Company will deliberately manage the size of liabilities based on business development needs and maintain a healthy gearing ratio. In 2017, the Company successfully completed a series of debt fundraising, including: public offering of two tranches of RMB-denominated corporate bonds with an offering size of RMB7 billion; non-public offering of two tranches of RMB-denominated corporate bonds with an offering size of RMB8 billion; non-public offering of six tranches of short-term corporate bonds with an offering size of RMB21.5 billion (with an outstanding balance of RMB15.5 billion as at the end of 2017); 1,221 tranches of structured notes with an aggregate offering size of approximately RMB42.1 billion (with an outstanding balance of RMB14.9 billion as at the end of 2017). The cumulative issuance size of debt-financing instruments of the Company for the year reached approximately RMB78.6 billion. The financial leverage ratio increased from 3.04 times at the beginning of the year to 3.74 times.

Potential Risks

In 2018, "pursuing progress while maintaining stability" will continue to become the key note of China's economy, more emphasis will be placed on improving economic development quality. The monetary policy will focus on creating a favorable environment for ensuring steady growth and supply-side structural reform; prevention of "Grey Rhino" risk and local government implicit debt risk will be a key task in the financial sector. The Company may be exposed to the following risks: (i) credit risk. Despite an upward trend in economic development, the economy probably will be hovering at the bottom; corporate bonds with rapid increase in offering size are showing signs of centralized payment pressure; players in the market are of different quality. Replacement of urban construction investment bonds will end in 2018, and boundary of government and enterprise debts will become clearer. Under such background, financing platforms with inferior qualifications will face difficulty in financing, and credit risk in high-risk industries and areas will increase; (ii) bond market risk. The stable and neutral monetary policy against a backdrop of reducing leverage to prevent the formation of an asset bubble, combined with international factors including the interest rate hike and the tax cut in the US, may lead to fluctuation of interest rates and yields which brings uncertainty to valuation of the bond market; and (iii) liquidity risk at a specific time point. In the course of balancing deleveraging and stable liquidity, liquidity may show a periodical tight balance; therefore, the Company may be exposed to liquidity risk where capital supply would be insufficient and financing costs would rise at a specific time point. In addition, the Company is subject to strategic risk, operational risk, compliance risk, legal risk, technical risk, reputational risk, etc. In general, due to the intertwined risks mentioned above, the Company will face certain challenges in its operation. For details, please refer to the "Management Discussion and Analysis-Details of the Primary Risks Associated with the Operation of the Company" of this annual report.

BUSINESS OVERVIEW

Overview

As of 31 December 2017, the total assets of the Group were RMB205,883 million, representing a year-on-year ("**YoY**") increase of 13.31% as compared to that on 31 December 2016. Equity attributable to equity holders of the Company was RMB43,754 million, representing a YoY increase of 6.55% as compared to that on 31 December 2016. During the Reporting Period, total revenue and other income of the Group amounted to RMB16,421 million in aggregate, representing a YoY decrease of 6.61%. Total expenses amounted to RMB11,072 million, representing a YoY increase of 5.21%. Net profit attributable to equity holders of the Company amounted to RMB4,015 million, representing a YoY decrease of 23.65%.

Analysis of Principal Businesses

The principal businesses of the Group comprise four segments: investment banking business, wealth management business, trading and institutional client services business and investment management business. During the Reporting Period, total revenue and other income of the investment banking segment amounted to RMB3,741 million in aggregate, representing a YoY decrease of 20.10%. Total revenue and other income of the wealth management segment amounted to RMB7,220 million in aggregate, representing a YoY decrease of 0.19%. Total revenue and other income of the trading and institutional client services segment amounted to RMB3,444 million, representing a YoY decrease of 3.66%. Total revenue and other income of the investment management segment amounted to RMB1,708 million, representing a YoY increase of 9.21%.

1. Investment Banking Segment

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

(1) Equity Financing Business

In 2017, the IPO issuance remained to be normalized; refinancing were regulated and controlled; the size of equity financing in A share market was generally tightened. A total of 986 equity financing deals were launched in A share market throughout the year, representing a YoY decrease of 7.33%. The proceeds raised amounted to RMB1,536,936 million, representing a YoY decrease of 24.42%. In particular, 438 IPO projects were launched, representing a YoY increase of 92.95%; proceeds raised was RMB230,109 million, representing a YoY increase of 53.81%. The IPO approval rate has been significantly lowered after the new session of Issuance Approval Committee assumed office. As the refinancing sector was affected by a series of policies, the IPO underwriting encountered more challenges. As a result, a total of 548 deals were launched throughout the year, representing a YoY decrease of 34.53%; proceeds raised amounted to RMB1,306,827 million, representing a YoY decrease of 30.63%. (Source: Wind Info)

The equity financing business of the Company recorded remarkable development in 2017. The Company completed a total of 53 equity financing deals, including 5 deals worth over RMB10,000 million each and ranked No. 3 in the industry. The aggregate amount of equity offerings underwritten by the Company as a lead underwriter was approximately RMB97,212 million, ranked No. 4 in the industry. In particular, the number of IPOs underwritten by us as a lead underwriter was 25, ranked No. 5 in the industry; the amount of IPOs underwritten by us as a lead underwriter was approximately RMB14,444 million, ranked No. 4 in the industry. The number of refinancing projects underwritten by us as a lead underwriter was 28, ranked No. 1 in the industry; the amount of refinancing underwritten by us as a lead underwriter was approximately RMB82,768 million, ranked No. 3 in the industry. The Company had an abundant project reserve. As at the end of December 2017, the Company had 40 IPOs and 33 refinancing projects pending approval by regulatory authorities, ranked No. 2 and No. 1 in the industry, respectively.

The equity financing business of the Company has achieved outstanding performance in consecutive years. With recognition obtained from clients and markets, the Company was named the "Best Local Investment Bank" by "New Fortune", a prominent industry publication, for five consecutive years. The Company was awarded the title of the "Best Local Investment Bank", the most valued among collective awards, in the "10th New Fortune Best Investment Bank Selection" published in March 2017. Meanwhile, the Company was also awarded a number of honors, including "Best Equity Underwriting Investment Bank", "Best Bond Underwriting Investment Bank", "Best Investment Bank of Finance and Real-Estate Industry", "Best Investment Bank of TMT Industry", "Best Investment Bank of NEEQ (Listing)" and "Best Asset Securitization Investment Bank".

Details of the Company's equity sponsorship and underwriting in 2017:

Items	2017 Amount of lead underwriting (RMB'00 million)	2017 Number of offerings	2016 Amount of lead underwriting (RMB'00 million)	2016 Number of offerings
IPO	144.44	25	183.49	14
Refinancing Issuance	827.68	28	850.33	49
Total	972.12	53	1,033.82	63

Source: Wind Info and statistics of the Company

For overseas business, in 2017, China Securities International completed six IPOs in Hong Kong. The equity financing proceeds totaled HK$32,600 million, ranked No. 6 among Chinese securities brokers in Hong Kong.

Outlook for 2018

In 2018, the Company will continue to leverage on its advantage in balanced investment banking product offerings and put more efforts in exploring high-quality clients. Meanwhile, it will proactively build a stronger pipeline of IPO and listed companies' equity refinancing projects and vigorously promote project issuance.

(2) Debt Financing Business

In 2017, against the backdrop of financial deleveraging, regulations were strengthened in the bond market. Following three times of upward adjustments to operation interest rate in the open market made by the People's Bank of China, the liquidity remained tightly balanced. The rate of return in bond market showed fluctuation with upward trend, while accumulated issue size representing a slight YoY decrease, among which decrease in credit bonds was notable. In respect of different types of bond products, increase and decease were witnessed in terms of the issue volume. The issue volume of asset-backed securities and non-policy related financial bonds attained steady growth due to the encouragement from the government. However, the issue volume of corporate bonds recorded a greater decrease, falling more than 50% of the issue volume as compared to 2016; and the issue volume of enterprise bonds recorded a decrease of about 10% compared to 2016 as a result of the combined impact of tightened policies and market conditions.

In 2017, the debt financing business of the Company maintained a promising development momentum amidst the environment of shrinking issue volume in the market, ranked the top two in the market stably. During the Reporting Period, the Company completed a total of 448 underwriting projects as a lead underwriter, comprising corporate bonds, enterprise bonds, convertible bonds, financial bonds, other debt financing instruments of non-financial enterprises and asset-backed securitization, with an aggregate total size of projects underwritten as a lead underwriter of RMB1,051,078 million. Among the above, the number of corporate bonds projects in which the Company acted as a lead underwriter was 167, with the total size of projects in which the Company acted as a lead underwriter of RMB282,110 million. The Company ranked No. 1 in the industry in terms of both the amount underwritten as a lead underwriter for corporate bonds and the number of corporate bond projects in which the Company acted as a lead underwriter.

Details of the underwriting and sponsorship of bond business for customers of the Company in 2017:

Items	2017 Amount of lead underwriting *(RMB'00 million)*	2017 Total project scale *(RMB'00 million)*	2017 Number of offerings	2016 Amount of lead underwriting *(RMB'00 million)*	2016 Total project scale *(RMB'00 million)*	2016 Number of offerings
Corporate bonds	1,694.73	2,821.10	167	3,810.93	5,718.18	284
Enterprise bonds	138.76	182.20	14	198.50	204.50	17
Convertible bonds	31.14	31.14	3	11.11	11.11	1
Financial bonds	698.17	2,805.60	35	394.36	1,168.00	23
Others	1,494.02	4,670.74	229	684.84	1,750.44	140
Total	4,056.81	10,510.78	448	5,099.74	8,852.23	465

Source: Wind Info and statistics of the Company

Note: Others mainly consist of medium-term notes, short-term commercial papers, private placement notes, asset-backed securitization, government-backed agency bonds and exchangeable bonds.

For overseas business, in 2017, China Securities International completed 12 public bond issuance transactions in Hong Kong, with total project amounts of approximately HK$72,900 million, ranked No. 9 among Chinese securities brokers in Hong Kong.

Outlook for 2018

In 2018, it is estimated that the bond market will be exposed to greater uncertainty mainly due to the impact of monetary and regulatory policies. Seizing the opportunity of business development in traditional bonds that the market size was declined drastically in 2017 for which the Company has already built competitive advantages such as corporate bonds and enterprise bonds, the Company will also continue to focus on debt financing business with greater market potential such as panda bonds, green bonds, exchangeable bonds, innovation and entrepreneurship corporate bonds and asset-backed securitization, so as to adapt to market changes with a widened bond product offering.

(3) Financial Advisory Business

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

In 2017, regulatory authorities issued a series of policies including the new refinancing rules, the new rules on shareholding reduction and the guidelines for overseas investment, pursuant to which supervisors of companies tightened policies on M&A transactions and strictly reviewed and approved backdoor deals and cross-industry M&A. In the meantime, they curbed any activities of getting profits from M&A. The M&A transactions saw a weak momentum in 2017. Only 255 M&A transactions were completed in A share market, representing a YoY decrease of 15%.

Despite the sluggish market, during the Reporting Period, the M&A business of the Company still recorded satisfactory results and achieved rapid development. As a result, the structure of investment banking service of the Company was further balanced. In 2017, the Company acted as financial advisor in 28 significant asset restructuring projects, ranked No. 1 in the industry. The M&A transaction amount was RMB114,502 million, ranked No. 2 In the industry, representing a YoY increase of 171.27%. As of the end of December 2017, the Company had a total of 6 M&A projects pending approval by regulatory authorities, ranked No. 4 in the industry.

After a rapid development, the market position was unclear and transaction and financing were not functioned well due to the delayed system supply, plus the impact of the normalization of IPO, development of NEEQ was faced with greater challenges, the willingnesses for quotation of companies were significantly lower, while the number of IPO applications and delisting cases soared. In 2017, 1,467 companies were newly quoted on the NEEQ, representing a YoY decrease of 70.86%; 2,725 private placement deals were completed, raising a total of RMB133,628 million and representing a YoY decrease of 7.31% and 3.92%, respectively. As at 31 December 2017, 11,630 companies were listed on the NEEQ market, including 10,277 companies at the basic level and 1,353 companies at innovation level. (Source: the NEEQ)

Despite the market volatility, the Company still regarded the NEEQ quotation as an important business. In 2017, the Company maintained a high quality in the NEEQ quotation business and was graded as A-class chief agency broker in the annual practitioner appraisal. As at the end of 2017, the Company recommended 423 companies in aggregate to be quoted on the NEEQ, ranked No. 4 among chief agency brokers, and continuously oversaw 77 NEEQ enterprises at innovation level, ranked No. 2 among chief agency brokers. 108 private placement deals were completed by us in 2017, and a total of RMB7,414 million were raised, ranked No. 3 and No. 4 among chief agency brokers, respectively. (Source: Choice financial terminal)

For overseas business, in 2017, China Securities International participated in and completed 3 financial advisory projects in Hong Kong.

Outlook for 2018

In 2018, it is expected that the M&A business will have a recovery, and the Company will seize market opportunity to actively explore financial advisory business. In the meantime, the Company will ride on the opportunities brought by M&A transactions to explore investment and financing business, so as to increase revenue generated from capital intermediary business. Transformation will be conducted in the NEEQ business, and the Company will focus on the quality of listed companies, develop emerging industries, attract and retain high quality clients.

2. *Wealth Management Segment*

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

(1) *Brokerage and Wealth Management Business*

The Company provides individual and corporate clients with brokerage of stocks, bonds, funds, derivatives and other tradable securities.

During the Reporting Period, despite slowdown in the fluctuation of secondary market, the overall valuation was still at a low level and the transaction amount was further decreased as compared to the corresponding period of 2016. In 2017, the bilateral trading volume of equity and funds in the market was RMB229 trillion, representing a YoY decrease of 11.9% (Source: Shanghai and Shenzhen Stock Exchanges). The competition among securities firms was increasingly fierce on commission rate, business flow, service approach, service provided and expertise of employees. As the trading amount of stocks and funds decreased in general, the brokerage business encountered with great challenges.

In 2017, the Company endeavored to establish an integrated client services platform and ecological chain to develop businesses covering financial products, margin financing and securities lending, the NEEQ, private equity, investment advisory services, futures, precious metals and IB business through resource integration. The Company, with customer-oriented culture, continued to strengthen the core competitiveness of brokerage business with clients as the focus through raising the standard of service and enhancing procedures, and strived to fulfill diversified wealth management, investment and financing needs of retail, high net worth, institutional, corporate and other clients at different levels.

In 2017, the net income from the securities brokerage business of the Company accounted for 3.20% of the market share, ranked No. 10 in the industry. Trading volume of the agency sales of equity funds amounted to RMB6.91 trillion with a market share of 3.01%, ranked No. 9 in the industry. The sale of standardized products amounted to RMB56,000 million, and the net income from the distribution of financial products had a market share of 3.51%, ranked No. 5 in the industry. The number of new shareholder accounts was 1,620,000, representing a YoY decrease of 2.4%; the total number of clients' capital accounts at the end of the Reporting Period was 6,860,000. The market value of securities under custody for the Company's clients accounts was RMB2.00 trillion with a market share of 4.97%, ranked No. 5 in the industry, which remained the same as that of last year; in which new client assets amounted to RMB249,400 million (Sources: Shanghai and Shenzhen Stock Exchanges, China Securities Depositary and Clearing Corporation Limited, The Securities Association of China and statistics of the Company). As of the end of 2017, the Group had 302 securities branches, of which 56% were located in the relatively affluent Five Provinces and Two Municipalities (Beijing, Shanghai, Guangdong, Fujian, Zhejiang, Jiangsu and Shandong), and among which 57 were located in Beijing. Being the securities company with the largest number of securities branches in Beijing, the Company has established a solid client base for its brokerage and wealth management businesses. In 2017, China Futures Co., Ltd. completed an amount of agency transactions of RMB5.92 trillion with a market share of 1.58%, representing an increase of 0.18 percentage points, ranking No. 9 in the industry in terms of net profits. (Source: China Futures Association and data collected by the Company)

For the overseas business, China Securities International provides wealth management services to clients of the Company's securities brokerage business including institutional clients. As of the end of 2017, the total asset value under custody for the Company's retail clients reached HK$4,230 million, representing a decrease of 50% as compared to that of the end of 2016; and the total asset value under custody for the Company's institutional clients reached HK$28,520 million, representing an increase of 14% as compared to that of the end of 2016.

Outlook for 2018

In 2018, the brokerage business of the Company will adhere to the basis of compliance and risk management and build a centralized operation center. Capitalizing on technology as a driver, it will focus on development of and services for three major types of clients and will not slacken the pace for further improvement. The Company will enhance its core competitiveness of offering high-quality service, with an aim to build the best investment advisory and transaction brand in the industry and establish the "Invincible Army of Wealth Management" for stable development and improved efficiency.

(2) *Margin Financing and Securities Lending Business*

In 2017, the margin financing and securities lending business of whole market saw steady expansion, and regulatory authorities kept improving the regulation system. The business development was stable. As at the end of 2017, the balance of margin financing and securities lending of the stock markets in Shanghai and Shenzhen was RMB1,026,264 million, which increased by 9.26% as compared to that of the end of 2016 (Source: Wind Info).

During the Reporting Period, with additional capital supplemented by the listing of the Company's H Shares, the Company made a great achievement in the margin financing and securities lending business in 2017, and its business scale was enlarged. According to Wind Info, as at the end of 2017, the closing balance of the Company's margin financing and securities lending business was RMB46,409 million and the market share was 4.52%, increased by 1.34 percentage points as compared to that of the end of last year, ranked No. 9 on a combined basis with two ranks higher than that of the end of last year. The number of margin financing and securities lending accounts was 134,678, representing an increase of 6.03% as compared to that at the end of 2016.

Outlook for 2018

After years of development, the margin financing and securities lending business has become a mature business with reasonable leverage level and controllable risk. In 2018, the Company will promote better and faster development of the margin financing and securities lending business by further conducting in-depth research, strengthening risk control and improving client management and service quality.

(3) *Repurchase Business*

In 2017, the collateralized stock repurchase business of the whole market maintained a momentum of rapid growth. As of the end of 2017, the scale of collateralized stock repurchase business of the whole market amounted to RMB1,624,981 million, representing an increase of 26.56% as compared to that at the end of 2016 (Source: Shanghai and Shenzhen Stock Exchanges).

During the Reporting Period, the collateralized stock repurchase business of the Company accomplished a consistent growth. As of the end of 2017, the balance of the collateralized stock repurchase business of the Company amounted to RMB46,262 million, representing an increase of 29.93% as compared to that at the end of 2016, ranked No. 11 in the industry. As of the end of 2017, the balance of margin accounts of the contractual stock repurchase transaction business of the Company amounted to RMB87 million.

Outlook for 2018

In 2018, the collateralized stock repurchase business will have a larger room for development, and the business scale is expected to remain a steady growth. The Company will hold fast to the prime mission of serving the real economy, implement effective risk control measurements of client and offer better financing services to clients via marketing, business cooperation and other means.

3. *Trading and Institutional Client Services Segment*

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

(1) Equity Sales and Trading Business

The equity sales and trading business of the Company mainly provides trading, advisory and research services, and distributes equity securities underwritten by the Company to institutional clients. The Company also engages in proprietary trading and market-making activities of stocks, funds, ETF, and financial derivatives including stock index futures, commodity futures, options and total return swaps. It provides clients with customized options and swaps products linked to various types of assets to meet the hedging and investment demand of institutional clients.

With respect to the securities trading business, the Company guarded its bottom line for risk management by carefully studying macroeconomic conditions and closely tracking micro data. In the stock market, the Company put more effort into the deployment in the blue-chip segment and the cyclical segment, and obtained a stable investment income. In response to the market downturn and the reluctance for investors to transact, the Company carried out its NEEQ market-making business based on the fundamentals for companies to pursue a balance between value and growth. The Company became qualified to conduct NEEQ market-making business in July 2014 and provided market-making services to 91 listed companies in 2017. Throughout the year of 2017, the Company ranked among top 20 in the market in terms of trade volume of stock relating to NEEQ market-making business, and the relevant turnover amounted to RMB969 million, representing a YoY decrease of 6.83%.

Along with the stable development of the existing business, the Company actively explored new business models in the derivatives trading business to enhance its investment strategies using its own funds to fulfill various business needs of clients. With respect to on-floor business, the Company kept diversifying quantitative investment strategies and variety, expanded the scope of market-making services, and developed bulk commodities related business. With respect to over-the-counter ("OTC") business, the Company consistently enriched the business models of swap transactions and OTC options with new linked subjects and revenue structure to meet the personalized investment needs of clients.

With respect to the securities trading business, as the review and approval procedures of A share IPO were accelerated, the Company successfully completed 25 IPO projects throughout the year of 2017, and ensured that the compliance requirements were met. For non-IPO projects, due to the regulatory policies continued to be adjusted and the investor bases changed rapidly, the Company identified the most suitable investors by carefully analyzing project characteristics and investor preference. In 2017, the Company completed several large non-IPO projects, including Caihong Display Devices Company Limited, Power China and Air China, which demonstrated the Company's strong marketing capability.

Outlook for 2018

As the supply-side structural reform is deepening, the macro-economy is expected to record a much steadier development in 2018, and the equity market will show trends of further recovery. Upholding the value investing concept, the Company will promote the diversification of variety of investment product and strategy, so as to realize stable incomes that are aligned with market conditions.

(2) *Fixed Income Sales and Trading Business*

In 2017, in view of the intensified market competition, whilst maintaining existing major clients, the Company focused on the development of investors including city commercial banks, rural commercial banks and private equity investment firms according to its business development needs. It conducted thorough investigation into bond investment needs of various types of clients and strengthened the communication between issuers and investors to maintain a steady growth in sales performance. In 2017, the Company's scale of corporate bond sales ranked No. 1 in the industry.

In terms of proprietary investment, against the backdrop of deleveraging and supervision enhancement, the bond market fluctuated at a high level while money supply remained tight and balanced in 2017. Under the market condition mentioned above, the Company paid more attention to the stable development of business and effective prevention of a wide variety of risks. On the investment side, the Company prevented long-term risks through reducing leverage and duration while on the liability side, it increased the proportion of medium- and long-term liabilities at an appropriate range to form a more reasonable, stable and diversified liability structure for effective prevention of all types of risks in the market and receipt of relatively satisfactory investment results. In addition, the Company put more effort into the interbank market-making services for the bond market, and significantly improved its ranking among market-makers. In the third and fourth quarter of 2017, the Company was recognized as one of the leaders in market-making services.

The investment advisory business of the Company kept market risks and credit risks well managed, and also kept abreast of market pace to seize trading opportunities, optimize asset structure and utilize derivative instruments properly for arbitrage trading and risk hedging, and accomplished satisfactory investment results. In addition, the Company put more effort in the marketing and product design of the investment advisory business, proactively reached out to extensive market participants, and established cooperation with interested and potential clients to enhance its market influence.

With respect to the asset-backed securitization business, in 2017, the Company steadily developed its asset-backed securitization business, of which both the total size and individual size of asset-backed securitization projects underwritten by us as lead underwriter ranked among the top in the market. The Company's professional underwriting capability, sales ability and project reserve capability were widely recognized by the market. According to the statistics from Wind Info, as of the end of 2017, the size of projects of asset-backed securitization underwritten by the Company as a lead underwriter ranked No. 4 in the market, among which the interbank asset-backed securitization projects ranked No. 3 in the market by underwritten size.

Outlook for 2018

In 2018, the Company will continue to develop the underwriting, issuance and sales business of bonds and asset-backed securitization products, enhance market analysis and seize market opportunities to enhance investment and sales of fixed income products and proactively explore investment advisory business.

(3) Investment Research Business

Specialized research capability is the foundation for institutional client services. The Company's research is well recognized and highly influential in the industry, and highly trusted by institutional clients. The investment research business of the Company mainly provides institutional clients with research consultation services covering macro-economy, fixed income, strategy, industry, corporate, financial engineering and other aspects. Clients mainly include mutual funds, insurance companies, the National Social Security Fund, private equity funds, securities firms and other institutions. The research business of the Company provides clients with research reports and various kinds of tailored research consultation services. As at the end of 2017, the Company had a research and sales team comprising 145 members, and published a total of 3,747 research reports of various types. The Company's stock research covered 23 industries and 2,784 domestic listed companies. In the "15th New Fortune Best Analyst" competition, the Company's research team ranked No. 9, No. 8 and No. 4 in the categories of "Best Domestic Research Team", "Most Influential Research Institution" and "Research Institution with Best Progress", respectively. The Company ranked No. 1 in two sectors, namely the communications sector and the military industry, and No. 2 in the sector of coal mining.

Outlook for 2018

Over recent years, market players have been vying for high-end talents in research business, and new technologies have rapidly penetrated the research business, which provides a greater variety of research products to the market. In 2018, the Company will continue to put more efforts in team building, improve research with wider perspective and deeper insight and promote the pilot program of applying "big data" to offer guidance to industrial research which was initiated in 2017, with the aim to providing different clients and business lines with comprehensive and in-depth services.

(4) Prime Brokerage Business

The Company provides market-leading full-chain prime brokerage services to institutional investors, including trading service, account service, product design and agency sales, institutional investment and financing service, asset custody service, product operation service, research service, financing solution and value-added services. In 2017, the total amount of assets custody and operation services of the Company was RMB138,100 million, representing an increase of 7%, ranked among the top in the industry. Among which, the number of products under asset custody was 1,515, and the number of products under the operation service was 1,351, representing an increase of 52.11% and 115.63%, respectively.

Outlook for 2018

With the promulgation of a series of new regulations on asset control, securities brokers will switch the focus of their institutional businesses back to securities and equity investment. Such a move will help with the risk control of institutional business and will lead the business to an orderly development. In the meantime, the settlement mode pilot program promoted among brokers of mutual funds will boost the trend that mutual fund custody will flow to those securities firms that offer one-stop service covering custody, settlement, transaction and research, which, in turn, will boost a growth in the primary brokerage business of securities brokers who possess mutual fund custody qualifications.

(5) QFII Business

The Company carries out QFII and RQFII brokerage agency business. Currently, the Company's QFII and RQFII businesses have developed a professional service brand featuring advanced transaction system and trading algorithm and extensive research information services. In 2017, the average AUM of the Company's QFII and RQFII business reached approximately RMB3,382 million.

Outlook for 2018

In 2018, the Company will continue to leverage and consolidate its domestic business as well as its overseas platform of China Securities International to build a diversified client network and cultivate core competitiveness. It will continue to explore the international market and proactively carry out QFII and RQFII businesses to provide its clients with high-level, all-round, diversified, differentiated and integrated financial services.

4. Investment Management Segment

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

(1) *Asset Management Business*

The Group provides professional asset management services including collective asset management, targeted asset management and asset-backed securitization in order to help clients to preserve or increase values of their financial assets. It has currently established a wide range of selection of product line covering currency, bond, stock, mixed type, project investment, derivative investment, quantitative investment and funds of funds, and further enriched categories of product including "fixed income＋" and "interests＋" in 2017, which have met investment demands of clients with difference preference of risk.

As of the end of 2017, the Company's AUM reached approximately RMB639,300 million, ranked No. 7 in the industry. The Company is now transforming its asset management business to actively managed business. As of the end of 2017, the AUM of actively managed wealth management products of the Company amounted to approximately RMB154,300 million. The proportion of the AUM under actively managed business to the total AUM recorded an increase of 5 percentage points as compared to that at the end of 2016.

The scale of the Company's asset management business is as follows:

Unit: RMB'00 million

	AUM	
	31 December 2017	31 December 2016
Collective asset management business	218.81	224.90
Targeted asset management business	6,036.28	7,808.45
Specialized asset management business	137.42	80.96
Total	6,392.51	8,114.31

Source: the Securities Association of China and statistics of the Company

For the overseas business, China Securities International provides consultation services and asset management with various investment instruments. As of the end of 2017, its total AUM reached US$699 million.

Outlook for 2018

In 2018, the Company will follow regulatory development and market trends, develop actively managed business with all its strength and enhance its investment management capability, and diversify its business and products, in order to meet clients' diversified demands and expand client coverage, so as to further consolidate the foundation for its asset management business.

(2) *Fund Management Business*

The Group established a fund management subsidiary, China Securities Funds, in September 2013 and has strived to develop it into an advanced fund management platform with robust and prudent investment style. China Securities Funds has a highly diversified client base covering commercial banks, securities firms, trust companies, insurance companies, financial companies, private equity funds and other clients.

As of the end of 2017, the AUM of the fund was RMB137,727 million, representing a decrease of 35.17% as compared to that at the end of 2016. Among which, the AUM of mutual funds was RMB8,628 million, representing a decrease of 8.71% as compared to that at the end of 2016. The segregated account fund products (including that of Yuandaxin Capital Management (Beijing) Company Limited (元達信資本管理(北京)有限公司) was RMB129,099 million, representing a decrease of 36.40% as compared to that at the end of 2016. The fund management business of the Company recorded a good performance in 2017 and survived the challenge of significant fluctuation in the bond market throughout the year of 2017. As of the end of 2017, all fund products of the Company reported good performance, with 14 out of 16 mutual fund products recording accumulated profits and 11 out of 12 mutual fund products that span over one year recording positive return in 2017, among which, the yields of 2 funds were over 13%.

Outlook for 2018

In 2018, China Securities Fund will endeavor to improve its investment research capability to speed up the process of product innovation. It will strengthen cooperation with institutional clients to enhance core competitiveness, so as to achieve steady growth in the AUM and transform China Securities Fund into a fund management company with unique features in China.

(3) *Private Equity Investment Business*

In 2017, China Securities Capital upheld "serve the real economy and guard against financial risks" as its guidance principle and sought an appropriate industry position according to overall national security outlook and development of multi-level capital market. With a firm commitment of serving the real economy, China Securities Capital leveraged on its role to optimize resource allocation and served as a bridge between financial capital and real economy to promote real economy development and industry structural transformation and upgrading through active investment.

In 2017, China's equity market continued to see active trading and robust momentum, and became the second largest equity market in the world. Facing financial market reform and changes in regulatory methods, China Securities Capital reinforced institutional cooperation and built a long-term collaboration mechanism with large financial institutions, central enterprises and state-owned enterprises. Meanwhile, China Securities Capital adhered to state-led policies and closely tracked investment hot spots, explored premium projects and consolidated equity investments, so as to achieve steady and strong development.

As of the end of 2017, China Securities Capital managed a total of 24 funds, including 8 integrated funds, 4 industrial funds, 9 designated funds, 2 real estate infrastructure funds and 1 Fund of Funds. The funds under management reached RMB18,626 million, representing an increase of 330.66% compared to that at the end of 2016. As at the end of 2017, China Securities Capital completed 100 investment projects, including 7 main board listings, 22 NEEQ quotations, and 12 whole and partial exit projects, with average investment yield of 306%.

Outlook for 2018

In 2018, China Securities Capital will continue to strengthen cooperation between institutions, tap into investment hot spots, and focus on healthcare, culture and education, consumption upgrade, smart manufacturing and other key industries. It will explore premium projects, enhance investment into matured companies, and put more effort to the investment in M&A and Pre-IPO projects. China Securities Capital will enlarge the size of funds through M&A and Fund of Funds, so as to establish and increase its influence as a professional investment manager.

FINANCIAL STATEMENT ANALYSIS

Profitability Analysis

In 2017, the Group continued to maintain a positive development in respect of its various business operations and both of its revenue and net profit remained at a historical high level.

In 2017, the Group recognized total operating revenue and other income of RMB16,421 million, representing a YoY decrease of 6.61%. Net profit attributable to equity holders of the Company amounted to RMB4,015 million, representing a YoY decrease of 23.65%. Basic earnings per Share amounted to RMB0.51, representing a YoY decrease of 37.04%. Return on weighted average equity was 9.92%, decreasing YoY by 8.18 percentage points.

Asset Structure and Asset Quality

Total assets and total liabilities increased at different levels. In 2017, the Group completed the over-allotment of H Shares and the issuance of RMB-denominated corporate bonds, enabling the Group to supplement its working capital and maintain good liquidity. During the Reporting Period, due to market fluctuations, the Group made corresponding allowances for impairment losses in respect of assets which had indication of impairment, enabling the Group to maintain more prudent operations and high asset quality.

As of 31 December 2017, the Group's total assets amounted to RMB205,883 million, representing a YoY increase of RMB24,188 million, or 13.31%. Excluding accounts payable to brokerage clients, the Group's total assets amounted to RMB164,467 million, representing a YoY increase of RMB39,508 million, or 31.62%. As of 31 December 2017, the Group's total liabilities amounted to RMB161,885 million, representing a YoY increase of RMB21,453 million, or 15.28%. Excluding accounts payable to brokerage clients, the Group's total liabilities amounted to RMB120,468 million, representing a YoY increase of RMB36,772 million, or 43.94%. As of 31 December 2017, the Group's equity attributable to equity holders of the Company amounted to RMB43,754 million, representing a YoY increase of RMB2,691 million, or 6.55%.

A stable asset and liability structure was maintained. As of 31 December 2017, excluding accounts payable to brokerage clients, the Group's total assets amounted to RMB164,467 million, among which investments, including investments in associates and investments in financial assets, accounted for 44.47% of the total assets; margin accounts and financial assets held under resale agreements accounted for 44.92% of the total assets; cash and bank balances accounted for 6.83% of the total assets; and other assets in aggregate accounted for 3.78% of the total assets.

As of 31 December 2017, excluding accounts payable to brokerage clients, the Group's total liabilities amounted to RMB120,468 million with a high proportion of short-term liabilities, among which the amount from financial assets sold under repurchase agreements was RMB29,147 million, representing 24.20% of the total liabilities; the amount from short-term borrowings, placements from banks and other financial institutions, short-term financing instruments payable and non-current liabilities due within one year was RMB50,692 million, representing 42.08% of the total liabilities; the amount from issued debt instruments and long-term borrowings was RMB23,873 million, representing 19.82% of the total liabilities; the amount from financial liabilities held for trading, financial liabilities designated as at fair value through profit or loss and derivative financial liabilities was RMB424 million, representing 0.35% of the total liabilities; and the amount from other liabilities in aggregate was RMB16,332 million, representing 13.55% of the total liabilities.

The gearing ratio of the Group slightly increased. As of 31 December 2017, excluding accounts payable to brokerage clients, the gearing ratio of the Group was 73.25%, representing a YoY increase of 6.27 percentage points.

Cash Flow Status

Excluding accounts payable to brokerage clients, the Group's net decrease in cash and cash equivalents was RMB6,065 million in 2017, representing a YoY decrease of RMB7,437 million, which was mainly due to the significant increase in cash outflow from operating activities YoY.

Net cash inflow from operating activities in 2017 was RMB-30,447 million, representing a YoY increase of cash outflow of RMB50,858 million as compared to an inflow of RMB20,411 million in 2016, which was mainly attributable to the increase in net cash outflows from financial assets held for trading, margin accounts and financial assets held under resale agreements.

Net cash inflow from investing activities in 2017 was RMB-3,969 million, representing a YoY decrease of cash outflow of RMB13,325 million as compared to an inflow of RMB-17,294 million in 2016, which was mainly attributable to the YoY decrease in net cash outflow from purchase of available-for-sale financial assets.

Net cash inflow from financing activities in 2017 was RMB28,352 million, representing a YoY increase of cash inflow of RMB30,097 million as compared to cash inflow of RMB-1,745 million in 2016, which was mainly attributable to the increase in net cash amount from over-allotment of H Shares and bond issuance by the Group during the Reporting Period.

Access to and Ability of Financing

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

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

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

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

ANALYSIS ON INCOME STATEMENT

Financial Highlights

In 2017, the Group accomplished a profit before income tax of RMB5,355 million, representing a YoY decrease of 24.12%. Major financial highlights of the Group are as below:

Unit: RMB million

Items	2017	2016
Fee and commission income	8,781	10,584
Interest income	5,257	4,441
Investment gains	2,414	2,412
Other income	-31	147
Total expenses	11,072	10,524
Profits and losses attributable to associates	6	-3
Profit before income tax	5,355	7,057
Income tax expense	1,294	1,744
Profit attributable to equity holders of the Company	4,015	5,259

Structure of Total Revenue and Other Income

In 2017, the total operating revenue and other income of the Group amounted to RMB16,421 million, representing a YoY decrease of 6.61%. The structure of revenue remained relatively stable. The revenue structure of the Group in the past five years is as follows:

Items	2017	2016	2015	2014	2013
Fee and commission income	53.47%	60.19%	60.79%	57.12%	59.93%
Interest income	32.01%	25.25%	22.73%	25.59%	22.14%
Investment gains	14.70%	13.72%	16.24%	16.61%	17.03%
Other income	-0.18%	0.84%	0.24%	0.68%	0.90%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Fee and Commission Income

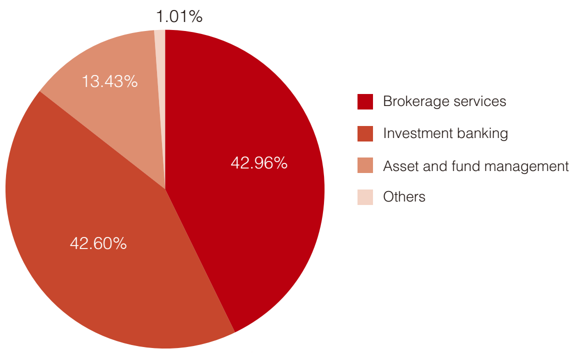
In 2017, the net fee and commission income of the Group amounted to RMB7,609 million, representing a YoY decrease of 17.25%. Such decrease was mainly due to the decrease in fee and commission income from brokerage business and investment banking business. The breakdown of fee and commission income of the Group during 2016 and 2017 is as follows:

Unit: RMB million

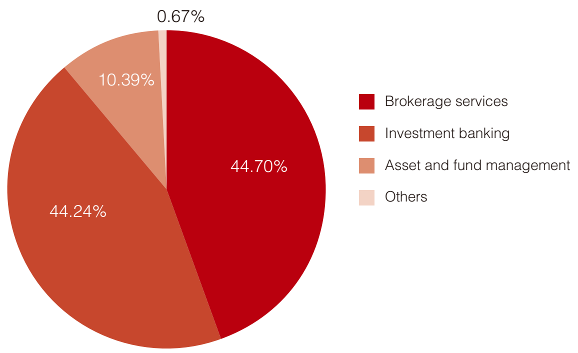
Items	2017	2016	Change	Change in percentage
Fee and commission income				
Brokerage services	3,772	4,731	-959	-20.27%
Investment banking	3,741	4,682	-941	-20.10%
Asset and fund management	1,179	1,100	79	7.18%
Others	89	71	18	25.35%
Fee and commission expenses	1,172	1,389	-217	-15.62%
Net fee and commission income	7,609	9,195	-1,586	-17.25%

The Breakdown of Fee and Commission Income in 2016 and 2017

The Breakdown of Fee and Commission Income in 2017



The Breakdown of Fee and Commission Income in 2016



The fee and commission income from brokerage business decreased by RMB959 million, or 20.27% YoY, which was mainly due to continuous decrease in the commission rate of the Company as a result of the fact that in 2017, the trading volume of stocks and funds in A share market in the PRC decreased by nearly 12% YoY.

The fee and commission income from investment banking business decreased by RMB941 million, or 20.10% YoY. In 2017, the amount underwritten for corporate bonds in which the Company acted as a lead underwriter decreased by 55.53% as a result of the combined impact of the tightened policies and market condition, with a decrease in the fee and commission income from investment banking business.

The fee and commission income from asset and fund management business increased by RMB79 million, or 7.18% YoY. As of 31 December 2017, the AUM of entrusted assets of the Company amounted to RMB639.3 billion, ranked No. 7 in the industry in terms of the proportion of the total AUM of entrusted assets in the asset management business.

Interest Income

In 2017, the net interest income of the Group amounted to RMB1,325 million, representing a YoY decrease of RMB267 million. The table below sets out the major composition of the net interest income of the Group during the indicated periods:

Unit: RMB million

Items	2017	2016	Change	Change in percentage
Interest Income				
– Margin financing and securities lending	2,946	2,417	529	21.89%
– Financial assets held under resale agreements	721	198	523	264.14%
– Bank deposits	1,568	1,790	-222	-12.40%
– Others	22	36	-14	-38.89%
Interest expenses				
– Accounts payable to brokerage clients	193	228	-35	-15.35%
– Financial assets sold under repurchase agreements	1,124	677	447	66.03%
– Placements from banks and other financial institutions	483	231	252	109.09%
– Borrowings	46	40	6	15.00%
– Bonds issued and short-term financing instruments payable	1,963	1,457	506	34.73%
– Others	123	216	-93	-43.06%
Net interest income	1,325	1,592	-267	-16.77%

Interest income on margin financing and securities lending increased by RMB529 million, or 21.89% YoY, which was mainly due to an increase in interest income resulting from the increase of scale in margin financing and securities lending business during the year as a result of the possession of adequate capital.

Interest income on financial assets held under resale agreements increased by RMB523 million, or 264.14% YoY, which was mainly due to an increase in interest income arising from collateralized stock repurchase business. In 2017, collateralized stock repurchase business in the market kept an increasing trend, recording a growth of business scale compared with the end of 2016.

Interest income on bank deposits decreased by RMB222 million, or 12.40% YoY, which was mainly due to a decrease in interest income arising from capital deposits of clients.

Interest expenses increased by RMB1,083 million, or 38.01% YoY, which was mainly due to an increase in interest expenses arising from financial assets sold under repurchase agreements, placements from banks and other financial institutions, issued bonds and short-term financing instruments payable.

Net Investment Gains

In 2017, the net investment gains of the Group amounted to RMB2,414 million, representing a YoY increase of 0.08%. The table below sets out the major composition of the net investment gains of the Group during the indicated periods:

Unit: RMB million

Items	2017	2016	Change	Change in percentage
Net gains from available-for-sale financial assets	1,542	1,470	72	4.90%
Net gains from financial instruments held for trading and financial instruments designated as at fair value through profit or loss	1,106	950	156	16.42%
Others	-234	-8	-226	N/A
Total	2,414	2,412	2	0.08%

Net gains from available-for-sale financial assets increased by RMB72 million, or 4.90% YoY, attributable to a decrease of RMB471 million, or 98.17% in gains from the disposal of available-for-sale financial assets, and an increase of RMB543 million, or 54.92% in dividend income and interest income from available-for-sale financial assets held by the Group.

Net gains from financial instruments held for trading and financial instruments designated as at fair value through profit or loss increased by RMB156 million, or 16.44% YoY, among which investment gains arising from the holding and disposal of such instruments by the Group decreased by RMB97 million and the gains arising from changes in the fair value increased by RMB253 million.

Other investment gains decreased by RMB226 million YoY, which was mainly attributable to the decrease of net gains from derivative financial instruments and net gains attributable to other shareholders of consolidated structured entities.

Total Expenses

In 2017, the total expenses of the Group (excluding fee and commission expenses and interest expenses) amounted to RMB5,968 million, representing a YoY decrease of RMB318 million, or 5.06%.

The table below sets out the major composition of the expenses of the Group during the indicated periods:

Unit: RMB million

Items	2017	2016	Change	Change in percentage
Staff costs	4,103	4,282	-179	-4.18%
Tax and surcharges	87	347	-260	-74.93%
Other operating expenses and costs	1,702	1,659	43	2.59%
Impairment losses/(reversal)	76	-2	78	N/A
Total	5,968	6,286	-318	-5.06%

Staff costs for the year recorded a decrease of RMB179 million, or 4.18% YoY, which was mainly due to the decrease in performance-based remuneration.

Tax and surcharges for the year recorded a decrease of RMB260 million, or 74.93% YoY, which was mainly due to the transformation from business tax to value-added tax in the Company and domestic subsidiaries in the PRC in May 2016. The business tax is excluded from tax and surcharges for the period.

Asset impairment losses for 2017 amounted to RMB76 million, representing an increase of RMB78 million YoY, which was mainly due to the increase in asset impairment losses of available-for-sale financial assets and margin financing and securities lending business.

The table below sets out the composition of the impairment losses of the Group during the indicated periods:

Unit: RMB million

Items	2017	2016	Change	Change in percentage
Available-for-sale financial assets	32	15	17	113.33%
Margin financing and securities lending	24	-38	62	N/A
Financial assets held under resale agreements	19	21	-2	-9.52%
Others	1	–	1	100%
Total	76	-2	78	N/A

ANALYSIS ON FINANCIAL POSITION

Assets

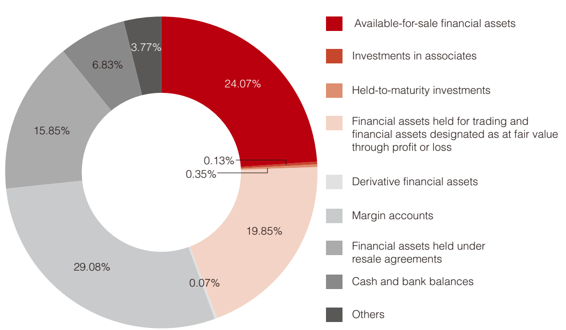
As of 31 December 2017, the total assets of the Group were RMB205,883 million, representing a YoY increase of 13.31%. Excluding the effect of accounts payable to brokerage clients, the total assets of the Group amounted to RMB164,467 million as at 31 December 2017, representing a YoY increase of 31.62%. Major changes in the total assets of the Group were as follows:

Unit: RMB million

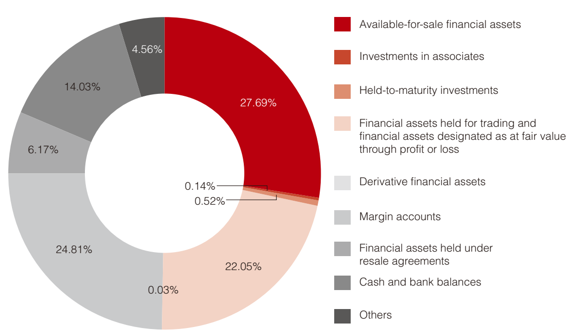
Items	31 December 2017	31 December 2016	Change	Change in percentage
Available-for-sale financial assets	39,582	34,595	4,987	14.42%
Investments in associates	206	172	34	19.77%
Held-to-maturity investments	579	654	-75	-11.47%
Financial assets held for trading and financial assets designated as at fair value through profit or loss	32,649	27,553	5,096	18.50%
Derivative financial assets	120	49	71	144.90%
Margin accounts	47,821	31,007	16,814	54.23%
Financial assets held under resale agreements	26,065	7,705	18,360	238.29%
Cash and bank balances	11,228	17,526	-6,298	-35.94%
Others	6,217	5,698	519	9.11%
Total	164,467	124,959	39,508	31.62%

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

Analysis of the Components of Assets at the end of 2017



Analysis of the Components of Assets at the end of 2016



Investments

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

As of 31 December 2017, the total external investments of the Group were RMB73,136 million, representing a YoY increase of RMB10,113 million, or 16.05%. Its total external investments accounted for 44.47% of the total assets, representing a YoY decrease of 5.96 percentage points.

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

Unit: RMB million

	31 December 2017		31 December 2016	
Items	Amount	Percentage to total assets	Amount	Percentage to total assets
Available-for-sale financial assets	39,582	24.07%	34,595	27.69%
Investments in associates	206	0.13%	172	0.14%
Held-to-maturity investments	579	0.35%	654	0.52%
Financial assets held for trading and financial assets designated as at fair value through profit or loss	32,649	19.85%	27,553	22.05%
Derivative financial assets	120	0.07%	49	0.03%
Total	73,136	44.47%	63,023	50.43%

Available-for-Sale Financial Assets

As of 31 December 2017, available-for-sale financial assets of the Group increased by RMB4,987 million, or 14.42% YoY, accounting for 24.07% of the total assets of the Group, which was mainly due to the increase in the Company's investments in debt instruments. The following table sets forth the available-for-sale financial assets portfolio of the Group:

Unit: RMB million

Items	31 December 2017 Amount	31 December 2017 Percentage to total available-for-sale financial assets	31 December 2016 Amount	31 December 2016 Percentage to total available-for-sale financial assets
Debt securities	26,687	67.42%	20,169	58.30%
Equity investments	1,576	3.98%	1,607	4.65%
Fund investments	486	1.23%	423	1.22%
Others	10,833	27.37%	12,396	35.83%
Total	39,582	100.00%	34,595	100.00%

Investments in Associates

Unit: RMB million

Items	31 December 2017	31 December 2016	Change	Change in percentage
Investments in associates	206	172	34	19.77%

As of 31 December 2017, the Group's investments in associates increased by RMB34 million, or 19.77% YoY, which was mainly due to the increase in the number of associates during the Reporting Period.

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

As of 31 December 2017, the Group's financial assets held for trading and financial assets designated as at fair value through profit or loss accounted for 19.85% of the total assets of the Group, and increased by RMB5,096 million, or 18.50% YoY, which was mainly due to the increase in equity investments held for trading.

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

Unit: RMB million

Items	31 December 2017	31 December 2016	Change	Change in percentage
Debt instruments held for trading	22,491	21,513	978	4.55%
Equity investments held for trading	4,295	1,247	3,048	244.43%
Fund investments held for trading	908	1,210	-302	-24.96%
Financial assets designated as at fair value through profit or loss	307	325	-18	-5.54%
Others	4,648	3,258	1,390	42.66%
Total	32,649	27,553	5,096	18.50%

Cash and Bank Balances

As of 31 December 2017, cash and bank balances decreased by RMB6,298 million YoY, which was mainly attributable to the increase in margin accounts and financial assets held under resale agreements.

Unit: RMB million

Items	31 December 2017	31 December 2016	Change	Change in percentage
Cash and bank balances	11,228	17,526	-6,298	-35.94%

Liabilities

As of 31 December 2017, total liabilities of the Group amounted to RMB161,885 million, representing a YoY increase of RMB21,453 million, or 15.28%. Excluding the effect of accounts payable to brokerage clients, total liabilities of the Group would have amounted to RMB120,468 million as at 31 December 2017, representing a YoY increase of 43.94%. The following table sets out the breakdown of the total liabilities of the Group as of the dates indicated:

Unit: RMB million

Items	31 December 2017	31 December 2016	Change	Change in percentage
Accounts payable to brokerage clients	41,417	56,736	-15,319	-27.00%
Short-term borrowings, placements from banks and other financial institutions, short-term financing instruments payable and non-current liabilities falling due within one year	50,692	24,899	25,793	103.59%
Financial liabilities held for trading, financial liabilities designated as at fair value through profit or loss and derivative financial liabilities	424	3,115	-2,691	-86.39%
Financial assets sold under repurchase agreements	29,147	25,031	4,116	16.44%
Issued debt instruments and long-term borrowings	23,873	13,653	10,220	74.86%
Others	16,332	16,998	-666	-3.92%
Total	161,885	140,432	21,453	15.28%

During the year, the A share market in China recorded a decrease in overall trading volume as compared to that of 2016. As of 31 December 2017, the domestic accounts payable to brokerage clients decreased significantly. Total accounts payable to brokerage clients of the Group amounted to RMB41,417 million and accounted for 25.58% of the total liabilities of the Group, representing a YoY decrease of RMB15,319 million, or 27.00%.

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

Unit: RMB million

Items	31 December 2017	31 December 2016	Change	Change in percentage
Mainland China	39,533	54,898	-15,365	-27.99%
– Individual	31,204	42,742	-11,538	-26.99%
– Corporate	8,329	12,156	-3,827	-31.48%
Outside Mainland China	1,884	1,838	46	2.50%
Total	41,417	56,736	-15,319	-27.00%

As of 31 December 2017, short-term borrowings, placements from banks and other financial institutions, short-term financing instruments payable and non-current liabilities falling due within one year amounted to RMB50,692 million in aggregate, representing an increase of 103.59% YoY, mainly attributable to the increase in the issuance scale of short-term financing instruments payable.

As of 31 December 2017, financial liabilities held for trading, financial liabilities designated as at fair value through profit or loss and derivative financial liabilities amounted to RMB424 million, representing a YoY decrease of 86.39%, mainly attributable to the decrease in financial liabilities held for trading.

As of 31 December 2017, financial assets sold under repurchase agreements increased by RMB4,116 million, or 16.44% YoY, which was mainly attributable to the increase in beneficial rights over margin financing and securities lending sold under repurchase agreements.

As of 31 December 2017, the Group's total outstanding amount of bonds payable due beyond one year amounted to RMB23,873 million, representing a YoY increase of RMB10,220 million. In 2017, the Group newly issued four tranches of corporate bonds, and increased the issuance of long-term income voucher.

Equity

As of 31 December 2017, the total equity of the Group amounted to RMB43,999 million, representing a YoY increase of 6.63%, mainly attributable to the increase in net profit. The following table sets out the components of the Group's total equity as at the dates indicated:

Unit: RMB million

Items	31 December 2017	31 December 2016
Share capital	7,246	7,176
Other equity instruments	5,000	5,000
Capital reserve	7,085	6,740
Surplus reserves	2,702	2,294
General reserve	6,930	6,152
Investment revaluation reserve	-270	-188
Foreign currency translation reserve	42	102
Retained earnings	15,019	13,787
Non-controlling interests	245	200
Total	43,999	41,263

ANALYSIS OF PRINCIPAL SUBSIDIARIES AND NON-CONTROLLING COMPANIES

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

Name	Shareholding of the Company	Date of Establishment	Registered Capital	Place of Business	Registered Address	Contact Number
China Securities Futures	100%	16 March 1993	RMB700 million	11-B (Parallel to Ground Level)/11-A, 8-B4, 9-B&C (Nominal Level), Shangzhan Building, 107 Zhongshan, Third Road, Yuzhong District, Chongqing (重慶市渝中區中山三路107號上站大樓平街11-B，名義層11-A，8-B4，9-B、C)	11-B (Parallel to Ground Level)/11-A, 8-B4, 9-B&C (Nominal Level), Shangzhan Building, 107 Zhongshan Third Road, Yuzhong District, Chongqing (重慶市渝中區中山三路107號上站大樓平街11-B，名義層11-A，8-B4，9-B、C)	+8623-86769602

Name	Shareholding of the Company	Date of Establishment	Registered Capital	Place of Business	Registered Address	Contact Number
China Securities Capital	100%	31 July 2009	RMB1,650 million	12/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座12層)	Room 2, East Side, 6/F, 188 Chaoyangmennei Avenue, Dongcheng District, Beijing (北京市東城區朝陽門內大街188號6層東側2間)	+8610-85130648
China Securities International	100%	12 July 2012	Share capital of HK$1,000 million	18/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong	18/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong	+852-34655600
China Securities Funds	55%	9 September 2013	RMB300 million	17&19/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座17、19層)	Unit 1, Building No. 3, Balongqiao Yayuan, Qiaozi Town, Huairou District, Beijing (北京市懷柔區橋梓鎮八龍橋雅苑3號樓1室)	+8610-59100211
China Securities Investment	100%	27 November 2017	RMB1,000 million	9/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座9層)	Unit 109, Block C, Beijing Fund Town Center, No. 1 Jinyuan Avenue, Changgou Town, Fangshan District, Beijing (北京市房山區長溝鎮金元大街1號北京基金小鎮大廈C座109)	+8610-85130622

In addition, the associate of the Company also includes:

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

GENERAL INFORMATION ABOUT THE SUBSIDIARIES OF THE COMPANY IS AS FOLLOWS:

(1) China Securities Futures is a wholly owned subsidiary of the Company with registered capital of RMB700 million. As of 31 December 2017, total assets and net assets of China Securities Futures amounted to RMB6,231.13 million and RMB1,164.04 million, respectively. In 2017, China Securities Futures realized total revenue and other income amounting to RMB425.14 million in aggregate, profit before income tax amounting to RMB215.21 million and net profit amounting to RMB184.82 million.

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

(2) China Securities Capital is a wholly owned subsidiary of the Company with registered capital of RMB1,650 million. As of 31 December 2017, total assets and net assets of China Securities Capital amounted to RMB1,775.88 million and RMB980.83 million, respectively. In 2017, China Securities Capital realized total revenue and other income amounting to RMB186.65 million in aggregate, profit before income tax amounting to RMB125.31 million and net profit amounting to RMB95.67 million.

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

(3) China Securities International is a wholly owned subsidiary of the Company with share capital of HK$1,000 million. As of 31 December 2017, total assets and net assets of China Securities International amounted to RMB7,309.74 million and RMB937.11 million, respectively. In 2017, China Securities International realized total revenue and other income amounting to RMB511.57 million in aggregate, profit before income tax amounting to RMB100.78 million and net profit amounting to RMB83.09 million.

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

(4) China Securities Funds is a controlling subsidiary of the Company with registered capital of RMB300 million. As of 31 December 2017, total assets and net assets of China Securities Funds amounted to RMB557.23 million and RMB487.52 million, respectively. In 2017, China Securities Funds realized total revenue and other income amounting to RMB319.72 million in aggregate, profit before income tax amounting to RMB119.34 million and net profit amounting to RMB89.41 million.

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

(5) China Securities Investment is a wholly owned subsidiary of the Company newly established in 2017, with registered capital of RMB1,000 million. Registration with commercial and industrial administrative authorities has been completed.

The principal business of China Securities Investment includes equity investment management, investment advisory service (excluding intermediary services) and project investment.

GENERAL INFORMATION OF AN ASSOCIATE IS AS FOLLOWS:

Zhongguancun Equity Exchange Services Group Limited (中關村股權交易服務集團有限公司) is an associate of the Company with registered capital of RMB500 million. As of 31 December 2017, total assets and net assets of Zhongguancun Equity Exchange Services Group Limited amounted to RMB1,334.19 million and RMB1,251.45 million, respectively. In 2017, Zhongguancun Equity Exchange Services Group Limited realized total revenue and other income amounting to RMB93.41 million in aggregate, total profit amounting to RMB33.85 million and net profit amounting to RMB33.34 million (unaudited).

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

Introduction of branches

General information of branches is as follows:

No.	Branches	Registered address	Establishment date	Contact number
1	Hubei Branch	3rd Floor, Block A, Longyuan Building, No.24 Zhongbei Road, Wuchang District, Wuhan, Hubei Province	6 February 2012	+8627-87890238
2	Shanghai Branch	Room 1605, 1606 and 1607, No.518 Kunming Road, Yangpu District, Shanghai	6 February 2012	+8621-55138027
3	Shenyang Branch	No. 1, 12/F, No.61 North Station Road, Shenhe District, Shenyang City, Liaoning Province	7 February 2012	+8624-24850032
4	Jiangsu Branch	2rd Floor, Yellow River Building, No.58 Longyuan West Road, Gulou District, Nanjing	13 February 2012	+8625-83156599
5	Hunan Branch	No. 9, Section 2 Furong Middle Road, Furong District, Changsha City	1 March 2013	+86731-82221988
6	Fujian Branch	3rd Floor, Wuyi Center, No.33 East Street, Gulou District, Fuzhou City	16 April 2013	+86591-87507275
7	Zhejiang Branch	Room 604, 6th Floor, No. 225 Qingchun Road, Shangcheng District, Hangzhou City	18 April 2013	+86571-87066526
8	Northwest Branch	No.56 South Street, Beilin District, Xi'an, Shaanxi Province	19 April 2013	+8629-87284370
9	Guangdong Branch	Room 5102 and 5105, No.30 Pearl River East Road, Tianhe District, Guangzhou	24 April 2013	+8620-38381166
10	Chongqing Branch	2-2, Building 2, Yifenghao, No. 195 Longshan Road, Longshan Street, Yubei District, Chongqing	14 April 2014	+8623-63627888
11	Shenzhen Branch	22F, Building B, Rongchao Business Center, No. 6003 Yitian Road, Futian District, Shenzhen	21 April 2014	+86755-63627888
12	Sichuan Branch	No. 25, South 3rd Section of Yihuan Road, Wuhou District, Chengdu City	25 April 2014	+8628-85548177

No.	Branches	Registered address	Establishment date	Contact number
13	Shandong Branch	11th Floor of No.4 Building, No. 8 Long'ao North Road, Lixia District, Jinan City	23 May 2014	+86531-86908939
14	Jiangxi Branch	Unit 05, 30th Floor, Building 2#, Heping International Hotel, No. 69 North Yanjiang Road, Donghu District, Nanchang City	28 May 2014	+86791-86691228
15	Henan Branch	1st to 2nd floor, China Building, No.3 Business Outer Ring Road, Zhengdong New District, Zhengzhou	3 June 2014	+86371-87519966
16	Shanghai Free Trade Zone Branch	Room 2206, North Block, No. 528 Pudong South Road, China (Shanghai) Free Trade Pilot Zone	26 September 2014	+8621-68821628
17	Tianjin Branch	Room 201, South Building, International Exchange Center, Tianjin University of Technology, No.26 Yuliang Road, Nankai District, Tianjin	10 November 2014	+8622-23009666

Note: The "establishment date" refers to the date the branch obtained its business license from securities institutions.

EXPLANATION OF CHANGES IN SCOPE OF STATEMENT CONSOLIDATION

During the Reporting Period, the number of structural entities included in the consolidated financial statements of the Company changed to seven. The number of primary entities included in the consolidated financial statement of the Company changed to twelve, with one primary subsidiary being newly established.

NO CHANGE IN THE INCOME TAX POLICY OF THE COMPANY DURING THE REPORTING PERIOD

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

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

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

PROFIT DISTRIBUTION POLICY OF THE COMPANY

Formulation and implementation of cash dividend policy

The Company attaches importance to the reasonable investment returns to investors and carries out a consistent and stable profit distribution policy. The formulation and implementation of profit distribution policy of the Company, especially the cash dividend policy, is in strict compliance with relevant provisions of the Articles of Association and has been considered and approved by the Board and the general meeting, with clear standards and proportion of dividends and well-established decision-making procedures and mechanism.

From 2015 to 2017, the Company's dividend was as follows:

Unit: yuan; Currency: RMB

Year of dividend	Amount of dividends per ten shares	Amount of cash dividends (tax inclusive)	Net profit attributable to shareholders of the Company in the consolidated annual report of the dividend year	Proportion of net profit attributable to shareholders of the Company in the consolidated statement
2017	–	–	4,015,427,677.06	–
2016	1.80	1,304,349,342.84	5,259,251,675.20	24.80%
2015	–	–	8,638,825,423.47	–

2017 profit distribution plan

Confirmed by the audit of auditors, the Company achieved a net profit of RMB3,756,795,176.57 in 2017. According to relevant regulations of the Company Law, the Securities Law, the Financial Regulations of Financial Enterprises (Ministry of Finance, No.42) and the Articles of Association, the Company distributed its net profit for 2017 according to the following orders:

According to 10% of net profit, a statutory reserve of RMB375,679,517.66 was drawn;

According to 10% of net profit, a general risk reserve of RMB375,679,517.66 was drawn;

According to 10% of net profit, a trading risk reserve of RMB375,679,517.66 was drawn.

The above three items totaled RMB1,127,038,552,98, subtracting the Company's interest on perpetual bonds of RMB294,000,000.00 for the year and subtracting the dividends for 2016 distributed in the year of RMB1,304,349,342.84 and adding undistributed profit at the beginning of the year of RMB13,044,949,100.20, and the Company's undistributed profit at the end of the year was RMB14,076,356,380.95.

Currently, the Company is advancing relevant work of A-share issuance and listing. According to relevant regulations of the China Securities Regulatory Commission and taking such factors as the development of the Company and shareholders' interests into full consideration, the general meeting approved not to carry out the 2017 profit distribution. In order to protect investors' reasonable investment returns and implement a sustainable and stable profit distribution policy, the Company will consider the mid-term profit distribution of 2018 based on the progress of its A share issuance and listing and then A separate general meeting of shareholders will be convened for deliberation.

RISK MANAGEMENT

Description of Risk Management of the Company

Overview

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

Structure of Risk Management

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

The Board of Directors makes decisions with respect to the Company's risk management strategies and policies, internal control arrangements, as well as the resolution of significant risk events. The Supervisory Committee carries out supervision on the performance of risk management duties of the Board of Directors, Executive Committee and senior management in accordance with laws, regulations and the Articles of Association.

The Risk Management Committee under the Board of Directors is responsible for supervising the overall risk management of the Company in general and ensuring the risks are adequately managed so that management activities may be effectively carried out on risks associated with the Company's business and operating activities. The Risk Management Committee considers and advises the overall objectives and basic policies of compliance management and risk management, confirms the specific constitution of risk management strategies and risk management resources so that they are aligned with the internal risk management policies; formulates tolerance level for major risks; and supervises and reviews the risk management policies and makes recommendations to the Board.

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

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

The Chief Risk Officer of the Company, serving also as the chairman of the Company Risk Management Committee, is responsible for leading professional risk management activities across the Company, including organizing the formulation of relevant risk management rules and procedures, improving the Company's risk management practices, and guiding the Risk Management Department in the identification, evaluation, monitoring and reporting of various risks.

Each and every department, branch and subsidiary of the Company, within their respective roles and responsibilities, is responsible for following the decisions, rules and procedures, and risk control polices, and implementing risk-control measures and engaging in direct risk control efforts in their business activities. Every staff of the Company has the responsibility to comply with the Company's relevant rules and procedures and contribute to daily risk control efforts as part of their own job responsibilities.

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

Risk Management Mechanism

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

The Risk Management Department formulates the risk monitoring processes and indicators for key business and management lines. In particular, risk monitoring indicators for brokerage business, proprietary business, securities financing business, and asset management business as well as risk control indicators including net capital are monitored through the monitoring system, while the risk monitoring for other business or management lines primarily relies on regular and ad hoc monitoring by means of on-site monitoring, risk information reporting, information access and regular meetings.

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

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

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

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

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

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

Strategic Risk Management

The Company established rational organizational structure of strategic management, including the Board of Directors and the Development Strategy Committee, the Executive Committee and the Executive Office (leading organizational department for strategic planning) under the Board of Directors, as well as each department, each branch and subsidiary.

The Company has clearly formulated the procedures and methods of strategic planning, established assessment mechanism for strategic risk, including analysis on potential risk factors when formulating strategic plans, as well as regular review and discussion performed by the Board of Directors and the Executive Committee during the process of strategic planning. The Company will, based on the assessment on the implementation of strategic planning, make adjustment to the strategic plans or adopt targeted measures to control the strategic risk when necessary.

Credit Risk Management

Credit risk arising from securities financing business primarily includes decline in value or liquidity of collateral provided by clients, clients' failure to repay debts in full in a timely manner due to involvement of collateral in legal disputes, and credit risks arising from operational errors including fraudulent credit information, clients' violation of contracts and regulatory requirements in their trading actions. Methods for managing credit risk arising from such business primarily include client risk education, credit investigation and verification on clients, credit management, risk assessment on collateralized (pledged) securities, setting proper limits, daily marking to market, client risk warnings, forced close-out, and rights of recourse.

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

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

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

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

Liquidity Risk Management

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

The Asset and Liability Management Committee is responsible for organizing and managing the asset and liability allocation plan of the Company, reviewing and approving the internal valuation interest rate of capital and emergency plans for liquidity risk. The Company established the Treasury Operations Department to manage the liquidity of its proprietary funds, including developing mid- and long-term stable funding channels, improving asset allocation among business lines, and steadily optimising its assets and liabilities structure. The Company continues to improve its daily practices for liquidity risk management with the assistance of classified liquidity reserves, liquidity contingency planning, and stress testing. In addition, after the assessment of financing capability and cost, the Company would carry out issuance of shares and bonds to improve the liquidity.

The Company gradually refines the internal funds transfer pricing (FTP) system, which controls the liquidity risk of the Company by promoting reasonable asset-liability planning in every business line through an internal market-oriented mechanism.

Market Risk Management

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

The Company utilizes VaR as a tool to measure the market risk of its entire securities investment portfolio comprising different types of financial instruments. The Company makes use of sensitivity analysis to be an important tool for assessing the interest risk, performs daily and specific pressure test to assess the impact on the risk control indicator of net capital and profit or loss of proprietary portfolio from extreme adverse changes of risk factors, and proposes emergency plans in accordance with relevant recommendations and measures addressed in the assessment.

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

Operational Risk

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

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

Information Technology Risk Management

The Information Technology Department of the Company is responsible for the management of planning, establishment and operation maintenance of the information technology system. The Company carries out centralized management and backup of the data in transaction system, implementation of mutual separation of development, testing and operation maintenance of information technology system, as well as mutual separation of data management and application system, and implements strict control of access authority and track record, controls the choice of relevant software, hardware and external suppliers of information technology system, performs real-time and automatic monitoring of the connection of important communication network and operation of the significant business system. In addition, the emergency management of business continuity of the Company is centrally led by the Risk Management Department, and the Information Technology Department is responsible for the technical support work.

Legal Risk and Compliance Risk Management

The Legal and Compliance Department of the Company unified to manage legal affairs of the Company and controlled legal risks. It centralized to review all agreements and contracts of the Company, provided legal opinions on major business matters of the Company and performed centralized management, as well as instructed to handle litigations of the Company. Meanwhile, the Legal and Compliance Department is the department responsible for compliance management under the guidance of the Chief Compliance Officer to carry out independent compliance management of the Company. The main responsibilities of compliance management of the Legal and Compliance Department are daily tracking, analysis, issue of laws and regulatory rules currently in effect and timely identifying, evaluating and managing relevant compliance risk in business operation and business innovation of the Company through various means and methods of compliance inspection, compliance review, compliance training, compliance checking, compliance supervision and compliance accountability. Following the principle of compliance of all staff, and management over the whole process and every aspect, the Company applies compliance management to all businesses, all departments, all branches, subsidiaries at all levels, and each of its employees, and permeate all divisions of the Company, including decision-making, implementation, supervision and feedback. Specific or part-time compliance management officers are engaged in all functional departments, business lines and securities branches of the Company, and are responsible for daily compliance issues in their own departments. The Company proactively cultivates a culture of compliance and improves the self-restraint mechanisms in order to ensure compliant operations and standardized development.

Reputation Risk Management

The Company strictly upholds the compliance operation concept in accordance with laws, treasuring and proactively maintaining its reputation. The Executive Office of the Company, the leading department for management of significant emergency issues and public opinions, is responsible for comprehending any emergency issues and other issues which may have impact on the reputation of the Company through timely obtaining the relevant information from media reports in order to monitor and assess the reputation risk, and take appropriate actions.

BUSINESS REVIEW

Review of Business

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

In 2017, the PRC witnessed an accelerated economic growth, with an increase of 6.9% in GDP. The secondary stock market maintained stability with slight rise. Shanghai Stock Exchange Composite Index closed at 3,307 points at the end of the year, representing an increase of 6.6%; Shenzhen Stock Exchange Component Index closed at 11,040 points at the end of the year, representing an increase of 8.5%. The average daily trading volume in the stock market was RMB502.5 billion, representing a decrease of 11.7%. As IPO issuances were at a significantly accelerated pace, the number of IPOs throughout the year amounted to 438, with financing amount of RMB230.1 billion, representing an increase of 93% and 53.8%, respectively; while the scale of re-financing recorded a substantial drop. The number of equity financing throughout the year was 986, with financing amount of RMB1,536,936 million, representing a decrease of 7.33% and 24.42%, respectively. 8,439 bonds were issued with a scale of issuance of RMB8.97 trillion, representing a decrease of 14.3% and 24.4%, respectively. (Source: National Bureau of Statistics, Shanghai and Shenzhen Stock Exchanges and Wind Info)

In 2017, the total assets of the domestic securities industry as at the end of the year was RMB6.14 trillion, representing an increase of 6%; the net assets as at the end of the year was RMB1.85 trillion, representing an increase of 12.6%. The income of the industry throughout the year was RMB311.3 billion, realizing a net profit of RMB113.0 billion, representing a decrease of 5.1% and 8.5%, respectively. (Source: Securities Association of China)

The business operation of the Group during the Reporting Period is set out in the "Management Discussion and Analysis – Business Overview" section of this annual report.

MAJOR RISKS AND UNCERTAINTIES

The major risks the Company is exposed to include: market risks, credit risks, liquidity risks and operational risks. For the risk management objectives and policies of the Company, please refer to the description on risk management of the Company set out in this annual report. Please refer to the "Management Discussion and Analysis – Details of the primary risks associated with the operation of the Company" of this annual report for the major risks and uncertainties the Company faced in 2017.

RELEVANT LAWS AND REGULATIONS OF SIGNIFICANT INFLUENCE

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

In order to control operational risks, the Company established a sound and systematic mechanism by setting up a basic system at company level, under which each business line, department and branch shall establish a highly controllable management system, operational process and standardized regulations. The system covers all businesses and processes of the Company. In 2017, the Company formulated, amended and reviewed over 200 policies on internal management to enhance internal control capabilities according to regulatory requirements and the needs for business management of the Company; the Legal and Compliance Department of the Company is the department for the management of policies of the Company and shall be responsible for reviewing and approving the policies of the Company, requiring the business and management departments of the Company implement all requirements of the regulatory authorities and self-regulatory organizations in all businesses systems of the Company in a timely manner, ensuring that each policy is implemented in accordance with the laws and regulations and guaranteeing the coordination and uniformity among policies.

PROFIT DISTRIBUTION AND PROPOSED DIVIDEND

The formulation and implementation of the cash dividend policy and the 2017 profit distribution plan of the Company are set out in the "Management Discussion and Analysis – Profit Distribution Policy of the Company" section of this annual report.

TAX RELIEF OF H SHAREHOLDERS

Pursuant to the Notice of the PRC State Administration of Taxation on Issues Concerning Individual Income Tax Collection and Management after the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)), the dividends received by overseas resident individual shareholders from the shares issued by domestic non-foreign invested enterprises in Hong Kong are subject to the payment of individual income tax according to the items of "interests, dividend and bonus income," which shall be withheld by the withholding agents in accordance with the relevant laws. Overseas resident individual shareholders who hold shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries where they are residents and China, or the tax arrangements between the Mainland and Hong Kong (Macau). The relevant dividend tax rate under the relevant tax agreements and tax arrangements is generally 10%, and for the purpose of simplifying tax administration, domestic non-foreign invested enterprises issuing shares in Hong Kong may, when distributing dividends, generally withhold individual income tax at the rate of 10%, and are not obligated to file an application.

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

Pursuant to the regulations in the Circular Concerning Questions on Withholding and Payment of Enterprise Income Tax when PRC Resident Enterprises Distribute to Overseas Non-resident Corporate Shareholders of H Shares《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》(Guo Shui Han [2008] No. 897) issued by the State Administration of Taxation, any PRC resident enterprises distributing dividends for the year of 2008 and onward to overseas non-resident corporate shareholders shall withhold enterprise income tax at a uniform rate of 10%.

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

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by the Company. Shareholders of the Company are taxed and/or entitled to enjoy tax relief in accordance with the aforementioned regulations.

REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES, AND RECTIFICATION ON SIGNIFICANT ACCOUNTING ERRORS

During the Reporting Period, there were no material changes in accounting policies and accounting estimates of the Company, nor were there any rectification of significant accounting errors of the Company.

USE OF PROCEEDS FROM PREVIOUS PERIOD

According to the Capital Verification Report (PricewaterhouseCoopers Zhong Tian Beijing Yan Zi [2017] No. 037) (《驗資報告》(普華永道中天北京驗字[2017]第037號)) issued by PricewaterhouseCoopers Zhong Tian LLP, the proceeds from the public issuance of H Shares of the Company in 2016 was HK$7,330.76 million in total, equivalent to RMB6,518.73 million. On 5 January 2017, the Company exercised partial over-allotment option and the net proceeds raised amounted to HK$464.18 million, equivalent to RMB414.86 million.

During the Reporting Period, proceeds of RMB1,578.95 million was used for the expansion of capital-based intermediary businesses such as margin financing and securities lending; RMB12.16 million was used for the expansion of investment scale of FICC; RMB50.00 million was used for investment management business; RMB673.26 million was used for the supplementation of working capital and general corporate purposes and HK$1,000.00 million was used to enhance the Company's cross-boarder capabilities.

SIGNIFICANT FINANCING

Bond Financing

During the Reporting Period, the Company publicly issued two tranches of RMB-denominated corporate bonds with a total issuance amount of RMB7.0 billion, and non-publicly issued two tranches of RMB-denominated corporate bonds with a total issuance amount of RMB8.0 billion, all of which was used for replenishing working capital of the Company. The Company non-publicly issued six tranches of securities company short-term corporate bonds with a total issuance amount of RMB21.5 billion and 1,221 tranches of structured notes with a total issuance of approximately RMB42.1 billion, all of which was used to replenish liquidity of the Company.

As of 31 December 2017, the balance of outstanding bonds of the Company amounted to RMB49.1 billion, with the balances of corporate bonds, perpetual subordinated bonds, US Dollar bonds and short-term corporate bonds for securities firms amounting to RMB27.3 billion, RMB5.0 billion, USD0.2 billion (equivalent to approximately RMB1.3 billion) and RMB15.5 billion, respectively. In addition, at the end of the Reporting Period, the balance of structured notes issued by the Company was approximately RMB14.9 billion. The above utilization of proceeds was in line with the disclosures provided in the prospectus/offering documents. In 2018, the Company will continue to utilize the proceeds in accordance with the Company's operation and development strategies with reference to capital market conditions.

In 2018, the Company will consider issuing corporate bonds in accordance with the Company's funding needs with reference to the market conditions.

Updates on the Progress of A Share Issuance and Financing

On 8 June 2017, the Company held the 2016 annual general meeting, the 2017 first Domestic Share class meeting and the 2017 first H Share class meeting, at which the A Share offering plan and other relevant resolutions were considered and approved, and the Company was authorized to issue no more than 400,000,000 A Shares on the Shanghai Stock Exchange. Proceeds raised from the A Share offering would, after deduction of the issuance expenses, be entirely used for strengthening the capital base, replenishing the working capital of the Company and promoting development of domestic and overseas securities-related business. The A Share offering plan will be valid for 12 months starting from the date on which the resolution was approved at the 2016 annual general meeting, the 2017 first Domestic Share class meeting and the 2017 first H Share class meeting. Application materials including the prospectus have been submitted by the Company. The prospectus was published on the CSRC website on 30 June 2017, and posted on the HKEXnews website and the website of the Company at the same time. The updated A-Share prospectus was published on the CSRC website on 30 January 2018.

On 3 April 2018, the initial public offering of A Shares of the Company was considered and passed at the 56th conference meeting of the Issuance Approval Committee of CSRC in 2018.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the Reporting Period, apart from the partial exercise of the over-allotment option as detailed in the announcement dated 3 January 2017 in relation to the partial exercise of the over-allotment option, stabilization actions and end of stabilization period, there was no purchase, sale or redemption of securities of the Company made by the Company or any of its subsidiaries.

BIOGRAPHICAL DETAILS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of Directors, Supervisors and senior management of the Company are set out in the “Directors, Supervisors, Senior Management and Employees-Major Work Experience of the Current Directors, Supervisors and Senior Management” of this annual report.

SERVICE CONTRACTS AND APPOINTMENT LETTERS OF DIRECTORS AND SUPERVISORS

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

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

PERMITTED INDEMNITY PROVISIONS

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

MANAGEMENT CONTRACTS

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

REMUNERATION POLICIES

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

Details of the Company's employee remuneration policies and employee compensation are set out in "Directors, Supervisors, Senior Management and Employees-Employee Remuneration" and Notes to the Financial Statements of this annual report.

DIRECTORS' AND SUPERVISORS' INTERESTS IN MATERIAL CONTRACTS

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

DIRECTORS' INTERESTS IN BUSINESSES COMPETING WITH THE COMPANY

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

INTERESTS AND SHORT POSITIONS HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

To the best knowledge of all Directors, as of 31 December 2017, no Directors, Supervisors or members of senior management of the Company had interests or short positions in the Shares, underlying Shares and debentures of the Company or any of the Company's associated corporations (as defined in Part XV of the Securities and Futures Ordinance), which were required, pursuant to Section 352 of the Securities and Futures Ordinance, to be entered into the register referred to therein, or required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 to the Hong Kong Listing Rules, to be notified to the Company and the HKEX.

As of 31 December 2017, no Directors and Supervisors or any of their spouses or children under 18 years of age had been granted the rights to purchase Shares or bonds of the Company for the benefit or exercise any aforesaid rights by themselves, nor have any Directors and Supervisors or any of their spouses or children under 18 years of age been granted the aforesaid rights from any other corporate body due to the arrangement made by the Company or any its subsidiaries.

INTERESTS AND SHORT POSITIONS TO BE DISCLOSED BY THE SHAREHOLDERS PURSUANT TO THE SECURITIES AND FUTURES ORDINANCE

Details of interests and short positions to be disclosed by the Shareholders pursuant to the Securities and Futures Ordinance are set out in the "Changes in Shares and Information on Substantial Shareholders-Disclosure of Interests-Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company" section of this annual report.

PRE-EMPTIVE RIGHTS

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

RESERVES AND DISTRIBUTABLE RESERVES

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

PROPERTY, PLANT AND EQUIPMENT

Please refer to Note 18 to the consolidated financial statements of this annual report for the fixed assets of the Group as of 31 December 2017.

MAJOR CLIENTS AND SUPPLIERS

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

In 2017, the total revenue and other income of the Company from the top five clients in the aggregate did not exceed 10% of our total revenue and other income in the aggregate. By virtue of the nature of our business, the Company has no major suppliers.

RELATIONSHIP WITH EMPLOYEES, CLIENTS, SUPPLIERS AND PERSONS WHO ARE MATERIALLY RELATED

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

For information on the relationship between the Company and securities brokers, please refer to the "Directors, Supervisors, Senior Management and Employees-Relevant Information of Securities Brokers" section of this annual report. For information on the relationship between the Company and major clients and suppliers, please refer to the "Major Clients and Suppliers" section of this annual report.

SUFFICIENT PUBLIC FLOAT

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

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

CORPORATE GOVERNANCE

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

PERFORMANCE OF SOCIAL RESPONSIBILITIES

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

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

In 2017, the Company made donations to a total of 18 external organizations in the amount of RMB5,989,779 (including personal donation from employees), mainly involving poverty alleviation, donations to schools, resource protection and other charitable projects. Among which, the Company donated RMB2.17 million to two national poverty Counties, namely Ji County in Shanxi Province and Li County in Gansu Province; donated RMB1.50 million to Xi County in Shanxi Province for the construction of photovoltaic power plant with coverage of the whole village; donated an additional RMB1.42 million for the Renovation Project of Dangerous Buildings of Anjiazao Primary School (安家皂小學危房改造項目) of China Children and Teenagers' Fund, which has provided great support to local poverty alleviation and development of the education.

In 2017, the Company did not have any material environmental protection or other significant social security issues.

AUDITORS

Please refer to the "Other Significant Events-Appointment or Termination of Accounting Firms" of this annual report for details of the engagement or dismissal of auditors.

ENVIRONMENTAL POLICY AND PERFORMANCE

CSC has always been upholding the environmental concept of "low-carbon environmental protection and green operation". As a financial service institution, emissions in the course of business operation of CSC primarily include nitrogen oxide, SO_2 and greenhouse gas due to fuel consumption of motor vehicles, and indirect greenhouse gas emissions due to consumption of electricity in the offices; the consumption of resources primarily includes water for office use. Although the negative impacts caused by the above actions on environment are much weaker than those caused by production-oriented enterprises, CSC still attaches importance to its environmental performance management. On the one hand, the Company recognized and strictly complied with the laws and regulations and related policies in relation to environment stipulated by the state and relevant regulatory authorities, such as the Environmental Protection Law of the PRC, the Energy Conservation Law of the PRC, the Comprehensive Work Plan for Energy Conservation and Emission Reduction in the 13th Five-Year Plan Period (《"十三五"節能減排綜合工作方案》) issued by the State Council, etc., while on the other hand, the Company achieved energy conservation and emission reduction through various measures, such as the measure of a paper-free office, assigning designated persons to inspect the use of electricity in the offices, the energy conservation settings of air-conditioners in the public area, reducing the standby power consumption of electrical appliances, strengthening the management and control of use of business vehicles, updating the energy saving and environmental protection equipment, etc., to ensure that the management of emissions and use of resources by CSC meet the requirements of relevant laws and regulations and truly turn the concept of "low-carbon environmental protection and green operation" into actions.

FUTURE DEVELOPMENT/FORWARD-LOOKING

Please refer to the "Management Discussion and Analysis-Business Plan for 2018" section of this annual report for the Company's future development.

By order of the Board
WANG Changqing
Chairman

Beijing, the PRC, 16 April 2018

ANALYSIS AND EXPLANATION OF THE BOARD OF DIRECTORS ON THE REASONS AND IMPACT OF THE CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR ACCOUNTING METHODS

During the Reporting Period, there was no significant change in major accounting policies and important accounting estimates of the Company, and there was no correction of major accounting errors by the Company.

APPOINTMENT OR TERMINATION OF AUDITORS

Items	Content
Name of the PRC auditors	PricewaterhouseCoopers Zhong Tian LLP
Remuneration for the PRC auditors	RMB1.07 million
Term of service of the PRC auditors	Three years
Name of the overseas auditors	PricewaterhouseCoopers
Remuneration for the overseas auditors	RMB1.55 million
Term of service of the overseas auditors	Three years

Note: The above is the remuneration for the annual report of the Company, which does not include the remuneration for subsidiaries of the Company.

EXPLANATION OF APPOINTMENT OR TERMINATION OF AUDITORS

At the general meeting of the Company held on 8 June 2017, it was considered and approved that PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers be appointed as the PRC auditor of the Company for 2017, respectively. They shall be responsible for the provision of the relevant audit services in accordance with the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards, respectively.

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

MATERIAL LITIGATION AND ARBITRATION

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

(I) During the Reporting Period, material litigation and arbitration of the Company and its branches are set out as follow:

1. Arbitration on contract dispute in relation to margin financing and securities lending business filed by Yu Xiaofeng against the Company

In September 2012, Yu Xiaofeng entered into a Margin Financing and Securities Lending Business Contract with us and opened a credit account to engage in margin financing and securities lending business. On 1 June 2016, Yu Xiaofeng filed a lawsuit with the People's Court of Chaoyang District of Beijing (the "**Court of First Instance**") against the Company on the disputes in the course of margin financing and securities lending business. The Company filed an objection to the jurisdiction of the Court of First Instance pursuant to the arbitration clause in the Business Contract. On 19 September 2016, the Court of First Instance rendered a decision to dismiss Yu Xiaofeng's claims based on the ground that the dispute shall be settled by arbitration as agreed by both parties. On 26 September 2016, Yu Xiaofeng appealed to the Third Intermediate People's Court of Beijing (the "**Court of Second Instance**"), requesting that the case be remanded to the Court of First Instance. On 9 February 2017, Yu Xiaofeng indicated to the Court of Second Instance that she would follow the judgment made by the Court of First Instance, and apply for withdrawal of the appeal. On the same day, the Court of Second Instance issued a civil ruling ((2017) Jing 03 Min Zhong No. 1727) with the consent on the withdrawal of appeal of Yu Xiaofeng. The judgment of the Court of First Instance in relation to dismissal of Yu Xiaofeng's claims came into effect. The legal proceedings of this case were concluded.

On 9 June 2017, Yu Xiaofeng filed an arbitration to Beijing Arbitration Commission (the "**Arbitration Commission**") regarding her disputes with the Company during the course of margin financing and securities lending business, alleging that she suffered from economic loss as the Company breached the contract by mandatorily liquidating her credit account, and therefore, she demanded a compensation amounting to approximately RMB38.16 million from the Company for the economic loss caused by its mandatory liquidation, as well as the interests thereof. The Arbitration Commission accepted the arbitration application filed by Yu Xiaofeng on 15 June 2017, and the case number is (2017) Jing Zhong An Zi No. 1385. The case is still under arbitration procedures. The Company has instructed a PRC counsel in respect of such arbitration application. The Company believes that the arbitration application will not have a material impact on its financial position.

2. Dispute relating to breaching contract of transferring and repurchasing beneficial rights of certificate of deposit between the Company (on behalf of the "Minsheng CSC Financial Chongqing No. 1 Directional Asset Management Scheme") and Chongqing Bright Industry (Group) Co., Ltd.

   On 23 August 2016, pursuant to the Enforcement Judgment ((2016) Wan 0705 Zhi No. 2084), a large-denomination certificate of deposit account opened by Chongqing Bright Industry (Group) Co., Ltd. with China Minsheng Bank Corp., Ltd. Chongqing Branch Business Department was frozen by the People's Court of Tongguan District in Tongling City, Anhui Province (the "**People's Court of Tongguan District**") and the frozen amount was RMB14.0232 million. Due to its right of pledge over the large-denomination certificate of deposit, the Company submitted an application for objection to the enforcement of such judgement on 10 October 2016, which was rejected by the People's Court of Tongguan District. On 11 April 2017, the Company, again, submitted an application for objection to the enforcement of such judgement to the People's Court of Tongguan District. The People's Court of Tongguan District accepted the application of the Company on the same day, and issued an Enforcement Judgment ((2017) Wan 0705 Zhi Yi No. 17) on 26 April 2017, but ruled to dismiss the Company's application for the objection to the enforcement. On 3 May 2017, the Company filed a lawsuit about objections raised by non-party to the People's Court of Tongguan District, with Copper Crown Electrical of Tongling Nonferrous Co., Ltd. as a defendant, and Chongqing Bright Industry (Group) Co., Ltd. and Chongqing Bright Motor Parts Procurement Co., Ltd. as third parties. On 11 July 2017, the Company's petition was rejected by the People's Court of Tongguan District in the first instance. On 28 July 2017, the Company filed an appeal to the Intermediate People's Court of Tongling City, Anhui Province. On 4 December 2017, the Intermediate People's Court of Tongling City, Anhui Province issued a Civil Ruling ((2017) Wan 07 Min Zhong No. 665), and ruled that the civil judgement ((2017) Wan 0705 Min Chu No. 2344) made by the People's Court of Tongguan District in Tongling City was dismissed and remanded for retrial in the People's Court of Tongguan District.

   On 10 March 2017, being the manager of the "Minsheng CSC Financial Chongqing No. 1 Directional Asset Management Scheme" (hereinafter referred to as the "**Chongqing No. 1 Directional Asset Management Scheme**"), the Company, on behalf of the "Chongqing No. 1 Directional Asset Management Scheme", filed a lawsuit with the People's Court of Jiangbei District in Chongqing City in respect of the breaching dispute relating to contract of transferring and repurchase beneficial rights of certificate of deposit of the Chongqing Bright Industry (Group) Co., Ltd., which was invested by the "Chongqing No. 1 Directional Asset Management Scheme", to require Chongqing Bright Industry (Group) Co., Ltd., the financier, to repay the principle, revenue and liquidated damage of RMB15.4553 million. On 8 June 2017, the People's Court of Jiangbei District in Chongqing City issued a Civil Ruling ((2017) Yu 0105 Min Chu No. 5876), and ruled in favor of the Company. Currently, the judgement made in the first instance has come into effect.

The asset management contract and the entrustor's instruction of "Chongqing No. 1 Directional Asset Management Scheme" appointed the Company to assist China Minsheng Bank Corp., Ltd., the entrustor, and its Chongqing branch to recover investment losses through lawsuits, while the responsibilities arising therefrom shall be fully borne by the entrustor rather than the Company. Upon the expiry of its term, the manager's return of unrealized assets on an "as if" basis to the entrustor shall be deemed as having performed its duties diligently and faithfully. Meanwhile, relevant fees of the lawsuit shall be borne by the entrustor and paid from the entrusted assets.

3. Civil lawsuit between Yao Zhenyu and SDIC Essence Futures Co., Ltd. and the Company

On 15 September 2015, Yao Zhenyu entered into Asset Management Contract of "Rongjin Phase I Asset Management Scheme" with SDIC Essence Futures Co., Ltd. and the Company, with Yao Zhenyu as asset entrustor, SDIC CGOG Futures Co., Ltd. (currently renamed as "SDIC Essence Futures Co., Ltd.") as asset manager and the Company as asset custodian. In March 2016, the three parties entered into Supplementary Agreement to the Asset Management Contract of "Rongjin Phase I Asset Management Scheme", pursuant to which the asset management scheme will be extended for 6 months.

On 5 September 2017, Yao Zhenyu filed a civil lawsuit with the People's Court of Chaoyang District, Beijing (the "**People's Court of Chaoyang District**"), claiming that the Company neither supervised nor controlled SDIC Essence Futures Co., Ltd. when the latter failed to perform its obligations under the Asset Management Contract of "Rongjin Phase I Asset Management Scheme", nor did it perform its obligation to safely keep the properties under the asset management scheme nor inform the entrustor of the aforementioned situation. Yao Zhenyu, who claimed his legitimate rights and interests were damaged due to the Company's failure to duly performing its obligation as an asset custodian, required SDIC Essence Futures Co., Ltd. and the Company to pay a damage of RMB16.50 million for breaching of the contract.

This case was put to trial on 19 October 2017. SDIC Essence Futures Co., Ltd. submitted an application on the jurisdiction in the court, but it was rejected by the People's Court of Chaoyang District on 27 October 2017. On 21 November 2017, the case was put to trial again and the court was informed the basic facts of the case. On 29 March 2018, the case was put to trial for the third time. The plaintiff altered the request of the lawsuit, claiming that the "Rongjin Phase I Asset Management Scheme" was valid but not effective, and required SDIC Essence Futures Co., Ltd. and the Company to return the investment payment of RMB16.50 million. The case is still in the course of the trial procedure of the first instance. The Company believes that the above litigation will not have a direct material adverse impact on its business, financial position or operating results.

4. Contract dispute between Zou Rong and QIC Group Holdings Ltd. and the Company

The three parties, namely, Zou Rong (the plaintiff), QIC Group Holdings Ltd. (previously "Zhejiang Quant Investment Management Co., Ltd.", the first defendant) and the Company (the custodian of the private fund and fund outsourcing service institution, the second defendant) entered into "Quant NEEQ Private Placement No. 1 Fund Contract" (hereinafter referred to as "**Fund Contract**") on 29 March 2015. Zou Rong claimed that, as the fund custodian and fund outsourcing service institution, the second defendant knew full well that the subscription payment, which was the personal property of the plaintiff, shall be returned to the plaintiff upon the unsuccessful subscription, and that the settlement account managed by the second defendant shall only be used for receiving and paying funds for subscription, purchase and redemption. However, the Company executed the illegal instruction of the first defendant and changed the use of and misappropriated the plaintiff's subscription payments, thus the legal rights and interests of the plaintiff were seriously prejudiced. Therefore, on 3 November 2017, Zou Rong filed a civil lawsuit with Beijing Second Intermediate People's Court, and petitioned for: 1. ruling QIC Group Holdings Ltd. to repay RMB88.20 million to the plaintiff; and to pay the plaintiff the losses caused by late payment, which shall be charged at 150% of the standard lending rate of the People's Bank of China on the basis of RMB88.20 million from 22 April 2015 to the actual payment day. The losses, when calculated up to 31 October 2017, temporarily amounted to approximately RMB16.4943 million. The above two items temporarily amounted to approximately RMB104.6943 million in aggregate; 2. ruling the Company to be jointly responsible for the above amounts owed by QIC Group Holdings Ltd. to the plaintiff; 3. ruling the two defendants to be responsible for all costs and cost of preservation of the case.

Beijing Second Intermediate People's Court has accepted the prosecution of Zou Reng (the plaintiff). The case is currently in the process of the first instance trial. The Company believes that the above litigation will not have a direct material adverse impact on its business, financial position or operating results.

5. The Company (as the manager), on behalf of "CSC SDIC Taikang No. 790 Directional Asset Management Scheme", filed an for arbitration against Wang Wei in relation to the stock-pledged repurchase business

In September 2016, the Company entered into Asset Management Contract of "CSC SDIC Taikang No. 790 Directional Asset Management Scheme" with SDIC Taikang Trust Co., Ltd, pursuant to which the Company acted as the manager of the asset management scheme and managed the entrusted assets. The investment scope was the stock-pledged repurchase business and the manager was authorized by the entrustor to manage the entrusted assets under the contract by way of passive management.

On 15 November 2016, the Company, on behalf of the Asset Management Scheme, entered into "Stock-pledged Repurchase Transaction Customer Business Agreement" (agreement code: 00003403) and "Stock-pledged Repurchase Transaction Agreement" (agreement code: 00003403-1) with Wang Wei, pursuant to which Wang Wei shall pledge his 4,000,000 shares held in Torch Electron (a company listed on the Shanghai Stock Exchange, stock code: 603678), which were calculated as 10,000,000 shares in the arbitration request due to the Company's reserve capitalization of 1.5 shares for each share, while the Company shall finance RMB142.23 million to Wang Wei. The transaction date for repurchase was 16 November 2017, with an annual interest rate of 5.7%. On 16 November 2016, the initial transaction of pledge repurchase was completed. The Company paid RMB142.23 million to the respondent.

On 3 January 2017, the People's Court of Cixi City in Zhejiang Province issued a Civil Ruling ((2016) Zhe 0282 Min Chu No. 13530), and ruled that, the respondent, Wang Wei's 8,064,379 shares held in Torch Electron shall be judicially frozen. Since such situation had fulfilled the conditions for repurchase in advance under "Stock-pledged Repurchase Transaction Customer Business Agreement", the Company requested the respondent to repurchase the pledged stocks in advance and repay the principle and interests in full. However, the respondent failed to complete the repurchase of the stocks.

On 29 September 2017, the Company applied for arbitration with Beijing Arbitration Commission, and requested: 1. Wang Wei (the respondent) to repay the principle of finance amounted to RMB142.23 million to the Asset Management Scheme (the applicant); 2. Wang Wei to bear the responsibility for the breach of contract to the Asset Management Scheme. The liquidated damage was charged on RMB142.23 million and calculated based on the proportion of 0.05% per day from 6 April 2017 to the day on which the applicants had been compensated in full, and it, when calculated up to 25 September 2017 was temporarily amounted to approximately RMB12.3029 million; 3. to rule that the applicant shall be entitled to the priority of compensation over the 10 million tradable shares in Torch Electron provided for pledge by the respondent and the bonus shares, reserve capitalization and cash dividend generated therefrom (the respondent had obtained cash dividend of RMB0.92 million as of the date on which the arbitration application was made (i.e. 29 September 2017)); 4. to rule that the respondent to bear attorney fee of RMB1.5 million arising in this case for the applicant; 5. to rule that all expenses including case acceptance fees and case handling fees of this case shall be borne by the respondent.

On 10 November 2017, Beijing Arbitration Commission made a final award pursuant to the "Arbitration and Settlement Agreement" and "Arbitration and Settlement Supplemental Agreement". On 17 December 2017, the Company applied for mandatory enforcement and property preservation to the Third Intermediate People's Court of Beijing and Third Intermediate People's Court of Beijing issued the "Enforcement Judgement" (《執行裁定書》)((2018) Jing 03 Zhi No. 20) on 8 January 2018. The case is still under enforcement procedures.

The Company believes that the above litigation and arbitration will not have a direct material adverse impact on its business, financial position or operating results.

(II) Others

1. On 21 April 2017, the Shanghai Stock Exchange made the "Decision on Imposing Disciplinary Measure of Trading Restriction on Securities Accounts of Segregated Account Products of China Securities Funds Management Limited". As the segregated account products of China Securities Funds, a subsidiary of the Company, conducted a selling operation for the shares of Ping An Insurance (Group) Company (A share stock code: 601318) and Industrial Bank Co., Ltd. (A share stock code: 601166) around 12 April 2017, resulting in a rapid decline in share prices for both stocks in a short period of time, the Shanghai Stock Exchange decided on imposing a disciplinary measure of trading restrictions on the securities accounts of relevant segregated amount products of China Securities Funds for one month, i.e. all securities listed on the Shanghai Stock Exchange shall not be traded through the relevant securities accounts from 24 April 2017 to 23 May 2017.

   On 5 July 2017, the Beijing Bureau of the China Securities Regulatory Commission further made the "Decision on Imposing Measures of Rectification and Suspending of Relevant Business China Securities Funds Management Limited", deciding to impose administrative regulatory measures of demanding China Securities Funds to rectify and suspend the filing of the asset management plans for specific clients for six months.

2. On 4 July 2017, the CSRC issued the "Decision on the Issuance of Regulatory Letter to XU Jiongwei and WANG Daoda" (《關於對徐炯煒、王道達採取出具監管函措施的決定》) ([2017] No.59) because XU Jiongwei and WANG Daoda, the employees and the sponsor representatives of the Company, did not perform their duties with due diligence during the IPO process of Guangzhou JinYi Media Corporation. They were imposed on administrative regulatory measures of issuing a warning letter as they failed to act with due professional prudence in connection with the abnormal conditions of the major clients of the issuer, nor did they conduct a thorough review on the major clients of the issuer. In response to the event, the Company, as the sponsor institution, has undertaken to the CSRC in writing that the Company will perform its obligations diligently and faithfully in compliance with laws and prudently carry out information disclosures in avoidance of mistakes, and has requested the signing sponsor representative of JinYi Media project and members of the project to review the project information systematically with diligence and prudence, and supervise and guide on further optimization of internal management of JinYi Media. The Company issued a passage to urge the assembled relevant personnel to study the No. 1 Standard for Content and Form of Information Disclosure on Companies Conducting Public Issue of Securities – Prospectus (2015 Revised) (《公開發行證券的公司信息披露內容與格式準則第1號——招股説明書(2015年修訂)》) and other documents relating to information disclosure item by item, in order to enhance quality requirements in practicing and root out mistakes in information disclosure.

   The Company requires the practising personnel to exercise with diligence and responsible attitude in subsequent practice and avoid occurrence of such phenomenon at root.

3. On 9 August 2017, the Securities Association of China issued the "Decision on Adoption of Self-regulatory Measures against CSC Financial Co., Ltd." (《關於對中信建投証券股份有限公司採取自律懲戒措施的決定》)([2017] No.38). As the Company, being the trustee manager of eight corporate bond projects including Shaoxing City Keqiao District State-owned Assets Investment and Operation Co., Ltd. (紹興市柯橋國有資產投資經營集團有限公司), Luoyang City Development Investment Group Co., Ltd. (洛陽城市發展投資集團), Hangzhou Zhengcai Holding Group Co., Ltd. (杭州正才控股集團有限公司), Beijing Uni-Construction Group (北京住總集團有限責任公司), RiseSun Real Estate Development Co., Ltd. (榮盛房地產發展股份有限公司), Chengfa Investment Group Co., Ltd. (城發投資集團有限公司), Greattown Holdings Ltd. (上海大名城企業股份有限公司) and New Town Construction Investment (Jizhou, Tianjin) Co., Ltd. (天津薊州新城建設投資有限公司), failed to fulfill the obligations as trustee managers to supervise on the receipt, saving, transfer and repayment of principal amount and interests of proceeds in a timely manner and did not publish interim trustee management report in connection with use of proceeds and overproportion of newly-added borrowings. The Company has submitted a written performance statement to the Securities Association of China on relevant matters pursuant to the inspection conducted by the local securities regulatory bureau towards the issuer. The Company has urged the issuer to conduct self-inspection and self-rectification in light of the non-compliant use of proceeds and delay in information disclosure on the above projects, while the issuer has completed rectification and, at the same time, reported to the local securities regulatory bureau promptly. The Company will further improve the trustee management of the Company, optimize the internal procedures of trustee management and internal control management, and has formulated the "Work Flows of Subsequent Management of Corporate Bond Underwriting Business" in accordance with the latest laws, regulations and relevant rules, proposing to further enhance the detailed relevant standards of trustee management and refine the institutional requirements. The Company intends to further strengthen training on trustee managing personnel of the projects and upgrade the trustee management capability and level.

4. On 4 December 2017, Jiangsu Bureau issued the "Decision on Adopting Measures of Issuance of Warning Letter against the Nanjing Longyuan West Road Securities Business Department of CSC Financial Co., Ltd."《關於對中信建投証券南京龍園西路證券營業部採取出具警示函措施的決定》([2017] No. 76) to Nanjing Longyuan West Road Securities Business Department of CSC. The Business Department failed to understand the risk tolerance capability of customers in a comprehensive and accurate manner during the course of opening of securities accounts business, resulting in the inaccuracy and defects of risk tolerance capability of customers. In response to the event, the Company has completely terminated the opening accounts campaign in campus and has cancelled and frozen the accounts of those students as requested by customers, and the above rectification has been completed on 15 September 2017. The Business Department has actively engaged in school activities and held financial lectures to disseminate securities knowledge as

required by the Company for further promotion of investor education; at the same time, the branch proactively communicated with the media and got prepared in media and public opinion crisis management; the Company upgraded and transformed the IT system of the Company and improve the assessment procedures for risk tolerance capability targeted at accounts opening for strengthening appropriate administration and has submitted written rectification report to the Jiangsu Bureau according to the requirements set out in the Warning Letter.

5. On 27 December 2017, the Securities Association of China issued the "Decision on Adoption of Self-regulatory Measures against CSC Financial Co., Ltd." (《關於對中信建投証券股份有限公司採取自律懲戒措施的決定》)([2017] No.87). The implementation of self-regulatory measures by way of issuance of warning letter by the SAC was mainly due to: the copy of ID, certificates of degree and diploma and other materials were absent in the profiles of 5 investment supervisors, including YANG Huan and LI Wei, the pre-practising training records of 3 brokers, namely WANG Yu, TANG Li and REN Weiwei, were absent in the materials of Chongqing Nanping West Road Securities Business Department and 31 people, including ZHANG Yun, XIA Wei and SHEN Zhonghua, resigned before 31 October 2017 while filing of resignation was submitted to the authority during the period from 1 to 3 December. In response to this event, the Company has completed the following rectification measures: conducted a thorough inspection on and supplement the relevant materials in the performance record for the incumbent employees of the Company, especially the four categories of specialized qualified persons (namely sponsor representatives, investment sponsors, analysts and investment consultants); conducted a thorough inspection on and supplement the pre-employment training materials of brokers of the Company; strictly executed the relevant requirements of the SAC on filing in terms of resignation for employees with practising qualifications to ensure that the filing procedures are completed within the prescribed time limit; comprehensively reviewed the relevant rules and systems in relation to the qualification management of the Company and strived to carry out the publicity and execution works.

During the Reporting Period and up to the Latest Practicable Date, the Company had complied with the laws and regulations and regulatory requirements of the places where the Company operates in all material respects. During the Reporting Period, none of the Company and the Directors, Supervisors and senior management of the Company were subject to any investigation initiated or administrative penalties imposed by the CSRC, banned from the market, identified as inappropriate candidates, publicly criticized by stock exchanges, subjected to mandatory measures, transferred to judicial authorities or held criminally responsible.

MATERIAL CONTRACTS AND EXECUTION

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

RELATED PARTY TRANSACTION/CONNECTED TRANSACTION

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

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

MATERIAL ACQUISITIONS AND DISPOSAL DURING THE REPORTING PERIOD

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

RATING CLASSIFICATION OF THE COMPANY BY SECURITIES REGULATORS

In 2017, under the classification base on securities firms by the CSRC, the Company was rated "Class A Grade AA" for eight consecutive years. The Company is one of the only three PRC securities firms in the industry which received such a rating for eight consecutive years during 2010 and 2017 with such a rating being the highest rank granted by the CSRC. In addition, China Securities Futures, the Company's wholly-owned subsidiary, was rated "Class A Grade AA" for two consecutive years under the classification base on futures firms announced in 2017.

SUBSEQUENT EVENTS

The Issuance of Corporate Bonds

In February 2018, the Company privately issued a 350-day fixed rate short-term corporate bond ("**18 Xintou D1**") with a face value of RMB3 billion. The current bond bears interest at fixed coupon rate of 5.34% per annum and is not guaranteed, with the principal and interest paid at one lump sum upon maturity.

In March 2018, the Company privately issued a 2-year corporate bond ("**18 Xintou F1**"), with a face value of RMB4 billion. The current bond bears interest at 5.43% per annum and single interest is born per annum. The current bond bears interest on an annual basis and is not guaranteed.

The Company plans to privately issue a corporate bond denominated in RMB with a nominal value of not more than RMB4 billion ("**18 Xintou F2**") with a term of three years by the end of April 2018. The current bond is not guaranteed.

Change of Session of the Board and the Supervisory Committee

On 27 February 2018, the "Resolution on Nomination of Directors of the Second Session of the Board of the Company" was considered and approved at the Board meeting of the Company. The Board of the Company nominated the following candidates as directors of the second session of the Board at the Shareholders' general meeting:

Candidates for executive directors:	Mr. WANG Changqing and Mr. LI Geping
Candidates for non-executive directors:	Mr. YU Zhongfu, Mr. DONG Shi, Ms. ZHANG Qin, Ms. ZHU Jia, Mr. WANG Hao, Mr. WANG Bo and Mr. XU Gang
Candidates for independent non-executive directors:	Mr. FENG Genfu, Ms. ZHU Shengqin, Mr. DAI Deming, Mr. BAI Jianjun and Mr. LIU Qiao

On 27 February 2018, the "Resolution on Nomination of Shareholder Representative Supervisors of the Second Session of the Supervisory Committee of the Company" was considered and approved at the meeting of the Supervisory Committee of the Company. The Supervisory Committee of the Company nominated the following candidates as Shareholder representative supervisors of the second session of the Supervisory Committee at the Shareholders' general meeting:

Candidates for Shareholder representative supervisors:	Mr. LI Shihua, Ms. AI Bo and Ms. ZHAO Lijun

On 22 February 2018, Ms. LU Ya and Ms. LIN Xuan were elected as employee representative supervisors of the second session of the Supervisory Committee of the Company at the meeting of employee representatives of the Company. The second session of the Supervisory Committee of the Company shall comprise the Shareholder representative supervisors elected at the Shareholders' general meeting of the Company and the abovementioned employee representative supervisors. Further nomination and election procedures will be carried out to fill the vacancy of a Shareholder representative supervisor.

On 16 April 2018, the resolutions on election of Directors of the second session of the Board of the Company and election of Supervisors of the second session of the Supervisory Committee of the Company was considered and passed at the 2018 first extraordinary general meeting of the Company, and the qualifications of directors of the second session of the Board and the qualifications of supervisors of the second session of the Supervisory Committee of the Company have been approved by China securities regulatory authorities. The directors of the second session of the Board and the supervisors of the second session of the Supervisory Committee of the Company shall officially assume their offices from 16 April 2018, with term of office expiring when the terms of the second session of the Board and the Supervisory Committee end.

For details, please refer to the announcements of the Company dated 27 February 2018 and 16 April 2018.

SECTION 8 CHANGES IN SHARES AND INFORMATION ON SUBSTANTIAL SHAREHOLDERS

As of 31 December 2017, the share capital structure of the Company was as follows:

Name of Shareholders	Type of Shares	Number of Shares	Percentage in the total number of Shares
BSCOMC	Domestic Shares	2,684,309,017	37.04%
Central Huijin	Domestic Shares	2,386,052,459	32.93%
HKSCC Nominees Limited *(note)*	H Shares		
Glasslake Holdings *(note)*		351,647,000	4.85%
CSRF *(note)*		112,740,500	1.56%
Other holders of H Shares held under the name of HKSCC Nominee Limited		796,252,762	10.99%
CITIC Securities	Domestic Shares	427,000,000	5.89%
Shannan Jinyuan	Domestic Shares	300,000,000	4.14%
Shanghai Shangyan	Domestic Shares	150,624,815	2.08%
Century Jinyuan	Domestic Shares	37,375,185	0.52%
Other public holders of H Shares	H Shares	383,500	0.01%
Total		7,246,385,238	100.00%

Note: As of 31 December 2017, the Company noted from the Shareholders' interests disclosed on the HKEX that Glasslake Holdings held 351,647,000 H Shares of the Company, representing 4.85% of the total share capital of the Company and CSRF held 112,740,500 H Shares of the Company, representing 1.56% of the total share capital of the Company. The total number of H Shares of the Company held by HKSCC Nominees Limited acting as the nominee for all institutional and individual investors that maintain an account with it was 1,260,640,262 H Shares as of 31 December 2017. Save for 351,647,000 Shares and 112,740,500 H Shares of the Company held by Glasslake Holdings and CSRF respectively, to the knowledge of the Company, all of which were under the name of HKSCC Nominees Limited, the number of remaining H Shares of the Company held under the name of HKSCC Nominees Limited was 796,252,762 H Shares.

DESCRIPTION OF CHANGES IN SHARES

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

SHAREHOLDERS

As of 31 December 2017, the total number of Shareholders as shown on the register of members of the Company was 88 Shareholders, six of which were Domestic Shareholders and 82 were H Share registered Shareholders. The H Share registered Shareholders include HKSCC Nominees Limited, which held H Shares of the Company as the nominee for all institutional and individual investors that maintained an account with it as of 31 December 2017.

INFORMATION ON SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As of 31 December 2017, BSCOMC, the largest Shareholder of the Company, and Central Huijin, the second largest Shareholder of the Company, held 37.04% and 32.93% of the Shares of the Company, respectively.

As of the Latest Practicable Date, BSCOMC and Central Huijin held 37.04% and 32.93% of the Shares of the Company, respectively.

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

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

DISCLOSURE OF INTERESTS

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

To the knowledge of the Directors, as of 31 December 2017, the following Shareholders (except Directors, Supervisors and senior management) had interests or short positions in any Shares and underlying Shares of the Company required to be recorded in the register to be kept by the Company under Section 336 of the SFO:

	Names of Substantial Shareholders	Capacity	Number of Shares Directly or Indirectly Held	Class of Shares	Nature of Interest	Approximate Percentage of Shareholding in the Total Issued Ordinary Share Capital[1]	Approximate Percentage of Shareholding in the Relevant Class of Shares
1.	BSCOMC	Beneficial owner	2,684,309,017	Domestic Shares	Long positions	37.04%	44.85%
2.	Central Huijin	Beneficial owner	2,386,052,459	Domestic Shares	Long positions	32.93%	39.86%
3.	CITIC Securities *(Note 1)*	Beneficial owner	427,000,000	Domestic Shares	Long positions	5.89%	7.13%
		Interest of Controlled Corporation	150,624,815	Domestic Shares	Long positions	2.08%	2.52%
			577,624,815	Domestic Shares	Long positions	7.97%	9.65%
4.	Shannan Jinyuan *(Note 2)*	Beneficial owner	300,000,000	Domestic Shares	Long positions	4.14%	5.01%
5.	Xizang Jingyuan Investment Management Limited *(Note 2)*	Interest of Controlled Corporation	300,000,000	Domestic Shares	Long positions	4.14%	5.01%
6.	HUANG Tao *(Note 2)*	Interest of Controlled Corporation	300,000,000	Domestic Shares	Long positions	4.14%	5.01%
7.	HUANG Shiying *(Note 2)*	Interest of Controlled Corporation	300,000,000	Domestic Shares	Long positions	4.14%	5.01%
8.	Glasslake Holdings *(Note 3)*	Beneficial owner	351,647,000	H Shares	Long positions	4.85%	27.89%
9.	Affluent East Investments Limited *(Note 3)*	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.85%	27.89%
10.	CITIC Limited *(Note 3)*	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.85%	27.89%
11.	CITIC Group *(Note 3)*	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.85%	27.89%
12.	CSRF *(Note 4)*	Beneficial owner	112,740,500	H Shares	Long positions	1.56%	8.94%
13.	Jianxin (Beijing) Investment Fund Management Co., Ltd. *(Note 4)*	Interest of Controlled Corporation	112,740,500	H Shares	Long positions	1.56%	8.94%

Notes:

(1) Shanghai Panxin Equity Investment Management Co., Ltd. (上海磐信股權投資管理有限公司) ("Panxin") is the general partner of Shanghai Shangyan. Panxin is wholly-owned by CITIC Private Equity Funds Management Co., Ltd. (中信產業投資基金管理有限公司) ("CITIC PE"), which is owned by CITIC Securities as to 35%. Therefore, each of Panxin, CITIC PE and CITIC Securities is deemed to be interested in the Domestic Shares held by Shanghai Shangyan under the SFO.

(2) Shannan Jinyuan is a wholly-owned subsidiary of Xizhang Jingyuan Investment Management Ltd. (西藏景源投資管理有限公司), which is in turn owned by Mr. HUANG Tao and Mr. HUANG Shiying, as to 60% and 40% Shares respectively. Therefore, each of Xizhang Jingyuan Investment Management Limited (西藏景源投資管理有限公司), Mr. HUANG Tao and Mr. HUANG Shiying is deemed to be interested in the Domestic Shares held by Shannan Jinyuan under the SFO.

(3) Glasslake Holdings Limited (鏡湖控股有限公司) ("Glasslake Holdings") is a wholly-owned subsidiary of Affluent East Investments Limited (東滿投資有限公司) ("Affluent East"), which is in turn wholly-owned by CITIC Limited. CITIC Group indirectly holds a majority of equity interest in CITIC Limited. Therefore, each of Affluent East, CITIC Limited and CITIC Group is deemed to be interested in the H Shares held by Glasslake Holdings under the SFO.

(4) China Structural Reform Fund Co., Ltd. ("CSRF") is held as to 38.2% by CCB (Beijing) Principal Asset Management Co., Ltd. (建信(北京)投資基金管理有限責任公司) ("CCB"), which is in turn held as to 38.2% by China Investment Corporation (中國投資有限責任公司) ("CIC"). Therefore, each of CCB and CIC is deemed to be interested in the H Shares held by CSRF under the SFO.

Save as disclosed above, as of 31 December 2017, to the knowledge of the Directors, no other person (except Directors, Supervisors and senior management) had interests or short positions in the Shares and underlying Shares of the Company required to be recorded in the register to be kept by the Company under Section 336 of the SFO.

As of 31 December 2017, Directors did not hold any positions as directors or employees in companies which had interests or short positions in the Company that needed to be notified to the Company under division 2 and 3 of Part XV of the SFO.

ISSUANCE OF SHARES OR CHANGES IN REGISTERED CAPITAL OF THE COMPANY OR ITS SUBSIDIARIES

On 30 December 2016, the over-allotment option described in the prospectus of the Company's H Share global offering was partially exercised by the joint representatives, on behalf of the international underwriters, in respect of an aggregate of 73,411,000 H Shares (including 69,915,238 H Shares newly issued by the Company and 3,495,762 H Shares converted from Domestic Shares and offered for sale by the selling Shareholders). Listing of and dealings in such over-allotment Share commenced on the Main Board of the HKEX on 5 January 2017. During the Reporting Period, saved as disclosed above, the Company has not issued any new Shares.

The addition in registered capital of the subsidiaries is as follows:

1. Upon passing the resolution of the Board on 17 March 2017, the Company agreed to contribute HK$1 billion to China Securities International, and the paid-in capital upon capital contribution amounted to HK$2 billion. Currently, the Company has received a reply letter from the CSRC, which raised no objection to the contribution of HK$1 billion to China Securities International from the Company.

2. Upon passing the resolution of the Board on 2 June 2017, the Company agreed to contribute RMB1 billion to China Securities Capital, after which the registered capital upon capital contribution amounted to RMB1.65 billion.

3. On 27 November 2017, the Company established its wholly-owned subsidiary China Securities Investments Limited (中信建投投資有限公司), the registered capital of which is RMB1 billion.

BASIC INFORMATION ON THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Gender	Age	Appointment Date	Total remuneration before tax received from the Company during the Reporting Period *(RMB ten thousand)*
WANG Changqing	Chairman of the Board and Executive Director	Male	54	February 2017	446.31
YU Zhongfu	Vice Chairman of the Board and Non-executive Director	Male	47	March 2011	0.00
HU Donghui	Vice Chairman of the Board and Non-executive Director	Female	54	August 2016	0.00
QI Liang	Executive Director and General Manager	Male	48	March 2012	432.39
WANG Chenyang	Non-executive Director	Male	48	April 2015	0.00
WANG Shouye	Non-executive Director	Male	47	August 2016	0.00
DONG Shi	Non-executive Director	Male	53	December 2017	0.00
WANG Hao	Non-executive Director	Male	49	December 2017	0.00
XU Gang	Non-executive Director	Male	48	June 2017	0.00
FENG Genfu	Independent Non-executive Director	Male	60	April 2015	17.50
ZHU Shengqin	Independent Non-executive Director	Female	41	April 2015	17.00
DAI Deming	Independent Non-executive Director	Male	55	August 2016	17.50
BAI Jianjun	Independent Non-executive Director	Male	62	August 2016	17.50
LIU Qiao	Independent Non-executive Director	Male	47	August 2016	17.50
LI Shihua	Chairman of the Supervisory Committee	Male	58	April 2014	382.27
WANG Jing	Supervisor	Female	47	August 2016	0.00
AI Bo	Supervisor	Female	47	August 2016	0.00
LIU Hui	Supervisor	Male	45	March 2011	0.00
LU Ya	Employee representative Supervisor	Female	52	March 2011	359.55

Name	Position	Gender	Age	Appointment Date	Total remuneration before tax received from the Company during the Reporting Period *(RMB ten thousand)*
WU Lili	Employee representative Supervisor	Male	47	March 2011	97.03
ZHOU Zhigang	Member of the Executive Committee, Chief Compliance Officer and Chief Risk Officer	Male	53	November 2005	395.24
YUAN Jianmin	Member of the Executive Committee	Male	56	November 2005	398.09
JIANG Yueqin	Member of the Executive Committee	Male	51	May 2009	390.63
ZHOU Xiaoyu	Member of the Executive Committee	Male	53	January 2016	382.27
PENG Heng	Member of the Executive Committee and Chief Financial Officer	Male	45	January 2009	462.27
LI Tiesheng	Member of the Executive Committee	Male	46	June 2013	340.00
WANG Guangxue	Member of the Executive Committee and Secretary of the Board	Male	45	January 2014	494.62
ZHANG Xinfan	Member of the Executive Committee	Male	49	January 2014	444.42
LIU Naisheng	Member of the Executive Committee	Male	47	January 2014	504.59
HUANG Ling	Member of the Executive Committee	Male	41	January 2014	462.35
HU Bin	Member of the Executive Committee	Male	36	January 2016	411.18
QIU Jianyang	Former Non-executive Director	Male	55	March 2011	0.00
LIU Dingping	Former Non-executive Director	Male	55	March 2011	0.00
WANG Shumin	Former Non-executive Director	Female	62	March 2011	0.00
ZOU Yingguang	Former Member of the Executive Committee	Male	47	January 2014	238.65

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

Note 2: During the Reporting Period, total deferred remuneration before tax to the following individual for 2013 was set out as follows: RMB0.80 million to Lu Ya.

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Name	Position	Change
QIU Jianyang	Non-executive Director	Ceased to serve as a Director of the Company and perform related duties as a Director in March 2017
LIU Dingping	Non-executive Director	Ceased to serve as a Director of the Company and perform related duties as a Director in December 2017
WANG Shumin	Non-executive Director	Ceased to serve as a Director of the Company and perform related duties as a Director in December 2017
XU Gang	Non-executive Director	Appointed by the general meeting in June 2017
DONG Shi	Non-executive Director	Appointed by the general meeting in December 2017
WANG Hao	Non-executive Director	Appointed by the general meeting in December 2017
ZOU Yingguang	Member of the Executive Committee	Ceased to act as a member of the Executive Committee of the Company in February 2017

POSITIONS HELD BY DIRECTORS AND SUPERVISORS IN THE SHAREHOLDERS AS OF THE END OF THE REPORTING PERIOD

Name	Shareholder	Major Position	Appointment Date	Termination Date of Term of Office
YU Zhongfu	BSCOMC	Deputy General Manager	May 2009	Until expiry
HU Donghui	Central Huijin	Deputy Director of the Securities Institution Management Department/ the Insurance Institution Management Department	February 2012 and July 2014	Until expiry
WANG Chenyang	BSCOMC	Deputy General Manager	November 2014	Until expiry
WANG Shouye	BSCOMC	Chief Financial Officer	June 2010	Until expiry
DONG Shi	Central Huijin	Designated Director	October 2008	Until expiry
WANG Jing	BSCOMC	Deputy General Manager	January 2014	Until expiry
AI Bo	China Investment Corporation[Note]	Senior Manager of the Department of Discipline Inspection and Supervision/Secretary to the Discipline Inspection Committee	February 2012	Until expiry
LIU Hui	Central Huijin	Director of the Bank of China of the Management Department I of the Banking Institution	November 2011	Until expiry

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

POSITIONS BY DIRECTORS AND SUPERVISORS IN OTHER ENTITIES

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

MAJOR WORK EXPERIENCE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Mr. WANG Changqing (王常青), born in June 1963, is the Chairman of the Board, an Executive Director, the Party Committee Secretary and the Chairman of the Executive Committee. Mr. Wang joined our Company in November 2005, and has been serving as an executive Director since February 2007, the Chairman of the Board and Chairman of the Executive Committee since September 2011, and the Party Committee Secretary since September 2011. Mr. Wang has been serving as a director of China Securities International since July 2012, and as the Chairman of Zhongan Huixin Investment Management Co., Ltd. (中安匯信投資管理有限公司) since July 2017. Mr. Wang is currently the part-time vice president of the SAC, the vice chairman of the investment banking committee of the SAC, the executive vice president of the Securities Association of Beijing, a member of the second session of the supervisory committee of the Shanghai Stock Exchange and a member of the strategic planning committee of the council of the Shenzhen Stock Exchange.

Mr. Wang served as the deputy plant manager of the Copper Powder Plant in Beijing Smelting Factory from August 1984 to September 1986; the deputy director of production planning department in Beijing Non-Ferrous Metal Industry Corporation from October 1986 to November 1992; the director and deputy general manager of Beijing Kaibao Travel and Food Company from November 1992 to October 1993; the head of the equity underwriting department of the Beijing representative office of Daiwa Securities Group from October 1993 to September 1999; the general manager of investment banking department of the Shanghai branch, the deputy general manager of investment banking department, the administrative head and managing director of the investment banking business and vice-chairman of the corporate finance committee in CITIC Securities Co., Ltd.(a company listed in the HKEX (stock code: 060630) and Shanghai Stock Exchange (stock code: 600030)) from October 1999 to November 2005; and the deputy general manager, general manager and member of the Executive Committee of the Company from November 2005 to September 2011.

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

Mr. YU Zhongfu (于仲福), born in November 1970, is the Vice Chairman of the Board and a Non-executive Director. Mr. Yu has been serving as a Director of the Company since March 2011, the Vice Chairman of the Board since August 2016, the deputy general manager of BSCOMC since May 2009. Mr. Yu has been serving as a director of Beijing Rural Commercial Bank Co., Ltd. since May 2010, a director of Wangfujing Group Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600859) since June 2011, and a non-executive Director of Beijing Jingneng Clean Energy Co., Limited (a company listed on the HKEX, stock code: 00579) since December 2011, a director of Beijing Urban-Rural Commercial (Group) Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600861) since October 2017 and a director of BBMG Corporation (a company listed on the Shanghai Stock Exchange, stock code: 601992) since December 2017.

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

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

Mr. DONG Shi (董軾), born in March 1965, is the Vice Chairman of the Board and a Non-executive Director. Mr. Dong has been serving as a Director of the Company since December 2017, the vice Chairman of the Company Since April 2018, a non-executive director of Industrial and Commercial Bank of China Limited (a company listed on the HKEX (stock code: 01398) and the Shanghai Stock Exchange (stock code: 601398)) since September 2017, and has been serving as a designated director appointed by Central Huijin Investment Limited since October 2008.

Mr. Dong served as the deputy head of the Inspection and Supervision Bureau of the People's Bank of China from July 1988 to July 1998. He served as an assistant special inspector of the State Council, a director of the supervisory board of the Central Enterprises Working Commission, and deputy director-general of the Foreign Affairs Bureau under the State-owned Assets Supervision and Administration Commission of the State Council from August 1998 to September 2008. He served as a director of China Reinsurance (Group) Corporation and a director of China Reinsurance Asset Management Co., Ltd. from October 2008 to August 2011, and served as a non-executive director of China Construction Bank Corporation (a company listed on the HKEX (stock code: 00939) and the Shanghai Stock Exchange (stock code: 601939)) from September 2011 to June 2017.

Mr. Dong obtained a bachelor degree in economics from Zhengzhou University in July 1988 and a Master's degree in Law from Renmin University of China in January 2003, majoring in Economic Law. He is a qualified senior economist.

Mr. LI Geping (李格平), born in November 1967, is an Executive Director, deputy secretary of the Party Committee, the General Manager and a member of the Executive Committee. Mr. Li joined the company in February 2018, and has been serving as the deputy secretary of the Party committee of the Company since February 2018 and an Executive Director, the General Manager and a member of the Executive Committee of the Company since April 2018.

Mr. Li served as a lecturer in Zhongnan University of Finance and Economics from July 1987 to June 1992 (during the period he studied economics in Zhongnan University of Finance and Economics, obtaining the master's degree of economics). Mr. Li worked in the Hubei branch of People's Bank of China (中國人民銀行), and served as the secretary to the board of directors and deputy general manager of business department in Shanghai of Hubei Securities (湖北證券), the general manager of securities business department in Shenzhen of Hubei Securities, the manager of asset management department and deputy head of research institute from June 1992 to April 1996. Mr. Li successively served as the assistant of the general manager and the general manager of asset management service department, the assistant of the president and the general manager of international business department, the head of the research institute, the deputy president and the general manager of investment banking department of Hubei Securities from April 1996 to February 2000. Mr. Li successively served as a director, the president, a member of the Party committee, the deputy secretary of the Party committee of Changjiang Securities Company Limited (長江證券有限責任公司), the chairman of the board of directors of Changjiang BNP Paribas Peregrine Securities Co. Limited (長江巴黎百富勤證券有限責任公司) (part-time), the chairman of the board of directors of Nuode Asset Management Co., Ltd. (諾德基金管理有限責任公司) (part-time) (during the period he studied in the financial department of the research institute in Chinese Academy of Social Sciences, obtaining a doctoral degree of economics) from February 2000 to December 2007. Mr. Li served as a member of the Party committee, the deputy secretary of the Party committee, a director, the president of Changjiang Securities Company Limited, the chairman of the board of directors of Nuode Asset Management Co., Ltd. (part-time), the chairman of the board of directors of Changjiang Securities Underwriting and Sponsorship Co., Ltd. (長江證券承銷保薦有限公司) (part-time), the chairman of the board of directors of Changjiang Growth Capital Investment Co., Ltd. (長江成長資本投資有限公司) (part-time) from December 2007 to June 2011. He served as the secretary general of the Securities Association of China (中國證券業協會) from June 2011 to April 2012, a member of Party committee and the secretary general of the Securities Association of China from April 2012 to February 2014, the deputy head of the regulatory department of securities and funds authority of the China Securities Regulatory Commission from February 2014 to December 2016, and the head of securities institution management department/insurance institution management department of Central Huijin Investment Ltd. from December 2016 to February 2018.

Mr. Li obtained a bachelor degree of economics and a master's degree of economics from Zhongnan University of Finance and Economics (now known as Zhongnan University of Economics and Law) in July 1987 and July 1992, respectively. He obtained a doctoral degree of economics from the financial department of the research institute in Chinese Academy of Social Sciences in July 2004, and has enjoyed government special subsidies issued by the State Council since 2005. Mr. Li is also a researcher.

Ms. ZHANG Qin (張沁), born in August 1970, is a Non-executive Director. She has been serving as a Director of the Company since April 2018, and an assistant of the general manager and the general manager of audit and monitoring department of Beijing State-owned Capital Operation and Management Center (北京國有資本經營管理中心) since July 2016.

Ms. Zhang was engaged in fundamental accounting in Tianjin Huafeng Industrial Group Co., Ltd. (天津華豐工業集團公司) from August 1992 to September 1994, and served as an accountant in Beijing Capital Development Co., Ltd. (北京市房地產開發經營總公司) from July 1997 to July 1998. She served as an accountant and the deputy manager in Beijing Tianhong Group Co., Ltd. (北京天鴻集團公司) from July 1998 to March 2006, and served as the chief financial officer of property operation and service department in Beijing Capital Development Holding (Group) Co., Ltd. (北京首都開發控股集團(有限)公司) from March 2006 to April 2008. Ms. Zhang served as the deputy general manager of Beijing Shoukai Renxin Property Co., Ltd. (北京首開仁信置業有限公司) from April 2008 to May 2010, and has served as the deputy general management of financial management department of Beijing State-owned Capital Operation and Management Center since May 2010.

Ms. Zhang obtained a bachelor of engineering from Beijing University of Chemical Technology in August 1992, and obtained a master's degree of economics from Capital University of Economics and Business in July 1997.

Ms. ZHU Jia (朱佳), born in October 1982, is a Non-executive Director. She has been serving as a Director of the Company since April 2018, and served as the assistant of the general manager of investment management second division of Beijing State-owned Capital Operation and Management Center since October 2016.

Ms. Zhu worked in the enterprise and syndicated loans department, public relation and resources management department and risk management department in the Beijing branch of the Bank of East Asia (Hong Kong) (東亞銀行(香港)北京分行) from November 2004 to January 2010. She joined Beijing State-owned Capital Operation and Management Center in January 2010, successively serving as the business manager of investment management department, the business manager of investment management second division and other positions.

Ms. Zhu obtained a bachelor degree of accounting from Zhengzhou University in July 2003, and obtained a bachelor degree of business administration from Fort Hays State University in the US in July 2003. She obtained a master's degree of finance and investment from the University of Exeter in November 2004. Ms. Zhu obtained an intermediate level of finance and economics in November 2010.

Mr. WANG Hao (汪浩), born in December 1968, is a Non-executive Director. Mr. Wang has been serving as a Director of the Company since December 2017 and as the general manager of Ho Chi Minh City branch of Bank of China(Hong Kong)Limited since January 2018.

Mr. Wang served as a credit officer, deputy director, director of the credit department, assistant to general manager, deputy general manager and director of credit management department, deputy general manager (in charge of overall operation), general manager and party secretary of Liuzhou branch of Bank of China Limited (a company listed on the HKEX (stock code: 03988) and the Shanghai Stock Exchange (stock code: 601988)) from July 1991 to April 2003. He served as the general manager and party secretary of Guilin branch of Bank of China from April 2003 to July 2004, an assistant to the general manager and a member of the Communist Party Committee of Guangxi Zhuang Autonomous Region branch of Bank of China from July 2004 to October 2008, a deputy general manager of Ho Chi Minh City branch of Bank of China from October 2008 to December 2009, and general manager of Ho Chi Minh City branch of Bank of China from December 2009 to January 2018.

Mr. Wang obtained a Bachelor's degree in Economics from Fudan University in July 1991 and a Master's degree in Business Administration from China Europe International Business School in September 2005.

Mr. WANG Bo (王波), born in May 1963, is a Non-executive Director. He has been serving as a Director of the Company since April 2018, and an external director of Beijing State-owned Capital Operation and Management Center since September 2017 and a director of China Export & Credit Insurance Corporation (中國出口信用保險公司) since June 2017.

Mr. Wang worked for Mudanjiang branch of the People's Bank of China (中國人民銀行牡丹江分行) from December 1981 to April 1982, and served as a member and deputy head of credit department, the head of foreign trading credit department, the head of sales department, the deputy president, a member of Party committee, deputy secretary of the Party committee (in charge of work), the president and the secretary of the Party committee in Mudanjiang branch, Helongjiang of the Bank of China (中國銀行黑龍江省牡丹江分行) from April 1982 to May 2005. He served as the general manager in loan administration department in Helongjiang branch of the Bank of China (中國銀行黑龍江省分行) from May 2005 to July 2006, and served as the president and the secretary of the general branch of party in Zhaolin sub-branch in Harbin, Helongjiang of the Bank of China (中國銀行黑龍江省哈爾濱市兆麟支行) from July 2006 to January 2009. He served as the general manager of human resources department in Helongjiang branch of the Bank of China from January 2009 to May 2011, and served as the assistant of president and a member of the Party committee in Jilin branch of the Bank of China (中國銀行吉林省分行) from May 2011 to October 2014. Mr. Wang served as a member of Party committee and the secretary of the disciplinary committee of the Inner Mongolia Autonomous Region branch of the Bank of China (中國銀行內蒙古自治區分行) from October 2014 to August 2017.

Mr. Wang obtained a bachelor degree of economics from Heilongjiang University in December 2003, and obtained a master's degree in business administration of senior management personnel from Jilin University in December 2013. Mr. Wang was accredited as an economist in December 1990.

Mr. XU Gang (徐剛), born in November 1969, is a Non-executive Director. Mr. Xu Gang has been serving as a Director of the Company since June 2017, the vice chairman and deputy general manager of CITIC Industrial Investment Group Corp., Ltd. (中信興業投資集團有限公司) since March 2018, a director of Qianhai Equity Exchange (Shenzhen) Co., Ltd. (前海股權交易中心(深圳)有限公司) since December 2012 and a director of Xiamen Cross-strait Equity Exchange Limited (廈門兩岸股權交易中心有限公司) since October 2013.

Mr. Xu served as a cadre of the corporate management department of China Geological Machinery and Instrument Industry Corporation* (中國地質機械儀器工業總公司) from July 1991 to December 1995; a deputy project manager of Hainan Haihua High-tech Engineering Company* (海南海華高技術工程公司) from January 1996 to July 1997; a project manager of investment banking department of Huaxia Securities Co., Ltd. (華夏證券股份有限公司) from September 1997 to December 1997; a research manager of the research consultation department, senior manager of the asset management department, deputy head and head of the financial product development team, deputy general manager of research consultation department, head and general manager of the finance team, executive head of the research department, executive head of the stock sales and trading department, director of the economic development management committee, member of the executive committee and other positions of CITIC Securities Co., Ltd. (中信證券股份有限公司) from February 1998 to January 2016, a director of CITIC Futures Company Limited (中信期貨有限公司) from May 2011 to October 2016, a director of CITIC Wantong Securities Co., Ltd (中信萬通證券有限責任公司)(now known as CITIC Securities (Shandong) Co., Ltd. (中信證券(山東)有限責任公司)) from November 2011 to October 2016, a director of China Asset Management Co., Ltd. from May 2012 to November 2016, a director of Qingdao Blue Ocean Equity Exchange Limited. (青島藍海股權交易中心有限責任公司) from December 2013 to March 2017 and a director of E-Capital Transfer Co., Ltd. (證通股份有限公司) from January 2015 to June 2016; the chief researcher of the strategic development department of CITIC Group Limited (中信集團有限公司) from March 2017 to March 2018.

Mr. Xu obtained a master's degree and a Ph.D. degree in economics from Nankai University in July 1996 and July 2000, respectively.

Mr. FENG Genfu (馮根福), born in June 1957, is an Independent Non-executive Director. Mr. Feng has been serving as an Independent Director of the Company since April 2015; a professor and doctoral supervisor of the School of Finance and Economics of Xi'an Jiaotong University since May 2000; an independent non-executive director of Datang International Power Generation Co., Ltd. (a company listed on the HKEX, stock code: 00991 and the Shanghai Stock Exchange, stock code: 601991) since August 2014; an independent director of Hubei Biocause Pharmaceutical Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000627) since May 2016; and an independent director of Changchai Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000570) since October 2016.

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

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

Ms. ZHU Shengqin (朱聖琴), born in December 1976, is an Independent Non-executive Director. Ms. Zhu has been serving as an Independent Director of the Company since April 2015; the chairman of the board of Beijing HuiYuan UCF Capital Holding Co., Ltd. since July 2013; an executive director of China Huiyuan Juice Group Limited (a company listed on the HKEX, stock code: 1886) since August 2014; the vice chairman of Beijing Huiyuan Holdings Limited since August 2016; the chairman of the board of Château Camélia (Tianjin) International Trade Co., Ltd. since September 2016 and an independent director of Bona Film Group Limited since August 2017.

Ms. Zhu joined China Huiyuan Juice Group Limited in 1996. She has held various positions, including the marketing manager, deputy general manager of the investment division, director of the office of the board, officer of operation teams, and a vice president of the group. She served as the chairman of the board of Sunrise Financial Leasing Company Limited from August 2015 to November 2017 and an independent director of V-Fund Management Co., Ltd. (先鋒基金管理有限公司) from October 2015 to November 2017.

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

Mr. DAI Deming (戴德明), born in October 1962, is an Independent Non-executive Director. Mr. Dai has been serving as an Independent Director of the Company since August 2016; a professor and doctoral supervisor of the department of accounting of Renmin University of China since July 1996 and January 1997, respectively; an independent director of China Zheshang Bank Co., Ltd. (a company listed on the HKEX, stock code: 02016) since February 2015; a director of Qingdao Haier Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600690) since June 2015; an independent director of Beijing Capital Development Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600376) since September 2015; an independent director of BOC Aviation Limited (a company listed on the HKEX, stock code: 02588) since May 2016; and an independent director of Power Construction Corp of China Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 601669). He is also the vice chairman of the Accounting Society of China.

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

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

Mr. BAI Jianjun (白建軍), born in July 1955, is an Independent Non-executive Director. Mr. Bai has been serving as an Independent Director of the Company since August 2016; an external supervisor of China Construction Bank Corporation since June 2013, an independent director of Sichuan Xinwang Bank Co., Ltd. (四川新網銀行股份有限公司) since December 2016; Mr. Bai has been teaching in Peking University since July 1987 and serves as a professor and doctoral supervisor at the Law School, director of the Research Institute of Empirical Legal Affairs and deputy director of the Financial Law Research Center.

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

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

Mr. LIU Qiao (劉俏), born in May 1970, is an Independent Non-executive Director. Mr. Liu has been serving as an Independent Director of the Company since August 2016; a member of the expert panel of the Shenzhen Stock Exchange since March 2006; a supervisor of the post-doctoral station of Shenzhen Stock Exchange since September 2007; the professor of finance and economics, doctoral supervisor, associate dean and director of EMBA Center at the Guanghua School of Management of Peking University since December 2010; a supervisor of the post-doctoral station of CSRC since September 2011; a supervisor of the post-doctoral station of China Minsheng Bank Corp., Ltd since September 2011; a supervisor of the post-doctoral station of China Financial Futures Exchange since September 2012; an independent director of ZH International Holdings Limited (a company listed on the HKEX, stock code: 00185) since July 2015; and an independent director of Beijing Capital Co., Limited (a company listed on the Shanghai Stock Exchange, stock code: 600008) since December 2017. Mr. Liu currently also serves as a member of the 17th issuance audit committee of CSRC.

Mr. Liu served as an assistant professor at School of Economics and Finance of the University of Hong Kong from September 2000 to November 2001; a consultant of the Asia-Pacific Corporate Finance & Strategy Practice of McKinsey & Company from December 2001 to July 2003; an assistant professor and associate professor (with tenure) at the Faculty of Business and Economics of the University of Hong Kong from August 2003 to December 2010; and an independent director of Hexie Health Insurance Co., Ltd. from October 2014 to July 2017.

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

Ms. HU Donghui (胡冬輝), born in November 1963, is the Vice Chairman of the first session of the Board and a Non-executive Director. Ms. Hu has been serving as a Director and the Vice Chairman of the Board of the Company from August 2016 to April 2018, and the deputy director and managing director of the securities institution management department and the insurance institution management department of Central Huijin since February 2012 and July 2014, respectively.

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

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

Mr. QI Liang (齊亮), born in August 1969, is an Executive Director, the General Manager and a member of the Executive Committee of the first session of the Board. Mr. Qi joined our Company in March 2012, and served as an Executive Director, the General Manager and a member of the Executive Committee from March 2012 to April 2018, and the Deputy Secretary of the Party Committee from July 2013 to February 2018. Mr. Qi has been serving as the Chairman of the Board of China Securities International since January 2013 and the director of Zhongguancun Equity Exchange Services Group Limited since January 2013. Mr. Qi is also the vice chairman of the brokerage committee of the SAC, a member of the fourth council of SZSE, the vice chairman of the market exchange management committee of SSE, the vice chairman of the listing training committee of SZSE, a member of the bond market committee of the NAFMII, a council member of the green finance committee of the China Society for Finance and a standing committee member of the National Financial System Youth Federation.

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

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

Mr. WANG Chenyang (王晨陽), born in December 1969, was a Non-executive Director of the first session of the Board. Mr. Wang served as a Director of the Company from April 2015 to April 2018; the deputy general manager of BSCOMC since November 2014; a director of AVIC Aviation High-Technology Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600862) since January 2016; and a non-executive director of China Resources Pharmaceutical Group Limited (a company listed on the HKEX, stock code: 03320) since June 2015.

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

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

Mr. WANG Shouye (王守業), born in December 1970, is a Non-executive Director of the first session of the Board. Mr. Wang has been serving as a Director of the Company from August 2016 to April 2018; and the chief financial officer of BSCOMC since June 2010.

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

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

Mr. LIU Dingping (劉丁平), born in September 1962, is a Non-executive Director of the first session of the Board. Mr. Liu has been serving as a Director of the Company from March 2011 to December 2017. He served as a designated director appointed by Central Huijin since November 2010 and has been serving as a non-executive director of China Galaxy Securities Co., Ltd. (a company listed on the HKEX, stock code: 06881 and on the Shanghai Stock Exchange, stock code:601881) since February 2018.

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

Mr. Liu obtained a Bachelor's degree in Economics from the School of Infrastructure and Economics of the Liaoning Institute of Finance and Economics in the PRC in July 1984, a Master of Business Administration ("MBA") degree from the School of Economics and Management in Tsinghua University in the PRC in July 2006, a Doctoral degree from the School of Management in Wuhan University of Technology in June 2017 and obtained a certificate of senior economist in December 1997.

Ms. WANG Shumin (王淑敏), born in February 1956, is a Non-executive Director of the first session of the Board. Ms. Wang has been serving as a Director of the Company from March 2011 to December 2017.

Ms. Wang served as the deputy director and director of the regulation and law department of the MOF from January 1982 to October 1991, the director and deputy department chief of the policy and law department, deputy department chief of balance of payments department and administration and inspection department of the SAFE, as well as the inspector and press secretary of the SAFE from November 1991 to September 2004; a director of China Construction Bank Corporation (a company listed on the HKEX, stock code: 00939 and on the Shanghai Stock Exchange, stock code: 601939) from September 2004 to June 2011; a director of China Everbright Bank Company Limited (a company listed on the HKEX, stock code: 06818 and the Shanghai Stock Exchange, stock code: 601818) from February 2012 to June 2016; and a director of China Everbright Group Ltd. from December 2014 to June 2016; an arbitrator of China International Economic and Trade Arbitration Commission from May 1996 to May 2017; a designated director appointed by Central Huijin from September 2004 to January 2018.

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

Mr. QIU Jianyang (邱劍陽), born in October 1962, is a Non-executive Director of the first session of the Board. Mr. Qiu has been serving as a Director of the Company from March 2011 to March 2017; the general manager of the investment department of Century Jinyuan since November 2007; and a non-executive Director of China Innovative Finance Group Limited (a company listed on the HKEX, stock code: 00412) since September 2015.

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

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

Note: The biographies above include the new directors of the second session of the Board. For the list of the members of the second session of the Board, please refer to "Other Significant Events – Subsequent Events – Change of Session of the Board and the Supervisory Committee" in this annual report.

Supervisors

Mr. LI Shihua (李士華), born in November 1959, is the Chairman of the Supervisory Committee and the Deputy Secretary of the Party Committee. Mr. Li joined our Company in November 2005 and has been serving as the Chairman of the Supervisory Committee since April 2014; and the Deputy Secretary of the Party Committee since June 2014. Mr. Li has been serving as the chairman of the supervisory committee of China Securities Futures since May 2011. Mr. Li currently also serves as a member of the self-regulation oversight committee of the Securities Association of China.

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

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

Ms. AI Bo (艾波), born in February 1971, is a Supervisor. Ms. Ai has been serving as a Supervisor of the Company since August 2016; and the senior manager of the department of discipline inspection and supervision of China Investment Corporation since February 2012; and the secretary of the discipline supervisory committee of China Investment Corporation since November 2017.

Ms. Ai worked for the secretariat for confidential matters of the general office of the Ministry of Supervision, the general supervision office of supervision department under the Central Commission for Discipline Inspection and the second discipline inspection office under the Central Commission for Discipline Inspection from July 1991 to May 2008, and served as the deputy director of the second discipline inspection office under the Central Commission for Discipline Inspection from September 2005 to May 2008. Ms. Ai also served as the designated supervisor of Central Huijin Investment Limited (designated to work for New China Life Insurance Company Ltd.) from January 2010 to March 2016.

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

Ms. ZHAO Lijun (趙麗君), born in October 1963, is a Supervisor. Ms. Zhao has been serving as a supervisor of the Company since April 2018; the deputy director of the office of China Investment Co., Ltd. since January 2017.

Ms. Zhao successively served as a teaching assistant of the academic department, teaching assistant of social science and lecturer of Harbin Ship Engineering Institute from July 1986 to November 1996. She successively served as vice minister of the propaganda department (named as associate professor in September 1997), director of information centre (part-time since January 2001), vice principal of party school and deputy secretary of Party committee (named as professor in September 2004 of Harbin Engineering University) from November 1996 to December 2006; as researcher of National Commission of Science and Technology Policy and Regulation Division from December 2006 to July 2008; as researcher of Party committee directly under State Administration of Science, Technology and Industry for National Defense, head of Party committee office form July 2008 to March 2010; as senior manager of human resources department, head of management team of party affairs, senior manager of office/board office/Party committee office, and team leader of working group for party construction/Party committee office of China Investment Co., Ltd. from March 2010 to January 2017. During such time Ms. Zhao also served as an external supervisor of Central Huijin Investment Ltd from January 2012 to January 2017 (seconded to China Everbright Industrial (Group) Company Ltd.).

Ms. Zhao obtained a bachelor's degree in law from the Department of Law of Heilongjiang University in July 1986, a master's degree in law (economics) from Harbin Engineering University in March 2006. Ms. Zhao obtained the PRC bar qualification in September 1989.

Ms. LU Ya (陸亞), born in February 1966, is an employee representative Supervisor and Administrative Head of the Risk Management Department. Ms. Lu joined our Company in November 2005, and has been serving as an Administrative Head of the Risk Management Department since January 2008, an employee representative Supervisor since March 2011, a supervisor of China Capital Management Limited since August 2009, and a supervisor of China Securities Investment Limited since November 2017. Ms. Lu has been serving as a member of the financial accounting and risk control committee of the SAC since August 2011.

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

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

Ms. LIN Xuan (林煊), born in February 1972, is an employee representative Supervisor and the managing director of the investment banking department of the Company. Ms. Lin joined the Company in November 2005 and since then has served as assistant to general manager, director, executive director and managing director of investment banking department; she has been serving as employee representative supervisor of the Company since April 2018.

Ms. Lin worked for Huaxia Securities Co., Ltd. (華夏證券股份有限公司) from April 1997 to November 2005 and served as business director and assistant to general manager of the investment banking department and the acquisitions department.

Ms. Lin obtained a bachelor's degree in Economics from Renmin University of China in July 1994, a master's degree in Economics from the Graduate School of the Research Institute of Finance at the People's Bank of China in June 1997, a PhD degree in Economics from Chinese Academy of Social Sciences (in-service study) in July 2009, and A-share sponsor representative qualification in 2004.

Ms. WANG Jing (王京), born in April 1971, was a Supervisor of the first session of the Supervisory Committee. Ms. Wang has been serving as a Supervisor of the Company from August 2016 to April 2018; the deputy general manager of BSCOMC since January 2014; a director of BAIC Motor Corporation Limited (a company listed on the HKEX, stock code: 01958) since April 2014; a director of BOE Technology Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000725) since May 2014; and a non-executive director of China Resources Pharmaceutical Group Limited (a company listed on the HKEX, stock code: 03320) since June 2016.

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

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

Mr. LIU Hui (劉輝), born in June 1972, is a Supervisor of the first session of the Supervisory Committee. Mr. Liu has been serving as a Supervisor of the Company from March 2011 to April 2018. Mr. Liu has been working for Central Huijin since March 2007 and currently serves as the director of the management department I of the banking institution.

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

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

Mr. WU Lili (吳立力), born in August 1970, was a former employee representative Supervisor. Mr. Wu joined our Company in November 2005. He has been serving as an employee representative Supervisor from March 2011 to April 2018 and served as the general manager of the securities branch located at Jianshe South Road in Shijiazhuang since November 2017.

Mr. Wu served as a tour guide in Beijing Teachers' Travel Agency from 1989 to 1996; the department manager and deputy general manager of the securities branch located at Haidian South Road in Beijing of Huaxia Securities from March 1996 to November 2005; and the deputy general manager of the securities branch located at Danling Street in Beijing from January 2008 to November 2017.

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

Note: The biographies above include the new supervisors of the second session of the Supervisory Committee. For the list of the members of the second session of the Supervisory Committee, please refer to "Other Significant Events – Subsequent Events – Change of Session of the Board and the Supervisory Committee" in this annual report.

Executive Committee

Mr. WANG Changqing (王常青), is the Chairman, an Executive Director, a member of the Party Committee and the chairman of the Executive Committee. For the biography of Mr. Wang, please see "- Directors" of this section.

Mr. LI Geping (李格平), is an Executive Director, deputy secretary of the Party committee, General Manager and a member of the Executive Committee. For the biography of Mr. Li, please see "– Directors" of this section.

Mr. QI Liang (齊亮), is a former executive Director of the first session of the Board, deputy secretary of the Party committee, General Manager and a member of the Executive Committee. For the biography of Mr. Qi, please see "– Directors" of this section.

Mr. ZHOU Zhigang (周志鋼), born in May 1964, is a member of the Executive Committee, the Chief Compliance Officer and Chief Risk Officer. Mr. Zhou joined our Company in November 2005. He has been serving as a member of the Executive Committee since February 2009, the Chief Compliance Officer and Chief Risk Officer since April 2016, and a member of Party Committee since December 2005. Mr. Zhou has been serving as a director of China Securities Futures since August 2006.

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

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

Mr. YUAN Jianmin (袁建民), born in May 1961, is a member of the Executive Committee. Mr. Yuan joined our Company in November 2005 and has been serving as a member of the Executive Committee since February 2009 and a member of Party Committee since February 2007. Mr. Yuan has been serving as a director of China Securities Futures since August 2006. Mr. Yuan also serves as a member of the margin financing and securities lending committee of the SAC.

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

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

Mr. JIANG Yueqin (蔣月勤), born in December 1966, a member of the Executive Committee. Mr. Jiang joined our Company in January 2007 and has been serving as a member of the Executive Committee since May 2009 and a member of Party Committee since December 2007. He has been serving as the chairman of the board of directors of China Securities Funds since September 2013. Currently, Mr. Jiang also serves as a vice chairman of the AMAC.

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

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

Mr. ZHOU Xiaoyu (周笑予), born in June 1964, is a member of the Executive Committee and the administrative head of the Human Resources Department. Mr. Zhou joined our Company in November 2005 and has been serving as the Administrative Head of the Human Resources Department since November 2011, a member of the Executive Committee since January 2016, and a member of Party Committee since July 2013. Mr. Zhou has been a director of China Securities Futures since August 2012.

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

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

Mr. PENG Heng (彭恒), born in August 1972, is a member of the Executive Committee, the Chief Financial Officer, the Administrative Head of the Financial Planning Department and the Administrative Head of the Treasury Operation Department. Mr. Peng joined our Company in November 2005 and has been serving as the Administrative Head of the Financial Planning Department since January 2008, a member of the Executive Committee and Chief Financial Officer since January 2009, and the Administrative Head of the Treasury Operation Department since November 2012. Mr. Peng has been a supervisor of China Securities Futures since November 2008, a director of China Securities Capital since March 2013 and a director of China Securities Investment Limited since November 2017.

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

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

Mr. LI Tiesheng (李鐵生), born in July 1971, is a member of the Executive Committee. Mr. Li joined our Company in June 2013 and has been serving as a member of the Executive Committee since June 2013 and a director of China Securities Investment Limited since November 2017.

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

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

Mr. WANG Guangxue (王廣學), born in June 1972, is a member of the Executive Committee, the Secretary of the Board and the Administrative Head of the Executive Office of our Company. Mr. Wang joined our Company in November 2005 and has been serving as the Administrative Head of the Executive Office of our Company since November 2011. He has been serving as a member of the Executive Committee and the Secretary of the Board since January 2014.

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

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

Mr. ZHANG Xinfan (張昕帆), born in December 1968, is a member of the Executive Committee and the Chairman of the Brokerage Business Management Committee. Mr. Zhang joined our Company in November 2005 and has been serving as a member of the Executive Committee since January 2014 and the Chairman of the Brokerage Business Management Committee since April 2014. Mr. Zhang has been serving as a director of China Securities International since June 2014.

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

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

Mr. LIU Naisheng (劉乃生), born in February 1971, is a member of the Executive Committee, the Administrative Head of the Investment Banking Department. Mr. Liu joined our Company in March 2006 and has been serving as the Administrative Head of the Investment Banking Department since April 2011. He has been serving as a member of the Executive Committee since January 2014. Mr. Liu is currently a member of the sixth session of the audit committee for mergers and acquisitions of the CSRC; and he has been serving as a member of the Fourth Session of Listing Committee of Shanghai Stock Exchange since August 2017.

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

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

Mr. HUANG Ling (黃凌), born in October 1976, is a member of the Executive Committee, the Administrative Head of the Debt Underwriting Department. Mr. Huang joined our Company in November 2005 and has been serving as the Administrative Head of the Debt Underwriting Department since May 2008. He has been serving as a member of the Executive Committee from January 2014.

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

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

Mr. HU Bin (胡斌), born in July 1981, is a member of the Executive Committee, the Administrative Head of the International Business Department. Mr. Hu joined our Company in June 2014 and has been serving as a member of the Executive Committee and the Administrative Head of the International Business Department since January 2016, an executive director and the general manager of China Securities International since January 2016, and a director of CITIC Urban Development Equity Investment Fund Management (Shenzhen) Co., Ltd. (中信城市發展股權投資基金管理(深圳)有限公司) since May 2016.

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

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

RELATIONSHIPS BETWEEN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

PERFORMANCE OF DUTIES AND REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Performance of Duties of Directors and Supervisors

In 2017, the Directors of the Company strictly complied with domestic and overseas laws, regulations, regulatory requirements and the Articles of Association and diligently and responsibly performed their responsibilities and obligations in reviewing the issues of the Board and Board Committees, providing valuable opinions and recommendations on strategic and development planning, corporate governance, business development, risk management and compliance management and other aspects, safeguarding the interests of Shareholders and promoting sustainable and healthy development of the Company.

During 2017, the executive Directors earnestly performed their dual duties in decision-making and execution, actively implemented the resolutions of Shareholders' general meetings and Board meetings, and conducted in-depth study of the development and operating strategies of the Company to boost its outstanding operating results. The non-executive Directors attended the meetings of the Board and Board Committees pursuant to the requirements and made scientific and prudent decisions by considering meeting documents, receiving special reports, conducting research and analysis, and reviewing reports on the Company's operation to keep abreast of the Company's operational status. The independent non-executive Directors consistently expressed their personal opinions in an independent and objective manner, offered advice and recommendations based on their professional strengths, and faithfully performed their duties so as to safeguard the interests of the Company and its Shareholders, especially the legitimate interests of minority Shareholders.

In 2017, the Supervisors of the Company strictly complied with the requirements of the Company Law and the Company's Articles of Association, earnestly performed their duties of supervision, participated in the approval of significant decisions of the Company, regularly investigated the operating status of the Company and its business operations, and effectively supervised the performance of duties by the Directors and the executive management of the Company, so as to actively safeguard the interests of Shareholders.

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

Performance of Duties of Senior Management

In 2017, the executive management of the Company comprehensively implemented all resolutions and requirements of the Board. In accordance with industry trends and changes in operating environment, combined with the implementation of the "three major strategies," the executive management proposed a strategy of balanced development of light and heavy asset businesses, online and offline businesses, domestic and overseas businesses, as well as conventional and innovative businesses to further strengthen the business layout, They proactively made suggestions for improvement and optimization in relation to certain major issues affecting the development of the Company, eventually achieving positive results.

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

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

Remuneration of Directors, Supervisors and Senior Management for the Year

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

Please refer to the "Basic Information on the Directors, Supervisors and Senior Management" under this section of this annual report for further details of the remuneration of the current Directors, Supervisors and senior management for the year. The Company will continue to improve its performance and compensation management system based on the relevant regulatory requirements and the Company's condition.

EMPLOYEES

Number of Employees and Composition

As of 31 December 2017, the Group had 10,231 employees in total (excluding brokers and dispatched employees), among which the Company had 9,344 employees (excluding brokers and dispatched employees). The composition is as follows:

	Items	The Group Number of employees	The Group Percentage (%)	The Company Number of employees	The Company Percentage (%)
Professional structure	Brokerage business	7,284	71.20%	7,045	75.4%
	Investment banking	871	8.51%	821	8.79%
	Information technology	472	4.61%	407	4.36%
	Financial planning	328	3.21%	280	3.00%
	Administration	48	0.47%	20	0.21%
	Research	178	1.74%	138	1.48%
	Fixed income business	145	1.42%	131	1.40%
	Asset management business	224	2.19%	112	1.20%
	Margin financing and securities lending businesses	39	0.38%	35	0.37%
	Security investment	72	0.70%	59	0.63%
	Settlement	70	0.68%	44	0.47%
	Legal compliance/audit	92	0.90%	65	0.70%
	Risk management	61	0.60%	44	0.47%
	Others	347	3.39%	143	1.53%
	Total	10,231	100%	9,344	100%
Educational level	Doctorate degree	78	0.76%	61	0.65%
	Master's degree	3,146	30.75%	2,817	30.15%
	Bachelor's degree	6,122	59.84%	5,652	60.49%
	College or below	885	8.65%	814	8.71%
	Total	10,231	100%	9,344	100%

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

RELEVANT INFORMATION OF SECURITIES BROKERS

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

Management System

In 2017, the Company concluded its review of the inadequacies which existed in the management of securities brokers in accordance with the latest requirements of the regulatory department. The Company further optimized such systems as training, compliance and customer service of securities brokers, formulated a series of work flows and standards, revised and optimized the management measures of securities brokers of the Company based on the existing various securities brokers management systems to ensure that such systems and measures were in compliance with the latest regulatory requirements and could be effectively implemented.

Internal Control System

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

Meanwhile, the risk management department of the Company further strengthened the daily monitoring of securities brokers. In 2017, the Company frequently carried out special assessments, of unusual trading by securities brokers, and performed monitoring and clearance of potential risks arising from the management of securities brokers from time to time, to eliminate the occurrence of wealth management agency and illegal operation. The Company also enhanced the management of professional qualifications, improved training requirements, and stringently leveraged the effectiveness of professional qualifications of securities brokers.

Information System

In 2017, the Company further optimized the management system and operation procedures of brokers, and further optimized the management procedures of the qualifications of securities brokers and other functions, leading to more comprehensive, clear and accurate management system.

Relevant Information of Securities Brokers

As of the end of 2017, a total of 190 securities branches of the Company implemented the system of securities brokers. There were a total of 2,402 brokers who obtained professional brokerage qualifications as reviewed and approved by the Securities Association of China, of which 364 received new qualification as securities brokers in 2017.

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

During 2017, the Company entered into securities agency entrustment contracts with brokers who obtained qualifications as securities brokers, and paid service fees for this part of securities brokers in accordance with the payment terms in the contracts.

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

EMPLOYEE REMUNERATION

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

TRAINING PROGRAM

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

1. The Company enhanced the training of senior employees on leadership and management skills, broadened its innovative idea and international view, improved its reform management capability, strategic analysis capability, executive management capability, business synergy capability, risk prevention capability and integrated humanity quality, and nurtured quality leaders for enterprise operation and management.

2. The Company strengthened the training of mid-level staff on implementation, competence and professional skills, and strived to improve its professional knowledge, project implementation capability, business development and innovation capability as well as team management capability.

3. The Company popularized vocational training and common skills training for employees at the basic level, strengthened the education of its corporate culture, professional compliance, business operation, workflow, regulations and system, and enhanced their communication and presentation capability, customer service capability, team coordination capability and office operation capability.

4. The Company attached high importance to recruitment at university campuses, and commenced a series of enrollment and trainee cultivation program to recruit outstanding graduates and students with working and placement opportunities. In 2017, the headquarters of the Company provided 367 placement positions for students on campus, and hired 142 new graduates. In 2017, the headquarters of the Company produced approximately 66.5 hour online induction lectures for new staff members, and organized closed-end and concentrated training for new entrants.

RELATIONSHIP WITH EMPLOYEES

During the Reporting Period and up to the date of this annual report, we have not experienced any strike actions by staff members or other material labor disputes affecting our operation. We have maintained good relations with employees.

OVERVIEW OF CORPORATE GOVERNANCE

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

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

DEALING IN SECURITIES BY DIRECTORS AND SUPERVISORS

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

SHAREHOLDERS AND GENERAL MEETINGS

Rights of Shareholders' General Meetings and Shareholders

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

Overview of Shareholders' General Meetings

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

(1) On 23 February 2017, the 2017 first extraordinary general meeting of the Company was convened and the Resolution on the Re-appointment of External Auditors of the Company for 2016 was considered and approved.

(2) On 8 June 2017, the 2016 annual general meeting of the Company was convened and the followings were considered and approved: the 2016 Work Report of the Board of Directors of the Company, the 2016 Work Report of the Supervisory Committee of the Company, the resolution on the 2016 Final Financial Accounts Plan of the Company, the resolution on the 2016 Profit Distribution Plan of the Company, the resolution on the 2016 Annual Report of the Company, the resolution on the election of non-executive Directors, the resolution on amendments to the Articles of Association, the resolution in relation to the reappointment of 2017 external auditors, the resolution on the Initial Public Offering and the listing of A Shares of the Company, the resolution on the authorization to the Board and authorized persons of the Board to deal with matters relating to the Initial Public Offering and the listing of A Shares, the resolution on the use of proceeds from the Initial Public Offering and the listing of A Shares, the resolution on the remedial measures for the dilution of immediate return as a result of the Initial Public Offering of A Shares, the resolution on formulating the plan regarding A Share price stabilization within three years after the Initial Public Offering and the listing of A Shares, the resolution on formulating the plan regarding Shareholders' return for the three years after the Initial Public Offering and the listing of A Shares, the resolution on giving undertakings in relation to the A Share offering, the resolution on the report on the use of capital previously raised, the resolution on amendments to the Articles of Association on matters in connection with the Initial Public Offering and the listing of A Shares, the resolution on amendments to the Rules of Procedures for Shareholders' General Meetings, the Rules of Procedures for Board Meetings and the Rules of Procedures for Supervisory Committee Meetings on matters in connection with the Initial Public Offering and the listing of A Shares and other resolutions. The Company listened to the 2016 Work Report of the Independent Non-executive Directors of the Company.

(3) On 8 June 2017, the 2017 first domestic Shareholders' class meeting of the Company was convened and the followings were considered and approved: the resolution on the Initial Public Offering and the listing of A Shares of the Company, the resolution on the authorization to the Board and authorized persons of the Board to deal with matters relating to the Initial Public Offering and the listing of A Shares, the resolution on the use of proceeds from the Initial Public Offering and the listing of A Shares, the resolution on the remedial measures for the dilution of immediate return as a result of the Initial Public Offering of A Shares, the resolution on formulating the plan regarding A Share price stabilization within three years after the Initial Public Offering and the listing of A Shares, the resolution on formulating the plan regarding Shareholders' return for the three years after the Initial Public Offering and the listing of A Shares, the resolution on giving undertakings in relation to the A Share offering, the resolution on the report on the use of capital previously raised and other resolutions.

(4) On 8 June 2017, the 2017 first H Shareholders' class meeting of the Company was convened and the followings were considered and approved: the resolution on the Initial Public Offering and the listing of A Shares of the Company, the resolution on the authorization to the Board and authorized persons of the Board to deal with matters relating to the Initial Public Offering and the listing of A Shares, the resolution on the use of proceeds from the Initial Public Offering and the listing of A Shares, the resolution on the remedial measures for the dilution of immediate return as a result of the Initial Public Offering of A Shares, the resolution on formulating the plan regarding A Share price stabilization within three years after the Initial Public Offering and the listing of A Shares, the resolution on formulating the plan regarding Shareholders' return for the three years after the Initial Public Offering and the listing of A Shares, the resolution on giving undertakings in relation to the A Share offering, the resolution on the report on the use of capital previously raised and other resolutions.

(5) On 11 December 2017, the 2017 second extraordinary general meeting of the Company was convened and the followings were considered and approved: the resolution on proposed amendments to the Articles of Association, Rules of Procedures for Board Meetings and Rules of Procedures for Supervisory Committee Meetings, the resolution on the proposed general mandate of the Company to continue issuing medium and long-term debt financing instruments, the resolution on election of non-executive Directors, the resolution on the report on the use of capital previously raised and the resolution on the proposed adjustment to the allowance of the independent non-executive Directors and other resolutions.

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

Name of Director	Actual attendance/ On-site Shareholders' general meetings held during the term of office
WANG Changqing	5/5
YU Zhongfu	5/5
HU Donghui	5/5
QI Liang	5/5
WANG Chenyang	1/5
WANG Shouye	1/5
DONG Shi	0/0
WANG Hao	0/0
XU Gang	0/1
FENG Genfu	5/5
ZHU Shengqin	4/5
DAI Deming	4/5
BAI Jianjun	5/5
LIU Qiao	4/5
LIU Dingping (former Non-executive Director)	4/5
WANG Shumin (former Non-executive Director)	4/5
QIU Jianyang (former Non-executive Director)	1/1

Note: Actual attendance includes the total attendance of on-site attendance and attendance by way of telecommunication.

BOARD OF DIRECTORS AND OPERATIONS MANAGEMENT

Power and Duties of the Board of Directors

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

Composition of the Board of Directors

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

As at the end of the Reporting Period, the Board of the Company was comprised of 14 Directors, two of which are Executive Directors (Mr. WANG Changqing and Mr. QI Liang), seven of which are Non-executive Directors (Mr. YU Zhongfu, Ms. HU Donghui, Mr. WANG Chenyang, Mr. WANG Shouye, Mr. DONG Shi, Mr. WANG Hao and Mr. XU Gang) and five are Independent Non-executive Directors (Mr. FENG Genfu, Ms. ZHU Shengqin, Mr. DAI Deming, Mr. BAI Jianjun, Mr. LIU Qiao). Mr. WANG Changqing was the Chairman of the Board and Mr. QI Liang was the General Manager. None of the Directors, Supervisors and members of the senior management was related to other Directors, Supervisors and members of the senior management of the Company.

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

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

Meetings of the Board of Directors

During the Reporting Period, the Board of Directors convened 8 meetings, the details and resolutions passed are as follows:

(1) On 13 February 2017, the Company convened the 61st meeting of the first session of the Board meeting and the resolution on cessation of holding office as a member of the executive committee of the Company by comrade ZOU Yingguang was considered and approved.

(2) On 17 March 2017, the Company convened the 62nd meeting of the first session of the Board meeting and the resolution on the amendments to the major accounting policies and accounting estimates of CSC Financial Co., Ltd., the resolution on the 2016 Profit Distribution Plan of the Company, the resolution on consideration of the 2016 Annual Report of the Company (H Shares), the resolution on consideration of the 2016 Annual Results announcement of the Company, the resolution on adjustments to the Directors of the Company, the resolution on consideration of the implementation of the working plan for the overall risk management requirements by the Company and the resolution on the proposed capital increase in China Securities (International) Finance Holding Company Limited were considered and approved.

(3) On 20 April 2017, the Company convened the 63rd meeting of the first session of the Board meeting and the 2016 Work Report of the Board of Directors of the Company, the 2016 Work Report of the Independent Non-executive Directors, the resolution on the 2016 Final Financial Accounts Plan of the Company, the resolution on the 2016 net capital and other risk control indicators, the resolution on the 2016 compliance Report of CSC Financial Co., Ltd., the resolution on 2016 internal control and self-assessment report of CSC Financial Co., Ltd., the resolution on the 2016 Annual Report of the Company, the resolution on amendments to the Articles of Association, the resolution in relation to the reappointment of 2017 external auditors, the resolution on the Initial Public Offering and the listing of A Shares of the Company, the resolution on the authorization to the Board and authorized persons of the Board to deal with matters relating to the Initial Public Offering and the listing of A Shares, the resolution on determining of the authorized persons of the Board, the resolution on the use of proceeds from the Initial Public Offering and the listing of A Shares, the resolution on the remedial measures for the dilution of immediate return as a result of the Initial Public Offering of A Shares, the resolution on formulating the plan regarding A Share price stabilization within three years after the Initial Public Offering and the listing of A Shares, the resolution on formulating the plan regarding Shareholders' return for the three years after the Initial Public Offering and the listing of A Shares, the resolution on giving undertakings in relation to the A Share offering, the resolution on the report on the use of capital previously raised, the resolution on amendments to the Articles of Association on matters in connection with the Initial Public Offering and the listing of A Shares, the resolution on amendments to the Rules of Procedures for Shareholders' General Meetings and the Rules of Procedures for Board Meetings on matters in connection with the Initial Public Offering and the listing of A Shares and the resolution on convening the 2016 Shareholders' General Meeting of the Company were considered and approved.

(4) On 2 June 2017, the Company convened the 64th meeting of the first session of the Board meeting and the resolution on capital increase in China Capital Management Limited, the resolution on establishment of China Securities Investment Limited, the resolution on the 2017 risk management policies of the Company, the resolution on adjustments to allowances' of Independent Non-executive Directors, the resolution on the remuneration policies for management of the Company, the resolution on amendments to the basic management system, the resolution on the appointment of securities representatives, the resolution on the applicable basic management system of the Company upon issuance of A Shares and the resolution on relevant financial accounting documents in relation to the application for the Initial Public Offering and listing of A Shares of the Company were considered and approved.

(5) On 30 August 2017, the Company convened the 65th meeting of the first session of the Board meeting and the Resolution on Net Capital and Other Risk Control Indicators of the Company in the First Half of 2017, the Resolution on the 2017 Interim Compliance Report of the Company, the Resolution on Adjustments to the Composition of the Special Committee of the Board of the Company, the Resolution on the 2017 Interim Results Announcement and the Interim Report of the Company, the Resolution on Supplemental Relevant Financial Accounting Documents for the Application for the Initial Public Offering and Listing of A Shares of the Company, the Resolution on the Report on the Use of Capital Previously Raised and the Resolution on Recognition of Connected Transactions during the Reporting Period were considered and approved.

(6) On 29 September 2017, the Company convened the 66th meeting of the first session of the Board meeting and the Resolution on Amendments to the Basic Compliance Management System of the Company was considered and approved.

(7) 18 October 2017, the Company convened the 67th meeting of the first session of the Board meeting and the Resolution on Amendments to the Articles of Association and the Rules of Procedures for the Board of Directors, the Resolution on Adjustments to the Directors of the Company, the Resolution on Application for General Mandate to Continue Issuing Medium and Long-term Debt Financing Instruments, the Resolution on Capital Contribution to the Photovoltaic Poverty Alleviation Project in Xi County, Shanxi Province, the Resolution on Adjustments to the Approval on and Authorization of External Donation and the Resolution on Convening the 2017 Second Extraordinary General Meeting were considered and approved.

(8) 23 November 2017, the Company convened the 68th meeting of the first session of the Board meeting and the Resolution on Amendments to the Articles of Association was considered and approved.

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

Name of Director	Scheduled attendance at Board meetings held	Attendance in person	Attendance by proxy	Absence
WANG Changqing	8	6	2	0
YU Zhongfu	8	8	0	0
HU Donghui	8	8	0	0
QI Liang	8	8	0	0
WANG Chenyang	8	7	1	0
WANG Shouye	8	7	1	0
DONG Shi	0	0	0	0
WANG Hao	0	0	0	0
XU Gang	4	4	0	0
FENG Genfu	8	8	0	0
ZHU Shengqin	8	7	1	0
DAI Deming	8	8	0	0
BAI Jianjun	8	8	0	0
LIU Qiao	8	8	0	0
LIU Dingping (former Non-executive Director)	8	8	0	0
WANG Shuming (former Non-executive Director)	8	8	0	0
QIU Jianyang (former Non-executive Director)	1	1	0	0

Training of Directors

The Board of the Company recognizes the importance of training and continuous professional development of the Directors to help the Directors master relevant laws and regulations, familiarize the business of the Company, undertakes the responsibilities as required by governance policies, so as to ensure that the Directors effectively perform duties. In 2017, the Board of the Company arranged sponsorship institution, domestic and overseas lawyers and auditors to conduct training on the applicable laws and regulations relating to the duties and responsibilities as a director of A share listed company. The content of training covered information disclosure and investors' relationship management, guidance on responsibility and norms of directors, supervisors and senior management, corporate governance, obligations of directors, supervisors and senior management of A share listed companies and fundamental norms of internal control of enterprises, changes in and impact on accounting standards for enterprises as well as identification and confirmation of connected party relationship. All Directors attended the abovementioned relevant trainings organized by the Company.

BOARD COMMITTEES UNDER THE BOARD OF THE COMPANY

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

As at the end of the Reporting Period, the composition of each Board Committee is listed as follows:

Name of Committee	Members of Committee
Development Strategy Committee	WANG Changqing (Chairman), YU Zhongfu, HU Donghui, QI Liang, WANG Shouye, DONG Shi, XU Gang, FENG Genfu
Risk Management Committee	HU Donghui (Chairwoman), QI Liang, WANG Chenyang, WANG Hao, XU Gang, BAI Jianjun, LIU Qiao
Audit Committee	DAI Deming (Chairman), WANG Chenyang, DONG Shi, FENG Genfu, ZHU Shengqin
Remuneration and Nomination Committee	BAI Jianjun (Chairman), WANG Changqing, YU Zhongfu, WANG Hao, ZHU Shengqin, DAI Deming, LIU Qiao

Development Strategy Committee

Duties of the Committee

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

Work Summaries and Meetings of the Committee

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

Date of meeting	Subject matters
7 April 2017	Considered the resolution in relation to the 2016 Work Report of the Board of the Company and the resolution in relation to the 2016 Final Financial Accounts of the Company, etc.

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

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

Risk Management Committee

Duties of the Committee

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

Work Summaries and Meetings of the Committee

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

Date of meeting	Subject matters
17 March 2017	Considered the resolution on the Work Plan for Implementation of Comprehensive Risk Management Requirements of the Company
19 April 2017	Considered the resolution on Net Capital and Other Risk Control Indicators of the Company for 2016, the 2016 Compliance Report of CSC Financial Co., Ltd., the 2016 Self-assessment Report on Internal Control of CSC Financial Co., Ltd., and the 2016 Risk Report of CSC Financial Co., Ltd.
31 May 2017	Considered the resolution in relation to the 2017 Risk Management Policy of the Company
30 August 2017	Considered the resolution in relation to Net Capital and Other Risk Control Indicators of the Company for the First Half of 2017, the 2017 Interim Compliance Report of CSC Financial Co., Ltd.
18 October 2017	Heard the Special Report on the Company's Risk

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

Name of Committee Member	Position	Actual attendance/ Scheduled attendance
HU Donghui	Vice Chairman and Non-executive Director	5/5
QI Liang	Executive Director	5/5
WANG Chenyang	Non-executive Director	4/5
WANG Hao	Non-executive Director	0/0
XU Gang	Non-executive Director	1/1
BAI Jianjun	Independent Non-executive Director	5/5
LIU Qiao	Independent Non-executive Director	5/5
LIU Dingping	Former Non-executive Director	5/5
QIU Jianyang	Former Non-executive Director	0/0

Audit Committee

Duties of the Committee

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

Work Summaries and Meetings of the Committee

In 2017, the major tasks accomplished by the Audit Committee included:

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

In 2017, the Audit Committee convened five meetings. Details of the meetings of the Audit Committee are set out below:

Date of meeting	Subject matters
20 January 2017	Considered the resolution in relation to the 2016 External Audit Plan of the Company
15 March 2017	Considered resolution on the Amendments to the the Significant Accounting Policies and Estimates of the Company, the report on 2016 External Audit of the Company by External Auditors according to the International Accounting Standard and the 2016 Results Announcement of the Company
20 April 2017	Considered the 2016 Internal Audit Work Report and 2017 Work plan of the Company, the report on 2016 External Audit of the Company by External Auditors according to the China Accounting Standards for Business Enterprises, the 2016 Annual Report of CSC Financial Co., Ltd., the resolution on the Re-appointment of External Auditor of the Company for Year 2017
31 May 2017	Considered the resolution in relation to the Initial Public Offering of A Shares by the Company and the Listing Application of Related Financial Accounting Documents
22 August 2017	Considered the Interim External Audit Work Report, the resolution of the Company in 2017, the resolution in relation to the 2017 Interim Result Announcement and Interim Report of the Company, the resolution in relation to the Initial Public Offering of A Shares by the Company and the Listing Application of Supplemental Financial Accounting Documents

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

Name of Committee Member	Position	Actual attendance/ Scheduled attendance
DAI Deming	Independent Non-executive Director	5/5
WANG Chenyang	Non-executive Director	5/5
DONG Shi	Non-executive Director	0/0
FENG Genfu	Independent Non-executive Director	5/5
ZHU Shengqin	Independent Non-executive Director	5/5
WANG Shumin	Former Non-executive Director	5/5

Remuneration and Nomination Committee

Duties of the Committee

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

Work Summaries and Meetings of the Committee

In 2017, the major tasks accomplished by the Remuneration and Nomination Committee included:

- considering the remuneration policy of executive management of the Company and bonus for 2016

During the Reporting Period, the Remuneration and Nomination Committee convened four meetings. Details of the meetings of the Remuneration Committee are set out below:

Date of meeting	Subject matters
17 March 2017	Considered the Resolution in relation to the Adjustment of Directors of the Company
2 June 2017	Considered the Resolution in relation to Adjusting Allowance of Independent Non-executive Directors, the Resolution in relation to the Remuneration Policies of the Executive Management of the Company
2 June 2017	Considered the Resolution in relation to the 2016 Bonuses of the Executive Management of the Company
18 October 2017	Considered the Resolution in relation to the Adjustment of Directors of the Company

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

Name of Committee Member	Position	Actual attendance/ Scheduled attendance
BAI Jianjun	Independent Non-executive Director	4/4
WANG Changqing	Chairman and Executive Director	4/4
YU Zhongfu	Vice Chairman and Non-executive Director	4/4
WANG Hao	Non-executive Director	0/0
ZHU Shengqin	Independent Non-executive Director	3/4
DAI Deming	Independent Non-executive Director	4/4
LIU Qiao	Independent Non-executive Director	4/4
LIU Dingping	Former Non-executive Director	4/4

SUPERVISORS AND THE SUPERVISORY COMMITTEE

Powers and Duties of the Supervisory Committee

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

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

Composition of the Supervisory Committee

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

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

Meeting of the Supervisory Committee

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

(1) On 20 April 2017, the 14th meeting of the first session of the Supervisory Committee of the Company was convened and the following were considered and approved: the 2016 Work Report of the Supervisory Committee of the Company, the 2016 Internal Audit Work Report and 2017 Work Plan of the Company, the resolution in relation to the 2016 Annual Report of the Company, the resolution in relation to the Amendments to the Rules of Procedures of the Supervisory Committee in respect of the Initial Public Offering of A Shares and Listing Matters and other resolutions.

(2) On 21 August 2017, the 15th meeting of the first session of the Supervisory Committee of the Company was convened and the Internal Audit Work Report for the First Half of 2017 and Work Plan for the Second Half of 2017 of the Company were considered and approved.

(3) On 18 October 2017, the 16th meeting of the first session of the Supervisory Committee of the Company was convened and the resolution in relation to the Amendments to the Rules of Procedures of the Supervisory Committee of the Company was considered and approved.

(4) On 8 November 2017, the 17th meeting of the first session of the Supervisory Committee of the Company was convened and the 2017 Special Report on the Company's Risk was heard.

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

Name of Supervisor	Scheduled attendance	Attendance in person	Attendance by proxy	Absence
LI Shihua	4	4	0	0
WANG Jing	4	4	0	0
AI Bo	4	4	0	0
LIU Hui	4	4	0	0
LU Ya	4	4	0	0
WU Lili	4	4	0	0

APPOINTMENT OF AUDITORS

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

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

Non-audit Work

During the Reporting Period, the Company engaged PricewaterhouseCoopers network members to conduct non-audit work, please refer to Note 11 to the consolidated financial statements of this annual report for the charge.

Responsibilities of Directors for the Financial Statements

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

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

Basis for Establishment of Internal Control System of Financial Report

During the Reporting Period, the Company continued to comply with the requirements under the Basic Norms of Internal Control for Enterprises and its ancillary guidelines, Guidance for the Internal Control of Securities Firms and other laws, regulations and rules, as well as the actual situation of the Company, therefore a sound internal control system of Financial Report was further established.

During the Reporting Period, the Company strictly complied with the requirements under the Company Law, Accounting Law, Accounting Standards for Business Enterprises, Standardization of Basic Work of Accounting, Basic Norms of Internal Control for Enterprises and other relevant laws and regulations, as well as the characteristics of the industry and the actual condition of the Company, so as to formulate, revise or improve the financial and accounting management systems and other internal control systems, such as Financial Management System of CSC Financial Co., Ltd. (《中信建投証券股份有限公司財務管理制度》), Management Provisions on Net Capital of CSC Financial Co., Ltd. (《中信建投証券股份有限公司淨資本管理規定》), Management Provisions on Banking Account of CSC Financial Co., Ltd. (《中信建投証券股份有限公司銀行賬戶管理規定》), Management Measures for Financial Seal of CSC Financial

Co., Ltd. (《中信建投証券股份有限公司財務印章管理辦法》), Detailed Rules for the Implementation of the Administration of Accounting Archives of CSC Financial Co., Ltd. (《中信建投証券股份有限公司會計檔案管理實施細則》), Management Provisions on Headquarter's Operating Expenses of CSC Financial Co., Ltd. (《中信建投証券股份有限公司總部營業費用管理規定》), Management Provisions on Branch's Operating Expenses of CSC Financial Co., Ltd. (《中信建投証券股份有限公司分支機構營業費用管理規定》), Vertical Management Measures for Financial Works of Brokerage Business System of CSC Financial Co., Ltd. (《中信建投証券股份有限公司經紀業務系統財務工作垂直管理辦法》), Interim Provisions on the Management of Accounts Receivable of CSC Financial Co., Ltd. (《中信建投証券股份有限公司應收賬款管理暫行規定》), Operating Guideline for Tax-related Archival Filing of Outward Remittances of CSC Financial Co., Ltd. (《中信建投証券股份有限公司對外付匯稅務備案操作指南》). The Company sets up a scientific financial and accounting organization structure, engages qualified financial and accounting professionals, uses stricter standardized financial and accounting management system, implements proper accounting policies and reasonable accounting estimations, in order to ensure the financial reports prepared by the Company are complied with the requirements of accounting standards, and can reflect the financial position, operating results, cash flow and other information of the Company truthfully, accurately and completely. The Supervisory Committee of the Company and external auditors conduct effective examination and supervision over the finance of the Company, and provide professional audit opinions on the financial reports of the Company pursuant to the Articles of Association and the relevant regulations.

During the Reporting Period, since the internal control system relating to the Company's financial report was integrated and operated smoothly, the quality of the financial report can be safeguarded and the reliability of the financial information can be assured. During the Reporting Period, there is no material defect in the internal control system relating to the financial report, and the information set out in the Company's annual financial report are true, accurate and complete.

COMPANY SECRETARIES

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

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

Both Mr. WANG Guangxue and Ms. WONG Wai Ling have confirmed that they received not less than 15 hours of relevant professional training during the year ended 31 December 2017.

INVESTOR RELATIONS

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

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

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

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

BOARD DIVERSITY POLICY

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management

For the objectives and policies of risk management of the Company, please refer to the "Management Discussion and Analysis — Risk Management" of this annual report.

Internal Control

Establishment of Compliance Management System

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

The Board of the Company determines the objectives of compliance management and is responsible for the validity of compliance management of the Company; the operating management is responsible for implementing the targets of compliance management and is responsible for compliance operation of the Company; all departments, all branches and all subsidiaries at all levels are responsible for implementing the targets of compliance management of the entity and are responsible for compliance operation of the entity.

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

The Company established the Legal and Compliance Department as a specific department of compliance management under the leadership of the Chief Compliance Officer, and independently carried out the compliance management work of the Company. The main responsibilities of the Legal and Compliance Department are to assist the Chief Compliance Officer in formulating and amending the compliance management system of the Company and facilitate its implementation; to provide compliance suggestions, compliance consultation, compliance training, and to guide the staff of the Company to accurately understand the laws, regulations and rules; to provide compliance advice on review of new products and new businesses of the Company to identify and evaluate compliance risks; to conduct compliance inspection, compliance accountability and compliance report, and rationalize and evaluate the compliance of the system and procedures of the Company; to conduct compliance monitoring in terms of suspicious transactions and employees' behaviors, and be responsible for specific compliance management such as anti-money laundering, management of compliance personnel, information isolation and conflicts of interests, as well as initiate and facilitate compliance cultural construction, and cultivate the compliance awareness of all staff.

The Company has appointed compliance management personnel conforming to regulatory requirements in all business departments and all branches. The compliance management personnel are responsible for daily monitoring, inspection, management and training in relation to compliance in the entities. The full time and part-time compliance management personnel are under the leadership of the Legal and Compliance Department in accordance with regulatory requirements.

The compliance management of subsidiaries at all levels have been integrated into the unified system by the Company. The Company has specified compliance management matters of the subsidiaries subject to reporting to the Company and conducted reviews on the compliance management system of subsidiaries, supervised and inspected the compliance of behaviors of subsidiaries' management to ensure that the compliance management of the subsidiaries was in compliance with the requirements of the Company.

Internal Auditing

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

During the Reporting Period, the Audit Department implemented a total of 120 audit projects. Among these projects, seven were projects for headquarters, two were audit projects for subsidiaries and 111 were audit projects for branches, the details of which are as follows:

Departments involved in seven audits for headquarters included: Fixed Income Department, Custodian Department, Brokerage Business Management Committee, Securities Financing Department and Risk Management Department; the departments involved in this evaluation of compliance effectiveness included Investment Management Department, Debt Underwriting Department, Capital Market Department, Trading Department, Derivatives Trading Department, Fixed Income Department, Asset Management Department, Securities Financing Department, Research and Development Department, Custodian Department, Brokerage Business Management Committee and other departments under its branch offices, as well as Legal and Compliance Department, Risk Management Department and Executive Office, bringing a total of 14 departments; two audits for subsidiaries included China Securities Funds and China Securities Futures; 111 audits for branches included 63 compulsory audits on resignation for general managers of branch offices and securities branches, 47 audits on resignation and 1 subsequent audit for securities branches.

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

Procedures for Processing and Releasing Inside Information

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

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

Self-evaluation of Risk Management and Internal Control

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

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

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

The Board concluded that, having based on the requirements of the relevant laws, regulations and regulatory rules, an evaluation on the risk management and internal control of the Group was conducted. As of 31 December 2017, the Group was not aware of any material defect in risk management and internal control of the Group. The Board is of the view that the Group has established an effective risk management and internal control system, which has achieved the Company's objectives of risk management and internal control and is free from material defect and significant defect.

COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

The Company shall arrange the Board to answer questions raised by Shareholders during the 2017 annual general meeting. Detailed procedures of voting and resolutions to be voted by way of poll will be contained in the circular to be dispatched to the Shareholders.

INTRODUCTION

CSC Financial Co., Ltd. (hereinafter referred to as "CSC" or "the Company") has always committed itself to creating value for its shareholders, kept its mission of "bringing together talents, serving customers, creating value and contributing to society" firmly in mind, and takes the fulfillment of social responsibility as its important duty since its establishment. Through continuous exploration and practice on its business management mode, the Company has fulfilled its social responsibility in two aspects: the Company's staff provide customers with high-quality services and the Company puts great effort into the development of staff, environmental improvement, community care and others.

This is CSC's 2017 ESG Report published pursuant to the Environmental, Social and Governance ("ESG") Reporting Guidelines of Appendix 27 to the Listing Rules issued by the HKEX, covering the overall performance in two major areas of the Company, namely environmental and social aspects, from 1 January 2017 to 31 December 2017. Unless otherwise stated, the scope of this report includes CSC and its related branches, China Fund Management Co., Ltd., China Futures Co., Ltd., China Capital Management Ltd., and China Securities (International) Finance Holding Company Limited.

The information and cases cited in this report are from the original records during the actual operation of CSC and the entities under its control.

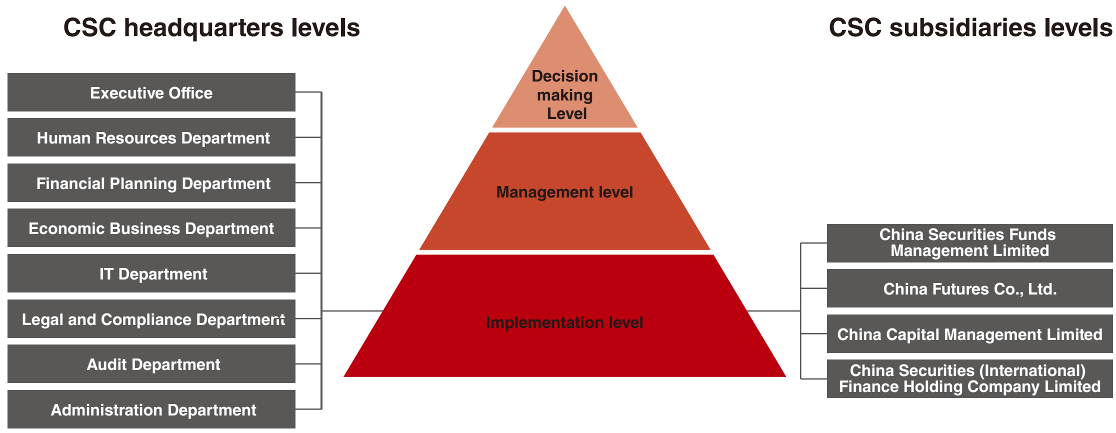
I. ESG MANAGEMENT SYSTEM

Closely adhering to the mission of "bringing together talents, serving customers, creating value and contributing to society", CSC has made great efforts to fulfill its social responsibility and reward the community for their supports and help based on its business features and strengths. On the basis of conforming to the disclosure of ESG information as required by the HKEX and its business development strategy, CSC has continuously improved its ESG management and gradually formed its own ESG management structure. CSC has promoted and facilitated smooth integration of ESG concept into its enterprise culture and business development by building a three-level (decision-making, management and implementation) responsibility management structure.

- Decision-making level: CSC's senior leadership constitutes the decision-making level of its ESG management structure. It is responsible for making overall ESG strategy and determining material issues related to ESG management.

- Management level: responsible team for CSC's ESG work, which is responsible for coordinating and implementing the ESG strategies made by the decision-making level. It also can directly manage the ESG conditions of the Group's relevant divisions, branches and subsidiaries, and report its work and give suggestions to the decision-making level.

- Implementation level: CSC's relevant divisions, branches and subsidiaries are the specific implementers of the Company's ESG strategy. They cooperate with the management level and complete the relevant tasks of ESG management.



ESG Management Organization Structure of CSC[1]

Based on the characteristics of its overall business and operation, CSC has identified its major stakeholders including shareholders and investors, government and regulatory authorities, staff, suppliers, customers, partners, communities and the public. In the process of conducting ESG management, through continuous improvement of communication mechanism, CSC has gradually classified and identified the channels of communication with the stakeholders in order to ensure timely and effective communication of expectations and demands with each other. The major stakeholders and their communication channels include but are not limited to:

Summary of Communication Channels and Issues Concerned of Stakeholders of CSC

Stakeholders	Communication channels	Issues concerned
Shareholders and investors	Shareholders' general meeting and annual report of the Company	• Profitability • Operation strategy • Transparency of information disclosure

1 China Securities Investment Limited was established in November 2017 and did not commence operation during the Reporting Period, and therefore the ESG management organization structure of CSC did not cover China Securities Investment Limited.

Summary of Communication Channels and Issues Concerned of Stakeholders of CSC

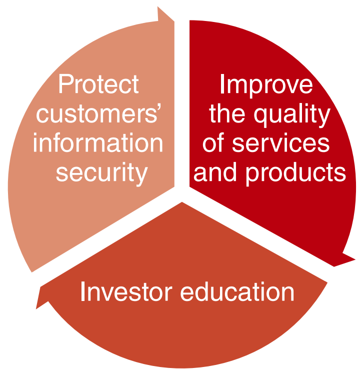
Stakeholders	Communication channels	Issues concerned
Government and regulatory authorities	Major conference, policy inquiry, event reporting, regulator inspection, official correspondence and information disclosure	• Compliance operation • Corporate governance • Environmental protection management
Customers	Customers' visit, satisfaction survey and customer service hotline	• Service quality • Privacy protection
Staff	Staff satisfaction survey, staff activity, staff training and internal training of the Company	• Salary and welfare of staff • Opportunities of development and training • Healthy working environment
Suppliers	Suppliers' inspection and communication meeting	• Fair cooperation • Perform contracts honestly
Partners	Strategic cooperation and negotiation, exchange and interaction	• Fair cooperation • Perform contracts honestly • Joint development
Community and the public	Charitable activities, community interaction, recruitment seminar and internship opportunity	• Corporate social responsibility • Community relation • Promoting employment • Community investment and charitable activities

In 2017, through various communication channels, CSC identified the issues concerned most by the stakeholders, which include "product responsibility" and "employment and health & safety"; the more important issue includes "anti-corruption"; related issues include "emissions", "resources usage", "environment and natural resources", "supply chain management" and "community investment".

II. PRODUCT RESPONSIBILITY

In order to ensure to provide professional and quality financial service to customers, CSC fully implements with the laws and regulations related to business operation in the securities industry, including *Securities Law of the People's Republic of China* (《中華人民共和國證券法》), *Regulation on the Supervision and Administration of Securities Companies* (《證券公司監督管理條例》), *Guidelines for the Internal Control of Securities Companies* (《證券公司內部控制指引》) and *Provisions on Implementing the Measures for the Administration of the Suitability of Securities and Futures Investors* (《證券期貨投資者適當性管理辦法》). Meanwhile, the Company also strictly complies with the requirements of relevant laws and regulations on anti-money laundering in financial institutions, including *Law of the People's Republic of China on Anti-money Laundering* (《中華人民共和國反洗錢法》), *Measures for the Anti-money Laundering Work in the Securities and Futures Sectors* (《證券期貨業反洗錢工作實施辦法》), *Guidelines for the Anti-money Laundering of Securities Companies* (《證券公司反洗錢工作指引》) and *Administration Measures for Financial Institutions' Reporting of High-Value Transactions and Suspicious Transactions* (《金融機構大額交易和可疑交易報告管理辦法》), pursuant to which, CSC has made a series of company rules, including Measures on Administration Compliance of CSC (《中信建投証券股份有限公司合規管理辦法》), Standardization Rules on the Administration of Customer Petitions, Complaints and Disputes of Business Division of CSC (《中信建投証券股份有限公司營業部客戶信訪、投訴與糾紛管理標準化條例), Measures on the Internal Control of Anti-money Laundering and Anti-terrorism of CSC (中信建投証券股份有限公司反洗錢和反恐怖內部控制辦法), Classification and Classified Management Measures of Risks of Customer Money Laundering and Terrorists Financing of CSC (for Trial Implementation) (中信建投証券股份有限公司客户洗錢和恐怖融資風險等級劃分及分類管理辦法(試行)), Rules on the Responsibility of Anti-money Laundering Positions of the Business Division of CSC (中信建投証券股份有限公司證券營業部反洗錢工作崗位職責規定) and Administration Measures on the Assets Freeze of CSC in case of the Engagement in Terrorist Activities (中信建投証券股份有限公司涉及恐怖活動資產凍結管理辦法).

Always keeping the idea of providing customers with high-quality services in mind, CSC, based on its good reputation, offers high-quality financial services or financial products to the society and a wide range of customers. In order to further improve its customer service quality and protect the legitimate rights and interests of customers, CSC has continuously enhanced its management mainly in aspects including protecting customers' information security, improving the quality of services and products, and investor education, so as to effectively fulfill its corporate responsibility in terms of service responsibility.



In 2017, no material illegalities occurred in the business service unit of CSC.

2.1 Service Quality

In order to promote healthy and stable development of its brokerage business, effectively improve its service quality and standardize the methods to deal with customers' complaint letters or visits and disputes, CSC formulates the Standardization Rules on the Administration of Customers' Complaint Letters or Visits and Disputes of Business Division of CSC (《中信建投証券股份有限公司營業部客戶信訪、投訴與糾紛管理標準化條例》), which includes but is not limited to:

- Set up a special "Customers' Complaint Letters or Visits and Disputes Settlement Team" to be fully in charge of the management of dispute settlement including complaints and complaint letters or visits.
- Set up a special "Customer Service Center", where special staff are assigned to handle customers' complaints so as to ensure timely response to customers' complaint calls.
- Establish an "Emergency Handling Process" to actively resolve disputes and problems and handle customers' complaints in a timely manner.

In addition, the Company also opens an online service platform "Perfect Answers for Questions Online Service Platform of CSC" (中信建投証券股份有限公司易問優答在線服務平台), which is a communication channel in form of internet and used to provide customers with online solutions in all respects on questions related to finance in 7×24 hours to help improve customers' experiences.

On the basis of assuring effective implementation of the administration rules, CSC timely collects, summarizes and analyzes customers' feedbacks about handling complaints and their reasonable requests in the course of service providing so as to effectively maintain and improve customers' satisfaction in the future. In 2017, 100% of customers' complaints had been successfully handled by CSC.

2.2 Information Security

CSC attaches great importance to customers' information and privacy protection to prevent customers' information from leaking out. The Company not only has strictly complied with laws and regulations, including Measures on the Administration of Client Identity Identification and Materials and Transaction Recording of Financial Institutions (《金融機構客戶身份識別和客戶身份資料及交易記錄保存管理辦法》) but also has developed its information security management system and formulated a series of information security regulations, including Management System of the Information Security of CSC (《中信建投証券股份有限公司信息系统安全管理制度》), Management Rules on the Establishment Plan of the Information System Safety of CSC (《中信建投証券股份有限公司信息系统安全建設規劃管理規範》), Classified Management Rules on the Data Safety of CSC (《中信建投証券股份有限公司資料安全分級管理規範》) and Implementation Rules on the Emergency Management of the Information Safety of CSC (《中信建投証券股份有限公司信息安全應急管理實施規範》). Through a bulk of technology prevention measures, including strengthening information system monitoring and reconfiguring management, inspecting the implementation of information security, controlling the users' rights of information system, standardizing the process of the safety emergency and safety response of information system and the classified protection of information system, the Company has improved its staff's awareness of safety, monitored and facilitated the safety management works and also reduced the possibility of human-caused network security problems so as to effectively improve its information security level and ensure the safety of customers' information.

The measures on the security management of customers' information and confidentiality of anti-money laundering works have been clearly provided under CSC's information security management systems, and these measures include but are not limited to:

- System reinforcement and alert during monitoring: The Company makes reversible encryption on the transmission data of sensitive information through encryption transmission on its communication unit; the sensitive information of customers is set as hide display as possible when displayed on page or the Client and administration platform; for environment testing data, the sensitive information of customers must be desensitized to be exported and used; for the export of large batch of data, measures such as alert function is effectively used.

- Enhance management and prevent risks: The Company strengthens the supervision and compliance training on staff who have contact with the sensitive information of customers; except special circumstances, external networks are prohibited to visit internal administration system; the Company will give a certain reward to staff who succeed in reporting suspicious persons and clues in time; for staff who are confirmed to have caused data leakage due to their own activities, the Company will deal with the relevant staff seriously via an accountability procedure.

- Follow up by special team and timely response: After receiving feedbacks including customer complaints, relevant staff from business divisions or call centers will report the feedbacks to the head office and investigate the causes.

2.3 Investor Education

CSC tries to contribute more of its strengths to the majority of social investors when carrying out service management, in order to better fulfill its social responsibility on the basis of enterprise service.

An investor education team, which is set up by the management of CSC, is in charge of making medium and long-term plans, annual plans, systems and processes and implementation plans for its investor education work; investigating and studying problems in the investor education work; planning, developing, organizing and carrying out investor education activities; checking, examining and assessing the investor education work. The Company's business division has its leading team for investor education work, which is in charge of organizing and starting investor education work in the business division.

CSC also has its online platform for investor education and launches online school, where there are many special information columns for investors, such as investor education activities, illegal activity prevention and fight, anti-money laundering and network highlights.

The Company hopes that investor education work can be integrated into all aspects of its business. Knowledge popularization enables investors to have an understanding of laws and regulations relating to securities market, the characteristics and risks of different types of securities investment to assist investors in choosing suitable types of investment so as to manage the suitability of investors. At the same time, the Company guides investors to form correct investment concept, improves their risk prevention awareness, safeguards their legal rights and interests according to laws, helps the social public to understand the securities industry, and consciously maintains the market order, so as to facilitate the standardized development of the capital market.

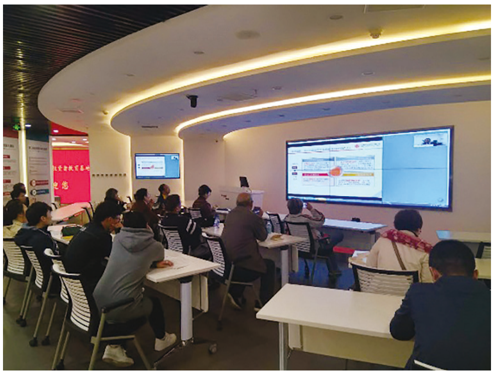
CSC built up its investor education base in March 2017. According to the idea of "learning history, choosing varieties, forming concepts, preventing risks and learning knowledge", the base is kindly divided into many zones according to their different functions, including history zone, product display zone, idea zone, risks protection zone, expert lecture zone and interact exchange zone. There are some special equipment display platforms, including Q&A zone, holographic video teaching zone and investor education games experience zone. These platforms are made for medium and small investors who come to visit and study here to learn relevant knowledge about securities investment, improve their awareness of risks prevention and protect their own rights and interests according to laws in a leisure environment.

Case 1: The investor education base hosts special investment lecture

In the afternoon of 22 August 2017, CSC's investor education base hosted a special investment lecture for 50 customers from its security business division located in Anli Road, Beijing. The administrator of the Company's Economic Management Committee delivered a welcome speech to the attendees and explained the meaning of organizing such activities. Subsequently, an investment adviser from the Company's Economic Management Committee gave the attendees a "Targeted Investment (有的放矢)" special lecture. In addition, Wen Quan (溫泉), compliance specialist from the above-mentioned business division, introduced cases of illegal securities and their prevention measures.

Case 2: The investor education base hosts special investment lecture for customers

28 October 2017 was a date for Chinese traditional festival–Double Ninth Festival, more than 30 investors came to the investor education base of CSC and attended a weekend lecture activity launched by the Company in that morning. Themed "respecting and caring for the seniors on Double Ninth Festival", lectures of CSC about public health were included into the weekend lectures. Sports medicine specialists were invited by the Company to make an introduction about how to do exercise scientifically for the middle-aged and elderly. After that, Chen Chongqing (陳重慶), gold investment adviser from the Personal Finance Department of the Company's Economic Management Committee, made an introduction about the pharmaceuticals industry and related information about the listed companies, with the topic of "Frontier Analysis of Big Health and Medical Industry (大健康與醫療產業前沿分析)". The public lecture centering on caring for the health of seniors received comprehensive recognition from the on-site investors.



III. DEVELOPMENT OF STAFF

The Company always believes that staff are its most important assets, as first-class talents and management team can guarantee the success of the Company. CSC gives great respect to every hard working staff and attaches great importance to the development of staff. Therefore the Company helps and encourages them to play their most potentials to achieve improvements on the staff's self-value and the Company's enterprise value.

For the management of staff, CSC has strictly complied with the relevant laws and regulations, including "*Labor Law of the People's Republic of China*" (《中華人民共和國勞動法》), "*Labor Contract Law of the People's Republic of China*" (《中華人民共和國勞動合同法》), *Provisions on Prohibition of Child Labour* (《禁止使用童工規定》), "*Regulation on Work-related Injury Insurances*" (《工傷保險條例》) and "*Special Rules on the Labor Protection of Female Staff*" (《女職工勞動保護特別規定》), and has formulated many rules and administration systems and related implementation details according to the laws, which include "Personnel Management Measures of CSC" 《中信建投証券股份有限公司人事管理辦法》), "Recruitment Management Measures of CSC" (《中信建投証券股份有限公司招聘管理辦法》), "Salary Management Measures of CSC" (《中信建投証券股份有限公司薪酬管理辦法》), "Performance Evaluation Measures of CSC" (《中信建投証券股份有限公司績效考核辦法》), "Staff Training Management Measures of CSC" (《中信建投証券股份有限公司員工培訓管理法》) and "Welfare Management Measures of CSC" (《中信建投証券股份有限公司福利管理辦法》)", in order to effectively protect staff's legal rights and interests.

3.1 Staff Recruitment

Following the management philosophy of "putting people first, respecting neighbors as teachers, and learning lessons from history" and advocating the core value of "only outstanding achievements make people go higher in position", the Company recruits domestic and overseas talents through many ways including campus recruitment and social recruitment. The Company strictly complies with the requirements of the relevant laws and regulations, and signs legal labor contracts with employees on a voluntary basis. In the labor contracts, the responsibilities, duties and rights of both parties are clearly stated. The Company assures all employment procedures are of equity, justice and publicity and no discrimination against gender, race and belief, etc. so as to practically protect the legal rights and interests of employees. Meanwhile, the Company also employs disabled people, and there are 36 staff holding disability certificates in the Company's head office. The Company also supports its branches to employ the disabled people and provides equal working opportunities to them.

Employees of the Group categorized by age and gender:

Age	Number of employees	Proportion (%)
34 or under	7,631	74.59
35 to 50	2,277	22.25
51 or above	323	3.16
Total	10,231	100

Gender	Number of employees	Proportion (%)
Male	5,690	*55.62*
Female	4,541	*44.38*
Total	10,231	*100*

3.2 Labor Standards

Relevant system of human resources management explicitly explains the recruitment, employment, staff remuneration, promotion, management of working hours, holidays, fair opportunities, diversities, anti-discrimination, staff benefit and other aspects. On the basis of ensuring the effective implementation of various management system of human resources, the information of newly employed personnel was stringently reviewed during the recruitment process, while employment of child labor and forced labor was strictly prohibited.

Apart from paying the social insurance for staff in a lawful manner, CSC Financial also provides staff with corporate pension schemes, business replenishment medical insurance, insurance for accidents and other staff benefits to improve the staff pension and medical protection.

In 2017, there were no incidents materially in breach of relevant laws and regulations of human resources management.

3.3 Staff Training

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

The training system of CSC with explicit highlights and rich content includes: to strengthen the training on leadership and management skills for senior officers and training on execution capability, competency and professional skills for officers, launch training on occupational forging and general skills with wider-coverage for junior staff and initiate subsequent educational training on security practising qualifications for practitioners within the whole system and attach great importance to campus recruitment and management of trainees and training programs of new employees from campus recruitments. In 2017, the Company provided a total of 66.5 hours of pre-work, online courses for the new employees of the headquarters and branches from campus recruitments.

During the Reporting Period, the detailed information on training are set out as follows:

Target	Average Training Hours	Number	Proportion (%)
Senior management	26.8	102	1.5
Middle management	27.2	910	13.2
Entry-level employees	25.6	5,884	85.3
Total	26.5	6,896	100

Case Study: "Internal Open Class for Hotspot Business" and "Trainings for New Business Department Manager"

3.4 Staff Welfare

CSC attaches great importance to and concerns employees' satisfaction in working and life. Meanwhile, the Company expects a sharing of enterprise value with its staff to improve their satisfaction continuously. On one hand, the Company keeps improving employees' welfare standards by formulating measures on employees' welfare management according to the relevant state regulations and the Company's actual operation conditions; on the other hand, the Company encourages and organizes various employee activities to enrich their after-work culture lives, make the employees getting closer to each other and continuously improve enterprise cohesion, so as to improve the satisfaction of employees and form a warm working environment.

In addition, CSC pays attention to the occupational health and safety of employees and provides them with various health care security measures, such as organizing rich and colorful club activities for employees to participate, organizing irregular health lectures and perform regular health checks of employees. In the light of haze pollution, the Company regularly distributes masks to employees and install fresh air systems and air purifiers in the buildings to improve the working environment of employees and strives to create a healthy, pleasant and comfortable working environment for employees.

Case: Colorful employee activities (“Yangfan Cup (揚帆盃)” contest, brisk walking and football game) and advanced group with the title of honor of “National Worker Pioneer (全國工人先鋒號)”

3.5 Staff Safety

The Company strictly complies with the relevant laws, regulations, and industry requirements including Fire Law of the People’s Republic of China (《中華人民共和國消防法》) and Internal Public Security Regulations of Enterprises and Institutions (《企業事業單位內部治安保護條例》). Meanwhile, the Company has established a strong safety management and supervision mechanism to provide a safety working environment for its employees.

In 2017, CSC arranged property, security and micro-fire station personnel to conduct fire emergency drills, which had strengthened its safety precautions, protected employees' health and safety, enhanced the collaboration and cooperation among relevant personnel, and improved the Company's response to emergency.

In order to effectively carry out its safety works, the Company's relevant divisions conduct routine inspection of fire protection in the office building of its head office every Friday. In the light of hidden dangers and problems in fire safety, the Company has organized construction units to implement a series of rectification measures. The Group operates under the financial service industry and the overall occupational hazards of the Company tend to be minimal due to the industry characteristics. During the Reporting Period, no work-related casualty was identified by the Company.

IV. COMPLIANCE OPERATIONS

4.1 Anti-money Laundering

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

The Company formulated the publishing of the "Administrative Measures on Report on Large Amount and Doubtful Transactions of CSC Financial Co., Ltd." and the "Award and Punishment Measures of Work Assessment of Anti-money Laundering of CSC Financial Co., Ltd.", and amended three anti-money laundering internal control system, namely the "Internal Control Measures on Anti-money Laundering and Antiterrorism Financing of CSC Financial Co., Ltd.", the "Administrative Measures on Assessment and Classification of Risks on Money Laundering by Clients and Terrorism Financing of CSC Financial Co., Ltd." and the "Requirements on Work Position and Duties of Anti-money Laundering of CSC Financial Co., Ltd.".

The Legal and Compliance Department will procure and assist relevant business departments, branch offices and subsidiaries in formulating and rationalizing the internal system on anti-money laundering and clearly specify the internal work flow and control measures for anti-money laundering. Each of the branch offices and subsidiaries timely adjusts their corresponding internal control system for anti-money laundering of in accordance with the requirements of local regulatory departments, including the People's Bank and report to regulatory departments, including the People's Bank.

According to the requirements of the "Administrative Measures on Report on Large Amount and Doubtful Transactions of Financial Institutions (Order of PBOC [2016] No. 3)", the Company has comprehensively transformed its anti-money laundering system, and amended and added the standards of monitoring and analysis on doubtful transactions and work session, included the works on anti-money laundering in its business flow and classified its clients in terms of risks involving in money laundering activities as well as reporting large and suspicious transactions in accordance with applicable regulatory requirements.

The Legal and Compliance Department organized the commencement of anti-money laundering work compliance inspection, organized the commencement of training on a series of anti-money laundering knowledge at different levels for the Company's Executive Committee, responsible persons in each department and branch office, compliance and anti-money laundering personnel in branch offices and new employees, and comprehensively promoted the importance of the anti-money laundering work and work technique of anti-money laundering of the senior management of the Company and all staff.

4.2 Anti-corruption

In order to put management with integrity into practice across the Company, CSC has formulated a series of relevant rules and regulations according to *Several Provisions on Honest Business Conduct for Leaders of State-owned Enterprises* (《國有企業領導人員廉潔從業若干規定》), *Provisions on the Relevant Matters of Leading Cadres in Reporting Individual Cases* (《關於領導幹部報告個人有關事項的規定》), *Audit Law of the People's Republic of China* (《中華人民共和國審計法》) and other relevant laws and regulations, and has always complied with the requirements of the CPC Central Committee, the State Council and the China Securities Regulatory Commission on the integrity construction of the industry and employees.

CSC has set up a multi-channel and multi-form supervision mechanism to strengthen disciplines execution and accountability and continuously enhance the supervision of employees on violating of disciplines and regulations so as to effectively prevent employees from behaviors including corruption, bribery and malpractice. CSC has formulated Management Regulations on Anti-malpractice of CSC (《中信建投証券股份有限公司反舞弊管理制度》), Implementation Rules on Discipline Inspection & Supervision and Letters & Visits (《中信建投証券股份有限公司紀檢監察信訪舉報工作實施條例》) and other regulations and rules. These regulations and rules clearly state that the Company has various channels to handle the accusation of employees on the violation of national laws, regulations, policies and the Company's rules; the Company will conduct investigation and verification according to the required procedures and then will impose penalties for the identified violations. During the Reporting Period, there was no corruption cases relating to employees identified by the Company.

V. SUPPLY CHAIN MANAGEMENT

CSC has developed comparable comprehensive procurement rules and regulations and strict procurement process, complied with open, just and fair principles, and implemented its requirements of compliance management in selection of suppliers and underwriters to handle procurement business, regulate procurement acts, enhance compliance management, save procurement costs, and enhance procurement efficiency. CSC implemented entry, assessment, review and confirmed management system for suppliers and cooperative parties in accordance with the principles of "integrity, cooperation, mutual benefits and development", forming the favorable operating system of inspection, selection, evaluation and elimination for suppliers and cooperative parties. CSC has performed regular review on suppliers and cooperative parties and continued to retain those rated outstanding. For suppliers and cooperative parties who failed to satisfy the requirements, elimination and replacement would be considered. For professional renovation projects, CSC has selected intermediaries with qualifications of bidding as the agents for bidding and tender upon competition of project examination and approval. The units acting as agents of bidding and tender shall be in compliance with relevant national laws and regulations and the requirements of the renovation projects.

Focusing on the IT procurement, CSC established the Administrative Regulations on Information System Procurement of CSC Financial Co., Ltd., the Work Procedures of Information System Procurement Management Committee of CSC Financial Co., Ltd. and the Administrative Regulations on Evaluation of Information System Suppliers of CSC Financial Co., Ltd., explicitly stipulated the specific management articles such as the management flow of suppliers, entry of suppliers, contractual management of suppliers and assessment of suppliers. Meanwhile, CSC designed a centralized procurement management system in accordance with the procurement management regulations to regulate the centralized procurement through the platform and ensure that all IT procurements are purchased from shortlisted and qualified suppliers. For better managing the procurement process, CSC has established Information System Procurement Administrative Committee to perform precise management on information system procurement, and be responsible for product selection, qualification review for suppliers and outsourced service providers as well as relevant work management of bidding of information system. During the process of actual procurement, CSC has required suppliers to provide quality, safe and environmental protection qualification certificates. The purchased servers, computers, UPS, UPS batteries and other products have received ISO14001 environmental management system authentication. Through implementing the administrative measures for suppliers, CSC effectively managed and controlled the potential adverse effects to its own operation caused by environmental and social risks. Moreover, the selection of data center of the Company situated in Beijing satisfied the requirements regulated by GB50174–2008 A engine room and the standard of TIA 942–3+ or above. With the engine room passing the review of ISO27001 standards and under the conditions of guaranteeing the safety of data, CSRC is more inclined to select the suppliers with green environment and energy conservation, putting the green supply chain of the Company into practice, so as to perform corporate environment responsibility together with suppliers.

VI. ENVIRONMENTAL PROTECTION

"Low-carbon environmental protection and green operation" has always been the environmental concept of CSC. As a financial service institution, CSC generates some emissions in the course of its operation, which mainly include nitrogen oxides, sulfur dioxide and greenhouse gas produced by fuel consumption of motor vehicles and indirect greenhouse gas caused by electricity consumption in the offices; the resources consumed mainly include water and energy used in the offices. The above-mentioned emissions and resources consumed have little impact on the environment, but CSC still pays great attention to its environmental performance management. On one hand, the Company identifies and strictly complies with the laws, regulations and relevant policies on the environment formulated by the state and the relevant regulatory authorities, such as Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), Law of the People's Republic of China on Conserving Energy (《中華人民共和國節約能源法》) and Comprehensive Work Program on the Energy Saving and Emission Reduction during the "13th Five-Year Plan" (《"十三五"節能減排綜合工作方案》); on the other hand, the Company puts energy saving and emission reduction into practice through many ways, such as paperless office, assigning special person to inspect the electricity consumption in the office, installing air conditioners in public areas of the Company with an energy-saving mode, reducing standby power consumption of electric appliances, strengthening the management of the use of company vehicles and upgrading energy-saving and environmental equipment. All these measures are used to ensure the CSC has met the requirements under the relevant laws and regulations in terms of the management of the generated emissions and the use of resources and realize its concept of "low-carbon environmental protection and green operation".

6.1 Green Office

CSC actively applies its environmental concept of "low-carbon environmental protection and green operation" into its daily works and manages to reduce the use of resources and energy in order to reduce its operation costs and strives to create a green, low-carbon and clean working environment. The related specific measures include but are not limited to the followings:

- The Company advocates employees to save electricity and assigns special person to conduct routine inspection, management and regular maintenance of electrical equipment. Ordinary office equipment should be closed in time to avoid electricity waste when they are not used. Meanwhile, the Company replaces energy-saving equipment from time to time to enhance the energy-saving management on the operation of equipment in its public areas on a basis of guaranteeing the normal operation of the building in the head office.

- The Company carries out centralized supply of potable water to protect staff's health and avoid waste of water; the Company also regularly updates automatic flushing system and assigns special person to perform regular maintenance so as to save domestic water.

- The Company makes energy-saving settings for air-conditioning temperature in its public areas to control the using time and energy consumption of air conditioners.

- The Company uses three-way power supply and dual-cooler for its data center to ensure safe operation; the Company also takes green and energy-saving measures to reduce operation costs. Currently, the PUE in the Company's Dongba (東壩) computer room is around 1.7, showing a high efficient operation state.

For the disposal of electronic waste, CSC has formulated Management Rules on the Information System Equipment of CSC (《中信建投証券股份有限公司信息系統設備管理條例》), which clearly prescribes the specific procedure of maintenance and scrapping of old equipment and also requires hazardous wastes such as toner cartridges and ink boxes to be recycled uniformly by their original manufacturers.

Environmental Performance Table

The scope of statistics in the environment category of this report includes: the Company and 12 branches located in Shanghai, Shandong, Shenyang, Sichuan, Tianjin, Jiangsu, Jiangxi, Henan, Hubei, Hunan, Fujian and Northwest China (excluding the business department) as well as four headquarters, namely China Fund Management Co., Ltd., China Futures Co., Ltd., China Capital Management Limited and China (International) Finance Holding Co., Ltd..

1. *Emissions[1] (to update the specific contents)*

Indicators	2017 Data
Total GHG emissions (Scope I and II) (tonnes)	5,094.46
Total GHG emissions per floor area (tonnes/sq.m.)	0.093
Direct emissions (Category I) (tonnes)	227.80
Gasoline (tonnes)	227.80
Indirect emissions (Category II) (tonnes)	4,866.66
Electricity (tonnes)	4,866.66
Hazardous waste (tonnes)	18.40
Non-hazardous waste (tonnes)	7.87

[1]*Notes:*

1. Due to the business nature of China Securities, its significant air emissions is GHG emission, which are mainly due to the consumption of electricity and fuels converted from fossil fuels.

2. The GHG inventory of China Securities includes CO2, methane and nitrous oxide, which are mainly due to external purchase of electricity and fuels. Greenhouse gas emissions data is presented in carbon dioxide equivalent and was calculated based on the *2015 Baseline Emission Factors for Regional Power Grids in China* (《2015中國區域電網基準線排放因數》) issued by the National Development and Reform Commission of the PRC and the *2006 IPCC Guidelines for National Greenhouse Gas Inventories* (《2006年IPCC 國家溫室氣體清單指南》) issued by the Intergovernmental Panel on Climate Change (IPCC).

3. Hazardous waste mainly includes waste toner, cartridges, etc. Hazardous waste such as waste toner, cartridges, etc. are reclaimed and dealt with by the suppliers in accordance with the laws and regulations.

4. Non-hazardous waste mainly include office waste and waste electronic equipment. Office waste is dealt with by the office building property office, and waste electronic equipment is dealt with by the reclaim supplier upon the approval for its retirement.

2. *Consumption of Energy and Resources*[2]

Indicators	2017 Data
Total energy consumption (MWh)	7,389.21
Consumption of energy per floor area (MWh/sq.m.)	0.13
Direct energy consumption	866.87
Gasoline (MWh)	866.87
Indirect energy consumption	6,522.34
Electricity (MWh)	6,522.34
Total consumption of water (tonnes)	15,089.90
Total consumption of water per floor area (tonnes/sq.m.)	0.28
Consumption of packaging (tonnes)	0.28

[2]*Notes:*

1. Total energy consumption is worked out by the data of electricity and fuel with reference to the efficiencies in the General Principles for Calculation of the Comprehensive Energy Consumption (GB/T 2589-2008) published by General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China, and the Standardization Administration of the People's Republic of China.

2. Energy consumption per floor area refers to electricity consumption per floor area.

3. Consumption of packaging refers to the amount of envelopes and paper bags used by the customers.

6.2 Management of Official Business Vehicles

According to the eight-point frugality code of the CPC Politburo, relevant regulations in Guiding Opinions on Comprehensively Promoting the Reform of Official Business Vehicles (《關於全面推進公務用車制度改革的指導意見》) and Reform Program of Official Business Vehicles System in the Central Government and State Organs (《中央和國家機關公務用車制度改革方案》) issued by the General Office of CPC the Central Committee and the General Office of the State Council, and the spirit of Notice of the Implementation Opinions on Improving Work Style and Keeping Close Connection with the Public (《關於改進工作作風密切聯繫群眾的實施意見的通知》) issued by the party committee of CSC Group, the Company has carried out the rectification opinions of the Central Inspection Team to standardize the management, increase the efficiency and improve the efficiency of official business vehicles. The Company has also formulated relevant regulations including Temporary Provisions on the Management of Official Business Vehicles of CSC (《中信建投証券股份有限公司公務用車管理暫行規定》) and Temporary Provisions on the Setup and Management of Business Vehicles of CSC (《中信建投証券股份有限公司業務用車配置及管理暫行辦法》). Based on these regulations, the Company follows the principle of "unified management and scheduling, reasonable usage and promoting efficiency" (統一管理、統一調度、合理使用、提高效率) for its official business vehicles and arranges the use of the vehicles according to the emergency condition of business. The Company also regulates the allocation of official business vehicles to control expenses effectively and official business vehicles are prohibited from private use.

The Company has established management archives for vehicles and made only one archive for a vehicle. The vehicle management archives record mileage, repair condition, date of inspection, all kinds of documents, renewal date, fuel consumption statistics, speed card management and tool management in details. The Company eliminates old vehicles in time to ensure that the operating vehicles' exhaust emission standard can meet the relevant requirements of the state. By implementing the management measures on official business vehicles, the Company has reduced the use of company vehicles significantly and effectively lowered the emission of vehicle exhaust caused by the operation of the Company.

VII. COMMUNITY CARE

CSC has always taken the fulfilment of social responsibility as its important duty since the establishment and kept its mission of "bringing together talents, serving customers, creating value and contributing to society" firmly in mind. As a participant, motivator and beneficiary in the development of capital market and the national economy, the Company has seriously carried out the policies and directions of the Party Central Committee, the State Council and the China Securities Regulatory Commission in respect of winning the fight against poverty. Meanwhile, the Company actively responses to the call of China Securities Association, and fulfils its enterprise social responsibility in full, and focuses on the poverty alleviation work of "one company to one poverty county (一司一縣)" and "one poverty county to one enterprise (一縣一企)". Currently, the Company has established cooperation relationship with ten enterprises in Ji County, Shanxi province, Anyuan County, Jiangxi province and Li County, Gansu province to give great support to the development in these poverty regions, and has made good achievements in poverty alleviation works.

In order to effectively fulfill its social responsibility and improve employees' social responsibility awareness, CSC marked 17 October (the National Poverty Day) of each year as its "Social Welfare Day (社會公益日)" in 2017. The Company will organize welfare activities such as charity donation on this day every year. In 2017, the Company raised a total of more than RMB1.57 million for charity with employee participation rate up to 91.86%. The funds raised will be used for the development of relevant welfare activities including poverty alleviation.

7.1 Targeted Poverty Alleviation

In order to further improve poverty alleviation work, CSC has established a leadership system and working mechanism for target poverty alleviation and has set up a leading team of poverty alleviation, so as to lay a solid foundation for the targeted poverty alleviation work. Taking the solid push of poverty alleviation work of "a securities company to a poverty County" as the work emphasis, the Company has kept increased efforts to the poverty support work and strives to give support to the development of the national poverty regions. In order to carry out the poverty support work well, the leaders and persons-in-charge of the related divisions of the Company have visited the poverty regions and investigated the relevant demands in these regions. All these moves have laid a solid practical foundation for carrying out effective measures and forming an "all-round, multi-form and multi-layer" pattern for the poverty alleviation work. In addition, the Company also improves the decision efficiency by many ways including increasing the authorization amount of external donations and simplifying approval procedures. In 2017, the Company donated more than RMB5.6 million.

At the same time, the Company also encourages employees to participate in poverty alleviation work. In December 2017, part of employees of the Company went to Qilian township, Wuwei city, Qilian mountain area, Gansu province and delivered more than 400 units of cultural and sporting supplies, daily necessities, learning and office supplies to the children in the mountain area, worthy of RMB200,000. In addition, they also donated various books, worthy of over RMB13,000. These articles have enriched the after-school life of the children while opened a window to the outside world. Besides, the employees from the Company's branches have also donated clothing, cooking oil, books, stoves, TVs, computers and others to the poor villagers in Tibet, Gansu, Qinghai, etc.

For poverty alleviation in terms of consumption, the labor union of the Company invested RMB770,000 in buying specialty products such as mineral water, cantaloupe and apples from Makit County, Xinjiang Uygur Autonomous Region and Ji County, Shanxi province to support the economic development in these poverty regions.

7.2 Industry Poverty Alleviation

Developing main business and giving full play to one's advantages is the one of the most direct ways for securities companies to support the development of poverty regions. In terms of this aspect, the Company's relevant departments and branches will have consciousness to explore business and undertake projects in the national poverty counties when making business expansion to push the development of the poverty alleviation work of "an enterprise to a poverty County". Up to now, the Company has established cooperation relations with 10 enterprises and made some achievements in this work.

Since 2016, the Company has established cooperation relationship with three companies which have listing plan with registration places located in national poverty counties, including Henan Huahuaniu Biological Technology Co., Ltd., located in Xincai County, Henan province, Inner Mongolia Ryder Horse Co., Ltd., located in Horqin Right Wing Middle Banner of Inner Mongolia, and Kedy Technology (Ganzhou) Electronics Co., Ltd., located in Anyuan County, Jiangxi province. The Company has helped the three companies launch due diligence and tutoring work before listing. In addition, the Company has also recommended 8 enterprises in poverty regions to list on the National Equities Exchange and Quotations and has made four of them complete the directional distributions, raising the fund of RMB136 million. The businesses of these enterprises involve in many industries including electronic information, cultural communication, biotechnology and tourism development. By financing from capital market, these enterprises not only have obtained impetus for their own development, but also have played leading roles in the local economic development. For example, Nokete Pharmaceutical, located in Xiaogan County, Hubei province, invested its directional distribution fund of RMB75 million in the deep processing of a local specialty ginkgo leaf. The deep-processed extracts are used for producing health products. This not only expanded the capacity of the enterprise, but also increased the income of local farmers.

In May 2017, China Capital Management Ltd. participated the investment in Wenshan Miaoxiang Notoginseng Industry Co., Ltd., which is located in Wenshan County, a national poverty County. As a key green breeding enterprise in the local region, the company plays an important role in solving the employment problem of local farmers and increasing their incomes. With investing a total amount of RMB40 million, China Capital Management Ltd. also assisted the enterprise to improve the governance, help explore markets and effectively establish financing connections with China CITIC Bank and other financing institutions. China Capital Management Ltd. will continue to increase investment in this enterprise, which will have a strong and effective push to the development of this enterprise and the local economy.

In addition, the Company also assisted a large apple warehouse, located in Ji County, Shanxi province to apply for a designed delivery warehouse of apple futures in Zhengzhou Commodity Exchange in September 2017. Currently, the relevant work is undergoing.

7.3 Education Poverty Alleviation

The so-called saying goes that “education is the first priority in poverty alleviation”. Our Party and country has always considered education as the essential matter in the development of poverty alleviation. Over the years, the Company has put most of the public welfare expense in educational poverty alleviation, mainly including the participation of the rural education project of “Teach for China” and the dangerous housing reconstruction project of Anjiazao Primary School. In the future, the Company will continue to promote social welfare activities related to education development in poverty regions, which the Company has always done.

- Since 2015, the Company has donated a total amount of RMB1.5 million by paying salaries to rural teachers for consecutive three years. The donated amount has been used for supporting the “Teach for China” project. During the three years, the project has delivered 15 prominent teachers to three schools in the national poverty counties in Baoshan city, Yunnan province, and has benefited 2,000 students.

- Since 2016, the Company has also financed the dangerous housing reconstruction project of Anjiazao Primary School. The total investment amounts to RMB2.42 million, which is mainly used for the construction of school buildings, dining hall and playground. Currently, the students are studying in their large and bright classrooms and are making exercise in their safe and synthetic racetracks.

7.4 Other Community Investment Activities

CSC has hosted special lectures on capital market for many times and had officials serve temporary positions to give efforts to improve finance awareness of local officials at all levels and entrepreneurs and promote the development of local enterprises and industries so as to speed up the poverty alleviation processes in these poverty regions.

In terms of hosting special lectures, the Company has successively organized the business backbones from the Investment Banking Division, the Bond Underwriting Division, the Research and Development Division and branches to go to Ji County, Shanxi province, Anyuan County, Jiangxi province, and Li County, Gansu province to host five large special lectures on capital market. According to the preliminary statistics, the lectures attracted more than 800 attendees and were welcomed and praised by local officials and entrepreneurs.

In terms of having officials serve temporary positions, in 2017, the Company assigned relevant business backbone to serve the deputy county chief in Anyuan County, Jiangxi province, who was mainly in charge of finance work. This assignment has helped the locals make better use of capital market to promote the development of relevant industries and local economy.

To the Shareholders of CSC Financial Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of CSC Financial Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 213 to 340, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation of structured entities	
Refer to note 48 to the consolidated financial statements. The Group acts as asset manager for or invested in a number of investment funds and asset management plans which are structured entities. Management makes significant judgment on whether the Group controls and therefore should consolidate these structured entities. Management has determined that the Group has control of certain structured entities based on their assessment of the Group's power over, its exposure to variable returns from its involvement with, and its ability to use its power to affect the amount of its returns from these structured entities. The controlled structured entities have been consolidated and their total assets was RMB10,675.01 million as at 31 December 2017. The significant judgement exercised by management in assessing whether the Group has control of structured entities and the amount of such structured entities included in the consolidated statement of financial position resulted in this matter being identified as a key audit matter.	We read the contracts from the Group's asset management and investment portfolio on a sample basis to assess the extent of power the Group has over its structured entities, the Group's exposures or rights to variable returns from its involvement with its structured entities and the link between the Group's power and returns with respect to the structured entities. We checked the data used in the calculation of the Group's exposures or rights to variable returns from its involvement with the structured entities on a sample basis to the related contracts. We re-performed management's calculations of the Group's exposures or rights to variable returns. Based on the audit procedures performed above, management's consolidation judgment relating to these structured entities was acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of margin accounts	
Refer to note 27 to the consolidated financial statements. As at 31 December 2017, the Group had margin accounts totalling RMB47,932.70 million, with allowance for impairment losses assessed by management of RMB111.47 million. Management assessed whether objective evidence of impairment existed for margin accounts at each reporting date. If there was objective evidence of impairment, impairment loss was recognised individually. Management included the remaining portfolio for which impairment had not yet been identified in one group of financial assets because of their similar credit risk characteristics and performed a collective assessment. Impairment assessment of margin accounts was considered to be a key audit matter due to the size of the balance and the significant management judgement involved in assessing impairment.	We evaluated the design and operation of controls over management's identification of impaired margin accounts including their regular monitoring of the collateral values. For individual impairment assessment, we assessed the market prices of the collateral used for determining the impairment losses. For collective impairment assessment, we assessed the appropriateness of the model and inputs used by comparing against those used in market practice and the Group's historical loss experience. We also re-performed management's calculations. Based on the results of our audit procedures performed above, the models used and inputs adopted were acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of available-for-sale financial assets	
Refer to note 21 to the consolidated financial statements. As at 31 December 2017, the Group had available-for-sale financial assets totalling RMB39,581.79 million with cumulative impairment losses assessed by management of RMB76.48 million. Management considered whether there was any objective evidence that the available-for-sale financial assets were impaired. Objective evidence of impairment arose when, among other matters, the investee's financial conditions and business prospects deteriorated significantly. Objective evidence of impairment for available-for-sale equity instruments also included a significant or prolonged decline in fair value below cost. Impairment assessment of available-for-sale financial assets is a key audit matter due to the size of the balance and the significant management judgement involved in assessing impairment.	With respect to available-for-sale debt instruments, we evaluated management's judgement of the occurrence of the impairment event by referring to market data including market price and the credit ratings of the investees. With respect to available-for-sale equity instruments, we evaluated management's judgement of the occurrence of the impairment event by referring to market data including market price or financial information of the investees. We also evaluated the appropriateness of the criteria applied by management in their assessment of whether the decline in fair value was "significant" or "prolonged" by reference to market practice. For impaired instruments, we tested the impairment losses made by evaluating the models and inputs used including market price, financial information of the investees and comparable market parameters. Based on the results of our audit procedures, management's judgement of occurrence of impairment and the models and inputs used for determining the impairment losses were acceptable.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 16 April 2018

Consolidated Income Statement

For the year ended 31 December 2017

(In RMB thousands, unless otherwise stated)

	Note	Year ended 31 December 2017	2016
Revenue			
Fee and commission income	7	8,780,933	10,584,156
Interest income	8	5,257,175	4,440,820
Net investment gains	9	2,414,267	2,411,771
		16,452,375	17,436,747
Other income	10	(30,980)	147,968
Total revenue and other income		16,421,395	17,584,715
Fee and commission expenses	11	(1,172,270)	(1,388,863)
Interest expenses	11	(3,931,958)	(2,848,795)
Staff costs	11	(4,103,244)	(4,282,080)
Tax and surcharges		(87,166)	(347,347)
Other operating expenses and costs	11	(1,701,167)	(1,658,540)
Impairment losses/(reversal)	14	(76,340)	1,667
Total expenses		(11,072,145)	(10,523,958)
Operating profit		5,349,250	7,060,757
Share of profits and losses of associates		6,087	(3,337)
Profit before income tax		5,355,337	7,057,420
Income tax expense	15	(1,293,690)	(1,744,198)
Profit for the year		4,061,647	5,313,222
Attributable to:			
Equity holders of the Company		4,015,428	5,259,251
Non-controlling interests		46,219	53,971
		4,061,647	5,313,222
Earnings per share attributable to ordinary equity holders of the Company *(expressed in RMB yuan per share)*			
– Basic and diluted	17	0.51	0.81

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2017	2016
Profit for the year	4,061,647	5,313,222
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent years		
Available-for-sale financial assets:		
Changes in fair value	42,095	(414,304)
Income tax effect on changes in fair value	(12,436)	103,878
Gains reclassified to the consolidated income statement	(110,602)	(133,531)
	(80,943)	(443,957)
Share of other comprehensive income of associates	221	–
Foreign currency translation differences	(59,661)	57,161
Other comprehensive losses for the year, net of tax	(140,383)	(386,796)
Total comprehensive income for the year	3,921,264	4,926,426
Attributable to:		
Equity holders of the Company	3,874,514	4,872,430
Non-controlling interests	46,750	53,996
	3,921,264	4,926,426

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

Consolidated Statement of Financial Position

As at 31 December 2017

(In RMB thousands, unless otherwise stated)

	Note	31 December 2017	31 December 2016
Non-current assets			
Property, plant and equipment	18	515,203	523,317
Investment properties		49,648	56,282
Intangible assets	19	169,892	144,420
Investment in associates		206,292	172,163
Available-for-sale financial assets	21	5,326,584	6,112,058
Held-to-maturity investments	22	573,592	277,480
Financial assets held under resale agreements	23	5,109,380	625,444
Refundable deposits	24	2,228,778	3,460,337
Deferred tax assets	25	796,063	811,153
Other non-current assets	26	203,953	192,303
Total non-current assets		15,179,385	12,374,957
Current assets			
Margin accounts	27	47,821,230	31,006,673
Accounts receivable	28	1,369,856	378,468
Financial assets held for trading	29	32,341,915	27,227,912
Financial assets designated as at fair value through profit or loss	30	307,184	325,211
Available-for-sale financial assets	21	34,255,207	28,482,732
Held-to-maturity investments	22	4,976	376,828
Derivative financial assets	31	120,384	49,108
Financial assets held under resale agreements	23	20,955,696	7,079,669
Cash held on behalf of clients	32	39,740,852	55,082,662
Cash and bank balances	33	11,227,905	17,525,589
Other current assets	34	2,558,802	1,785,231
Total current assets		190,704,007	169,320,083
Total assets		205,883,392	181,695,040

Consolidated Statement of Financial Position (Continued)

As at 31 December 2017

(In RMB thousands, unless otherwise stated)

	Note	31 December 2017	31 December 2016
Current liabilities			
Accounts payable to brokerage clients	35	41,416,503	56,736,034
Derivative financial liabilities	31	285,284	132,576
Financial liabilities held for trading	36	126,780	2,972,738
Financial assets sold under repurchase agreements	37	29,147,293	24,531,442
Placements from banks and other financial institutions	38	14,000,000	9,360,000
Taxes payable	39	346,183	755,982
Short-term borrowings	40	2,050,817	1,781,481
Short-term financing instruments payable	41	27,641,673	7,757,199
Other current liabilities	42	22,918,671	22,184,460
Total current liabilities		137,933,204	126,211,912
Net current assets		52,770,803	43,108,171
Total assets less current liabilities		67,950,188	55,483,128
Non-current liabilities			
Financial liabilities designated as at fair value through profit or loss		11,640	9,938
Financial assets sold under repurchase agreements	37	–	500,000
Bonds in issue	43	23,872,761	13,653,036
Deferred tax liabilities	25	36,018	46,847
Other non-current liabilities		30,991	10,628
Total non-current liabilities		23,951,410	14,220,449
Net assets		43,998,778	41,262,679

As at 31 December 2017

(In RMB thousands, unless otherwise stated)

	Note	31 December 2017	31 December 2016
Equity			
Share capital	44	7,246,385	7,176,470
Other equity instruments	45	5,000,000	5,000,000
Reserves	46	16,489,518	15,099,052
Retained earnings		15,018,176	13,787,528
Equity attributable to equity holders of the Company		43,754,079	41,063,050
Non-controlling interests		244,699	199,629
Total equity		43,998,778	41,262,679

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

Approved and authorized for issue by the Board of Directors on 16 April 2018.

Wang Changqing
Chairman

Li Geping
Executive Director and President

Consolidated Statement of Changes in Equity

As at 31 December 2017

(In RMB thousands, unless otherwise stated)

		Attributable to equity holders of the Company										
				Reserves								
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Foreign currency translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total
At 1 January 2017		7,176,470	5,000,000	6,739,567	2,294,445	6,151,907	(188,413)	101,546	13,787,528	41,063,050	199,629	41,262,679
Profit for the year		–	–	–	–	–	–	–	4,015,428	4,015,428	46,219	4,061,647
Other comprehensive income for the year		–	–	–	–	–	(81,253)	(59,661)	–	(140,914)	531	(140,383)
Total comprehensive income for the year		–	–	–	–	–	(81,253)	(59,661)	4,015,428	3,874,514	46,750	3,921,264
Capital injected by equity holders												
– Issuance of H shares	44	69,915	–	344,949	–	–	–	–	–	414,864	–	414,864
– Capital injected by subsidiaries' non-controlling equity holders		–	–	–	–	–	–	–	–	–	36	36
Appropriation to surplus reserve	46	–	–	–	407,949	–	–	–	(407,949)	–	–	–
Appropriation to general reserve	46	–	–	–	–	778,482	–	–	(778,482)	–	–	–
Distribution to other equity instrument holders	16	–	–	–	–	–	–	–	(294,000)	(294,000)	–	(294,000)
Dividend – 2016	16	–	–	–	–	–	–	–	(1,304,349)	(1,304,349)	–	(1,304,349)
Dividends to non-controlling interests		–	–	–	–	–	–	–	–	–	(1,716)	(1,716)
At 31 December 2017		7,246,385	5,000,000	7,084,516	2,702,394	6,930,389	(269,666)	41,885	15,018,176	43,754,079	244,699	43,998,778

As at 31 December 2017

(In RMB thousands, unless otherwise stated)

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2017	2016
Cash flows from operating activities		
Profit before income tax	5,355,337	7,057,420
Adjustments for:		
Interest expenses on bonds in issue, short-term financing instruments payable and borrowings	2,008,184	1,497,002
Dividend income and interest income from available-for-sale financial assets	(1,532,874)	(989,488)
Net gains from disposal of available-for-sale financial assets	(8,798)	(480,187)
Interest income from held-to-maturity financial assets	(46,105)	(40,013)
Net losses attributable to other interest holders of consolidated structured entities	465,343	307,095
Share of profits and losses from associates and joint ventures	(6,087)	3,337
Gains on disposal of property, plant, equipment and other assets	(473)	(255)
Revaluation gains on financial instruments at fair value through profit or loss	5,139	449,761
Net foreign exchange losses/(gains)	119,214	(31,943)
Depreciation and amortization	235,191	205,481
Impairment losses/(reversal)	76,340	(1,667)
	6,670,411	7,976,543
Net changes in operating assets		
Margin accounts	(16,839,080)	4,962,719
Financial assets held for trading	(5,243,866)	838,764
Cash held on behalf of clients	15,341,810	15,581,092
Financial assets held under resale agreements	(18,379,074)	(830,121)
Other operating assets	(813,841)	(265,272)
	(25,934,051)	20,287,182

For the year ended 31 December 2017

(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2017	2016
Net changes in operating liabilities		
Accounts payable to brokerage clients	(15,319,531)	(15,309,231)
Financial liabilities held for trading	(2,866,166)	2,902,708
Financial assets sold under repurchase agreements	4,115,851	(4,230,829)
Placements from banks and other financial institutions	4,640,000	7,076,000
Other operating liabilities	(205,144)	4,279,002
	(9,634,990)	(5,282,350)
Net cash (outflow)/inflow from operating activities before tax	(28,898,630)	22,981,375
Income tax paid	(1,548,830)	(2,570,218)
Net cash (outflow)/inflow from operating activities	(30,447,460)	20,411,157
Cash flows from investing activities		
Net cash outflow from purchase or disposal of available-for-sale financial assets	(5,116,874)	(17,380,842)
Dividend income and interest income received from available-for-sale financial assets	1,372,056	715,404
Cash paid for purchase of property, plant and equipment and other assets	(258,232)	(262,092)
Net cash outflow from purchase or disposal of held-to-maturity investments	75,344	(265,895)
Net cash outflow from other investing activities	(41,791)	(100,831)
Net cash outflow from investing activities	(3,969,497)	(17,294,256)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2017

(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2017	2016
Cash flows from financing activities		
Cash inflow from public offering	425,535	6,518,732
Cash inflow from capital injected by non-controlling interests	36	71,100
Cash inflow from borrowing activities	4,589,096	2,892,603
Cash inflow from issuing bonds	78,201,934	19,316,778
Cash outflow from dividend distribution	(1,598,349)	(294,000)
Cash outflow from distribution to subsidiaries' non-controlling equity holders	(1,716)	(2,205)
Payments of debts	(51,279,602)	(28,605,686)
Payments of interest on debts	(1,483,997)	(1,721,342)
Net cash (outflow)/inflow from other financing activities	(501,102)	78,751
Net cash inflow/(outflow) from financing activities	28,351,835	(1,745,269)
Net change in cash and cash equivalents	(6,065,122)	1,371,632
Cash and cash equivalents at the beginning of the year	17,427,960	15,967,225
Effect of exchange rate changes on cash and cash equivalents	(178,876)	89,103
Cash and cash equivalents at the end of the year *(Note 47)*	11,183,962	17,427,960

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

1 GENERAL INFORMATION

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

The Company received the approval of CRSC on 30 June 2011 to convert into a joint stock company, with registered capital increased to RMB6,100.00 million.

The Company completed its initial public offering of overseas listed foreign shares ("H shares") on The Stock Exchange of Hong Kong Limited on 9 December 2016. Under this offering, the Company issued a total of 1,076.47 million new shares with a nominal value of RMB1 per share. On 5 January 2017, the Company issued an additional 69,915,238 H shares through partial exercise of the over-allotment option with a nominal value of RMB1 per share. The registered capital of the Company increased to RMB7,246.39 million after such issuance. The Company completed the industrial and commercial registration for these changes on 5 June 2017, and obtained its new business license with the Unified Social Credit Code of 91110000781703453H on 9 June 2017.

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

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION

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

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

2.1 Amendments to the accounting standards effective in 2017 and adopted by the Group

The following amendments have been adopted by the Group for the first time during the financial year ended 31 December 2017.

(1)	Amendments to IAS 12	Income Taxes
(2)	Amendments to IAS 7	Statement of Cash Flows
(3)	Amendments to IFRS 12	Disclosure of Interests in Other Entities – included in the Annual Improvements to IFRSs 2014 – 2016 cycle

(1) Amendments to IAS 12 – Income Taxes

The IASB has issued amendments to IAS 12 – Income Taxes. These amendments on the recognition of deferred tax assets for unrealized losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.1 Amendments to the accounting standards effective in 2017 and adopted by the Group (Continued)

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

The IASB has issued an amendment to IAS 7 – introducing an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

(3) *Amendments to IFRS 12: Disclosure of Interests in Other Entities –included in the Annual Improvements to IFRSs 2014 – 2016 cycle*

These amendments clarify the scope of IFRS 12 by specifying that the disclosure requirements, except for those summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interests which are classified as held for sale or discontinued operations in accordance with IFRS 5.

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

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2017

The Group has not adopted the following new and amended standards that have been issued but are not yet effective.

			Effective for annual periods beginning on or after
(1)	Amendments to IAS 28	Investments in Associates and Joint Ventures to IFRSs included in the Annual Improvements 2014 – 2016 cycle	1 January 2018
(2)	Amendments to IFRS 2	Share – based Payment	1 January 2018
(3)	Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 January 2018

For the year ended 31 December 2017

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2017 (Continued)

			Effective for annual periods beginning on or after
(4)	IFRS 9	Financial Instruments	1 January 2018
(5)	IFRS 15	Revenue from Contracts with Customers	1 January 2018
(6)	IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
(7)	Amendments to IAS 40	Transfer of Investment Property	1 January 2018
(8)	Amendments to IFRSs and IASs	IASB Annual Improvements 2015 – 2017 cycle	1 January 2019
(9)	IFRS 16	Leases	1 January 2019
(10)	IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
(11)	IFRS 17	Insurance Contracts	1 January 2021
(12)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2017 (Continued)

(1) Amendments to IAS 28: Investments in Associates and Joint Ventures to IFRSs included in the Annual Improvements 2014 – 2016 cycle

These amendments clarify that the election to measure investees at fair value through profit or loss is available for each investment in an associate or joint venture on an investment – by – investment basis, upon initial recognition. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(2) Amendments to IFRS 2: Share – based Payment

On 20 June 2016, the IASB issued an amendment to IFRS 2, "Share-based Payment", addressing three classification and measurement issues. The amendments address the accounting for cash-settled share-based payments and equity-settled awards that include a "net settlement" feature in respect of withholding taxes.

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

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates in 2017 (Continued)

(3) Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

On 12 September 2016, the IASB issued amendments to IFRS 4, Insurance Contracts, Applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and the forthcoming insurance contracts standard. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of the forthcoming insurance contracts standard and the annual reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the forthcoming insurance contracts standard is applied. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(4) IFRS 9: Financial Instruments

"IFRS 9 Financial Instruments" introduces new rules for the classification, measurement and derecognition of financial assets and financial liabilities; the main impact for the Group includes the classification, measurement for financial assets and financial liabilities also the impairment for financial assets.

IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at fair value through profit and loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39.

2 BASIS OF PREPARATION (Continued)

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

(4) IFRS 9: Financial Instruments (Continued)

The Group has assessed the impacts from the adoption of the new standard on 1 January 2018 as follows:

The majority of the Group's investment in debt instruments that are currently classified as available-for-sale financial assets ("AFS") with the contractual cash flow characteristics that are solely payments of principal and interests and held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets will be classified under fair value through other comprehensive income ("FVOCI").

The Group's equity instruments, fund investments and other investments that are currently classified under AFS will be classified under fair value through profit or loss ("FVTPL") under IFRS 9 except for those financial assets invested by the Company and managed by China Securities Finance Corporation Limited, which will be classified under FVOCI.

Financial assets currently measured at FVTPL will continue to be measured on the same basis under IFRS 9.

Financial assets currently classified as held-to-maturity with the contractual cash flow characteristics that are solely payments of principal and interests and held within a business model whose objective is achieved by collecting contractual cash flows will be measured at amortised cost under IFRS9. If the business model achieved both by collecting contractual cash flows and selling the financial assets, such financial assets will be classified under FVOCI.

2 BASIS OF PREPARATION (Continued)

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

(4) IFRS 9: Financial Instruments (Continued)

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss ("ECL") model, as opposed to an incurred credit loss model under IAS 39. The impairment requirements apply to financial assets measured at amortized cost and debt instruments financial assets measured at FVOCI. The model has three stages: (1) on initial recognition, a loss allowance is recognized and maintained equal to 12 months of ECL excludes assets with impairment loss; (2) if credit risk increases significantly relative to initial recognition, the loss allowance is increased to cover full lifetime ECL; and (3) when a financial asset is considered credit-impaired, the loss allowance continues to reflect lifetime ECL and interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than its gross carrying amount. Changes in the required loss allowance, including the impact of movement between 12 months and lifetime expected credit losses, will be recorded in profit or loss.

The adoption of IFRS 9 is not expected to have a significant impact on the net assets of the Group as at 1 January 2018.

(5) IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Group anticipates that the adoption of this new standard will not have a significant impact on the Group's consolidated financial statements.

2 BASIS OF PREPARATION (Continued)

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

(6) IFRIC 22: Foreign Currency Transactions And Advance Consideration

The IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration, to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency. The Group anticipates that the adoption of this interpretation will not have a significant impact on the Group's consolidated financial statements.

(7) Amendments to IAS 40: Transfer of Investment Property

On 8 December 2016, the IASB issued amendments to IAS 40 – Transfer of Investment Property. These amendments specify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred. They also clarify that the list of circumstances set out in IAS 40 is non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list. The examples have been expanded to include assets under construction and development and not only transfers of completed properties. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(8) Amendments to IFRSs and IASs: Annual Improvements to IFRSs 2015 – 2017 cycle

The Annual Improvements to IFRSs 2015 – 2017 Cycle include a number of amendments to various IFRSs and IASs, including the amendments IFRS 3 – Business combinations, the amendments to IFRS 11 – Joint arrangements, the amendments to IAS 12 – Income taxes, the amendments to IAS 23 – Borrowing costs. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

2 BASIS OF PREPARATION (Continued)

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

(9) IFRS 16: Leases

IFRS 16 – Leases addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts, unless the underlying asset is of low value or of short lease term, in the statement of financial position. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the lease liability in the consolidated income statement, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the consolidated statement of cash flows.

For the lessor, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The standard will affect primarily the accounting for the Group operating leases when the Group is the lessee. As at 31 December 2017, the Group has non-cancellable operating leasing commitment of RMB1,143 million (see Note 50 Contingent Liabilities and Commitment). The Group has not yet determined to what extent these commitments will result in the recognition of right-of-use assets and liabilities for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

2 BASIS OF PREPARATION (Continued)

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

(10) IFRIC 23: Uncertainty Over Income Tax Treatments

In June 2017 the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Group anticipates that the adoption of this interpretation will not have a significant impact on the Group's consolidated financial statements.

(11) IFRS 17: Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: discounted probability- weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

2 BASIS OF PREPARATION (Continued)

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

(11) IFRS 17: Insurance Contracts (Continued)

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

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

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

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The accounting policies and accounting period of the Company and its subsidiaries are consistent.

Subsidiaries are all entities (including structured entities) over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When the Group assesses whether it has power over an investee, the Group’s voting rights or potential voting rights and other contractual arrangements are considered.

Income or expenses resulted from acquisition or disposal of subsidiaries, from the date on which the Company obtains control to the date on which the Company ceases its control over subsidiaries, are in the scope of consolidation. Intra-group assets and liabilities, equity, income, expenses, and cash flow which are relevant to all intra-group transactions occurred should be offset in consolidation.

2 BASIS OF PREPARATION (Continued)

2.3 Basis of consolidation (Continued)

A portion of equity over subsidiaries and profit or loss which does not belong to the Company should be treated as non-controlling interests. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Company and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position separately from the equity attributable to equity holders of the Company.

3 SIGNIFICANT ACCOUNTING POLICIES

(1) Accounting period

The accounting year starts on 1 January and ends on 31 December.

(2) Functional and presentation currency

The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency.

(3) Cash and cash equivalents

Cash comprises cash on hand and demand deposits which are not restricted as to use.

Cash equivalents comprise short term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(4) Foreign currency transactions and foreign currency translation

The Group adopts the sub-account system to record foreign currency transactions. Foreign currency transactions are initially recorded on the original currency respectively at the dates of the transactions.

Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the prevailing functional currency exchange rates at the end of the reporting period. All differences are recorded in the consolidated income statement.

For financial statements prepared in US dollars and foreign currencies other than US dollars are translated into US dollars using the central parity rate published by the People's Bank of China or other authorities as at the end of the reporting period. For financial statements prepared in RMB, foreign currencies are translated into RMB using the central parity rate published by the People's Bank of China or other authorities as at the end of the reporting period. The exchange differences resulting from foreign currency financial statement translation of subsidiaries are recognized in other comprehensive income.

(5) Financial instruments

Financial instruments are contracts which become one enterprise's financial assets, at the same time become another enterprise's financial liabilities or equity instruments.

(a) Initial recognition and derecognition of financial instruments

The Group recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

All regular way purchases and sales of financial instruments are recognized and derecognized using trade date accounting. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned. Trade date is the date that the Group commits to purchase or sell the financial instrument.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(a) Initial recognition and derecognition of financial instruments (Continued)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized, which means to derecognize a financial asset from the account and statement of financial position of the Group when:

(i) The rights to receive cash flows from the assets have expired; or

(ii) The Group has transferred its rights to receive cash flows from the asset; or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and (a) the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

When the Group has made substantial modifications to a part of the contract terms of an existing financial liability, the relevant portion of the existing financial liability is derecognized, while the financial liability under modified terms is recognized as a new financial liability.

On derecognition of a financial liability in its entirety or partially, the difference between the carrying amount and the consideration paid (including non-cash assets transferred or new financial liabilities assumed) shall be recognized in the consolidated income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(a) Initial recognition and derecognition of financial instruments (Continued)

If the Group repurchases a part of a financial liability, the Group shall allocate the previous carrying amount of the financial liability between the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the repurchase. The difference between the carrying amount allocated to the part derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) for the part derecognized shall be recognized in the consolidated income statement.

(b) Classification and measurement of financial instruments

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are measured at fair value when they are recognized initially. The transaction cost attributable to the acquisition of the financial assets is recognized as profit or loss for the financial assets at fair value through profit or loss, and is included in the initial cost of the other financial assets.

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and other financial liabilities. The transaction cost attributable to the acquisition of the financial liabilities is recognized as profit or loss for the financial liabilities at fair value through profit or loss, and is included in the initial cost of the other financial liabilities.

Subsequent measurement of financial instruments depends on their classification as follows:

(i) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss include financial assets and financial liabilities held for trading, and financial assets and financial liabilities designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if it is acquired for the purpose of sale or repurchase in the near term. Derivatives are also classified as held for trading except for the derivative that is a financial guarantee contract or a designated effective hedging instrument.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(b) Classification and measurement of financial instruments (Continued)

(i) Financial assets and financial liabilities at fair value through profit or loss (Continued)

Such financial instruments are subsequently measured at fair value. Gains or losses arising from the difference between fair value and previous carrying amount are recognized in profit or loss as net investment gains or losses. Realised gains or losses upon disposal of held-for-trading financial assets are recognized as net investment gains or losses. Dividends and interest accrued during the holding period from financial assets measured at fair value through profit or loss are recognized as net investment gains.

Financial assets or financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if one of the following criteria is satisfied:

– The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on different bases;

– A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel;

– Hybrid instruments containing one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear with little or no analysis that the embedded derivative(s) would not be separately recorded;

– Hybrid instruments containing embedded derivatives which need to be separated but cannot be separately measured on acquisition date or subsequent balance sheet date.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(b) Classification and measurement of financial instruments (Continued)

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets, with fixed or determinable payments quartered in an active market and a fixed maturity, which the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest rate method. If there are no significant differences between the contractual interest rates or coupon rates and effective interest rates, held-to-maturity investments are measured at amortized cost using the contractual interest rates or coupon rates.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost using the effective interest rate method. If there are no significant differences between the contractual interest rates and effective interest rates, loans and receivables are measured at amortized cost using the contractual interest rates. When loans and receivables are collected, differences between the amount received and the carrying amount are recognized in the consolidated income statement.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are subsequently measured at fair value. When the fair value cannot be reliably measured, equity investment classified as available-for-sale financial assets are carried at cost. When available-for-sale financial assets are disposed of, the difference between the consideration received plus cumulative gains or losses previously recorded in equity arising from changes of fair value and the carrying amount are recognized as net investment gains or losses.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(b) Classification and measurement of financial instruments (Continued)

(v) Other financial liabilities

Other financial liabilities are non-derivative financial liabilities that are not classified or designated as financial liabilities at fair value through profit or loss. Other liabilities are subsequently measured at amortized cost using the effective interest rate method.

(vi) Reclassification of financial assets

When the Group changes its intention over held-to-maturity investments, they are reclassified as available-for-sale financial assets. If the Group sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, it shall reclassify any remaining held-to-maturity investments as available-for-sale financial assets, and shall not classify any financial assets as held to maturity during the current and the two subsequent financial years.

(c) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of market approach, income approach and cost approach. When using valuation techniques, unobservable market inputs would not be used unless relevant observable inputs are not available or not practicable to access.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(c) Fair value of financial instruments (Continued)

The Group uses the following hierarchy for determining and disclosing the fair values of financial assets and financial liabilities based on the inputs used when determining the fair value:

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

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

Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs).

The level of fair value measurement depends on the lowest level of input that is significant to the entire fair value measurement.

(d) Impairment of financial assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset is impaired and impairment allowance shall be made. The objective evidence of impairment is a result of one or more events that occurred after the initial recognition of financial assets and has an impact on the estimated future cash flows of the financial assets that can be reliably measured.

(i) Financial assets carried at amortized cost

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The loss is recognized in the consolidated income statement. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition), and the value of collateral should be considered.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(d) Impairment of financial assets (Continued)

(i) Financial assets carried at amortized cost (Continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognized in the consolidated income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account and recognized in the consolidated income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

(ii) Available-for-sale financial assets

If objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss recognized in other comprehensive income is reclassified from equity to the profit or loss and is measured as the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(d) Impairment of financial assets (Continued)

(ii) Available-for-sale financial assets (Continued)

In the case of equity investments classified as available for sale, objective evidence includes a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is “significant” or “prolonged” requires judgement. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. A significant or prolonged decline in the fair value of an equity instrument is an indicator of impairment in such investments where a decline in the fair value of an equity instrument is below its initial cost by 50% or more; or fair value is below cost for one year or longer, upon which circumstances an impairment loss is recognized.

For the Company's specific investment managed by China Securities Finance Corporation Limited, considering the purpose and the special features of this investment, including the investment and divestment decision-making process, the decline is considered significant or prolonged when a decline in the fair value of such investment is below its initial cost by 50% or more; or fair value is below cost for three years or longer, upon which circumstances an impairment loss is recognized.

Impairment losses of available-for-sale equity instruments are not reversed through the consolidated income statement. Increases in their fair value after the impairment are recognized directly in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss, the previously recognized impairment loss is reversed through the consolidated income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) Financial instruments (Continued)

(d) Impairment of financial assets (Continued)

(iii) Financial assets carried at cost

If there is objective evidence that a financial asset is impaired, the difference between the carrying amount and the present value of the future cash flows discounted at the original effective interest rate of return for a similar financial asset, is recognized as an impairment loss through profit or loss. The impairment losses are not reversed once recognized.

(e) Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

The changes on fair value of derivative financial instruments are directly recognized in the consolidated income statement.

(f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a current legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(6) Impairment of accounts receivable

(a) Individually significant accounts receivable that are individually assessed for impairment

The impairment for significant accounts receivable are assessed individually. Impairment loss is recognized in profit or loss when there is objective evidence that an account receivable is impaired.

(b) Accounts receivable that are collectively assessed for impairment

The Group categorizes accounts receivable into different portfolios with aging as similar credit risk characteristic and applies aging analysis to collectively assess the impairment for accounts receivable and other receivables.

(7) Margin financing and securities lending services

Margin financing and securities lending services refers to the lending of funds by the Group to clients for purchase of securities, or lending of securities by the Group to clients for securities selling, for which the clients provide the Group with collateral.

The Group recognizes margin accounts at initial recognition, and recognizes interest income accordingly. Securities lent are not derecognized, but still accounted for as the original financial assets, and interest income is recognized accordingly.

Securities trading on behalf of margin financing and securities lending clients are accounted for as securities brokerage services.

(8) Fiduciary wealth management

The Group's fiduciary wealth management business includes targeted asset management, collective asset management and specified asset management. The Group keeps separate accounting records for each of these investment schemes, and periodically reconciles the accounting and valuation results of each scheme with the custodians.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(9) Associates

Associates are all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealized gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associate.

(10) Investment properties

Investment properties comprise real estate properties for the purpose of earning rental income and/or for capital appreciation, including buildings that have been leased.

The Group's investment properties are accounted for using the cost model. The initial recognition and subsequent measurement of buildings and properties that are leased out are accounted for using the same measurement and depreciation methods as those for property, plant and equipment.

(11) Property, plant and equipment

(a) Recognition criteria for property, plant and equipment

Property, plant and equipment refer to tangible assets held and controlled by the Group that the Group expects to use for more than one year for using in the supply of services or for administrative purpose. An asset is recognized as property, plant and equipment only if the following criteria are both satisfied:

(i) It is highly probable that future economic benefits associated with the property, plant and equipment will flow to the Group;

(ii) The cost of the asset can be measured reliably.

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(11) Property, plant and equipment (Continued)

(b) Property, plant and equipment initially measured at cost

Cost of an item of purchased property, plant and equipment comprises purchase price, tax and any costs directly attributable to bringing the asset to the condition necessary for its intended use and it includes transportation costs, installation and assembly costs, and professional service fees.

Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance expenditure are recognized in the profit or loss as incurred. Depreciation of property, plant and equipment is calculated on the straight-line basis monthly.

Estimated useful life, depreciation rate and estimated residual value of each item of property, plant and equipment which are required by the operation of the group are as follows:

Types of property plant and equipment	Estimated useful life	Monthly depreciation rate	Estimated residual value
Properties and buildings	35 years	2.262%	5%
Electronic devices	2 to 5 years	1.667%-4.167%	0%
Transportation vehicles	5 years	1.617%	3%
Communication equipment	5 years	1.617%	3%
Office equipment	3 years	2.778%	0%
Security equipment	5 years	1.617%	3%
Others	5 years	1.617%	3%

The years that the property, plant and equipment were already in use were excluded when determining the estimated useful lives of these types of the property, plant and equipment. The estimated useful life, the estimated residual value and the depreciation method of each type of the property, plant and equipment are reviewed, and adjusted if appropriate, at each financial year end. Gains and losses on disposal of property, plant and equipment, the costs of disposal and taxes in connection with such disposal are considered in the determination of the estimated residual value.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(11) Property, plant and equipment (Continued)

(c) Construction in progress

Costs of construction in progress are determined based on the actual expenditure incurred which include all necessary expenditure incurred during the construction period, borrowing costs eligible for capitalization and other costs incurred to bring the asset to its intended use.

Items classified as construction in progress are transferred to property, plant and equipment when such assets are ready for their intended use.

(12) Intangible assets

Intangible assets are recognized only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably, and measured initially at cost. Intangible assets acquired from business combination and their fair value can be measured reliably are recognized as intangible assets individually and measured at their fair value as at date of combination.

Useful lives of intangible assets are determined as the period that the assets are expected to generate economic benefits for the Group, and when there is no foreseeable limit on the period of time over which the asset is expected to generate economic benefits for the Group, the intangible assets are regarded as having indefinite useful life.

Intangible assets with finite useful lives shall be amortized on a straight-line basis over the useful period. The useful lives and amortization method of the intangible assets with finite useful lives shall be reviewed by the Group at least at each financial year end, and adjusted as appropriate. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless there is a commitment by a third party to purchase the asset at the end of its useful life, or there is an active market for the asset, where residual value can be determined by reference to that market; and it is probable that such a market will exist at the end of the asset's useful life.

Trading seat rights at Shanghai and Shenzhen Stock Exchanges are amortized over 10 years (subject to changes in industry rules subsequently issued) and charged to the consolidated income statement. Outsourcing software is amortized over 5 years. Self-developed software, patents, non-patents, trade mark right, client relationship and other intangible assets are amortized over their useful lives.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(12) Intangible assets (Continued)

Intangible assets with indefinite useful lives need to be assessed for impairment no matter if there is any impairment evidence. These assets need not to be amortized, and their useful lives shall be reviewed during every accounting period. If there is any evidence to support that the useful lives are definite, these intangible assets shall apply the policies of intangible assets with definite useful lives.

(13) Revenue

Revenue from the securities brokerage services is recognized on the date of the securities transaction;

Revenue from underwriting services is recognized when the outcome of the underwriting services provided can be reliably estimated and reasonably recognized. The revenue is usually recognized upon completion of the offering;

Revenue from asset management services is recognized when management services are provided in accordance with the asset management contract;

Interest income from the Group's interest-earning financial assets and interest expense on the Group's financial liabilities are recognized in the consolidated income statement by using the effective interest method. Contractual interest rates will be applied if there are no significant differences between the effective interest rates and the contractual interest rates;

Revenues from other businesses, including investment banking advisory and sponsoring services are recognized when the contractual obligations are fulfilled.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(14) Income tax

Income tax comprises current tax and deferred income tax. Current tax is the amount of current income tax payable calculated based on current taxable income. Taxable income is calculated based on the adjustment to the current year pre-tax accounting profit according to the applicable tax laws.

For current income tax liabilities or current income tax assets generated from the current and prior periods, the expected income tax payable or the income tax deduction is calculated according to the applicable tax laws.

The Group measures deferred income tax using the liability method on temporary differences arising between the carrying amount of an asset or liability at the end of the reporting period and its tax base.

All taxable temporary differences are recognized as deferred income tax liabilities, except:

(i) The deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and

(ii) In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(14) Income tax (Continued)

Deferred income tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

(i) The deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and

(ii) In respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. When it is virtually probable that sufficient taxable income will be available, the reduced amount can be reversed accordingly.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(15) Employee compensation

Employee compensation refers to all forms of consideration and other related expenditure given or incurred by the Group in exchange for services rendered by employees or compensate for the termination of labour contract. The compensation payable is recognized as liability in the accounting period of services provided by employee. The employee compensation comprises of short-term compensation, post-employment welfare, termination benefits, and other long-term employee welfares.

Short-term compensation comprises of staff salaries, bonus, allowances, and subsidies, as well as social insurance expenses including employee welfare, medical insurance charge, work-related injury insurance charge, and maternity insurance and also covers housing funds, labour union expenses, personnel education expenses, short-term paid leave, short-term profit-sharing plan, non-monetary welfare and other short-term compensations.

Post-employment welfare plans refer to agreements reached with employees or policies and measures established by the Group in relation to post-employment welfare. The defined contribution plans refer to post-employment welfare plans in which the Group pays contribution to an independent fund and the Group has no further payment obligation.

(16) Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the Group receives grants of monetary assets, the grants are recorded at the amount received or receivable. Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets. When fair value cannot be reliably measured, they are recognized at nominal amount.

Government grants for purchasing, building or forming long-term assets in other methods stipulated in government documents are recognized as government grants related to assets. Judgements should be made based on the necessary basic conditions for obtaining the government grants when government documents are unclearly stated. Government grants with purchasing, building or forming long-term assets in other methods as basic condition are recognized as government grants related to assets, whereas the other grants are related to income.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(16) Government grants (Continued)

Government grants related to income which are to compensate relevant expenditures or losses in future periods are recognized as deferred income and released into the consolidated income statement during the period when the expense incurs. Government grants that are to compensate the incurred expenses or losses are recognized into profit or loss directly. Government grants related to assets are recognized as deferred income, and released to profit or loss over the expected useful life of the relevant assets by equal annual instalments. Government grants measured at nominal amount are recorded in the consolidated income statement directly.

(17) Long-term pre-paid expense

Improvement expenses on property, plant and equipment under operating leases are amortized on a straight-line basis over the shorter of the contractual lease terms and 5 years, while long-term pre-paid expenses are amortized on a straight-line basis over their respective benefit periods but no longer than 10 years.

(18) Impairment

The Group assesses impairment of assets other than deferred tax assets and financial assets as follows:

The Group assesses at each financial reporting date whether there is any indication that assets are impaired. When any such indication exists, the Group estimates the recoverable amount and assesses impairment allowance. For goodwill acquired from business combination and intangible assets with indefinite useful life, no matter there is objective evidence of impairment or not, impairment should be assessed at each annual financial reporting date. Impairment for intangible assets not readily for use is also assessed annually.

The recoverable amount is the higher of an asset's fair value less costs of disposal and the present value of the estimated future cash flow expected to be derived from the asset. The Group estimates the recoverable amount on the basis of individual asset. When it is difficult to estimate the recoverable amount individually, the recoverable value of the cash generating units which the asset belongs to will be estimated. The recognition of a group of assets shall base on whether the main cash flow generated by the group of assets is independent from those generated by other assets or groups of assets.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(18) Impairment (Continued)

When recoverable amounts of assets or groups of assets are lower than their carrying amounts, the Group decreases the carrying amounted to recoverable amount. The decreased amounts are recognized in the consolidated income statement and corresponding allowances are made.

For impairment test of goodwill, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units when being unable to be allocated to each of the cash-generating units. Cash-generating units or groups of cash-generating units refer to those that can benefit from the synergies of the combination and are not larger than the reportable segment determined by the Group.

When performing impairment test for the (groups of) cash-generating unit to which goodwill is allocated, if there is indication of impairment, the Group firstly tests the (groups of) cash-generating unit excluding goodwill, calculates the recoverable amount and recognizes relevant impairment losses. The Group then tests the (groups of) cash-generating units including goodwill, and compares the carrying amount and recoverable amount. If the carrying amount exceeds the recoverable amount, the amount of impairment loss is firstly deducted from the carrying amount of goodwill allocated to the (groups of) cash-generating unit, and then from the carrying amount of each of other assets (other than goodwill) within the (groups of) cash-generating unit, on pro rata basis.

(19) Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or,

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(19) Related parties (Continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(20) Provisions and contingencies

The obligation pertinent to contingencies shall be recognized as provisions when the following conditions are satisfied concurrently:

– the obligation is a present obligation of the Group;

– the obligation is probable to cause a future outflow of resources from the Group as a result of performance of the obligation; and

– the amount of the obligation can be reliably measured.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(20) Provisions and contingencies (Continued)

The amount of a provision is initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. To determine the best estimate, the Group takes into full consideration of risks, uncertainty, time value of money and other factors pertinent to the contingencies. The Group reviews the book value of the provisions at the end of the reporting period. If there is substantial evidence that the amount of provisions cannot reflect the current best estimate, the Group will adjust the amount in accordance with the current best estimate.

A contingent liability is a possible obligation that rises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or, a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

(21) Profit distribution

After-tax profit for the year is firstly applied to make up for the losses of previous years. Secondly, the Company sets aside 10% of after-tax profit for a statutory surplus reserve, 10% of after-tax profit for a general risk reserve, and according to the requirements of the CSRC, sets aside 10% of after-tax profit for a transaction risk reserve. In addition, with the approval from the Annual General Meeting, the Company may appropriate certain proportions of net profit for a discretionary surplus reserve after setting aside the statutory surplus reserve. The remaining after-tax profit is distributed according to the resolution approved at the Annual General Meeting. If the aggregate balance of the statutory reserve has reached 50% of the Company's registered capital, appropriation for the statutory reserve is no longer mandatory.

General risk reserve and transaction risk reserve sets aside by the Company are used to make up for any losses arising from securities transaction. The Company's reserve funds are used to make up for any losses of the Company, expand the Company's business or as additional capital of the Company. However, capital reserve cannot be used to make up for the Company's losses. When the statutory reserve funds are converted to capital, the balance of the statutory reserve funds cannot be less than 25% of the Company's registered capital.

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(21) Profit distribution (Continued)

Dividends proposed by the directors are not deducted from equity, until they have been approved by the ordinary equity holders in the Annual General Meeting. When these dividends have been approved by the equity holders, they are recognized as a liability.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. Uncertainty about these assumptions and estimates could result in outcomes that could require an adjustment to the carrying amounts of the assets or liabilities.

(1) Impairment losses on available-for-sale financial assets

In determining whether there is any objective evidence that impairment losses have occurred on available-for-sale financial assets, the Group assesses periodically whether there is any objective evidence that such assets were impaired. Objective evidence of impairment arose when there has been a significant or prolonged decline in the fair value below its cost, or when other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry environment, price volatility as well as operating and financing cash flows. This requires a significant level of management judgement which would affect the amount of impairment losses.

(2) Impairment losses on margin financing and securities lending

Based on the clients' credit standing, collateral securities, guaranteed ratio, solvency ability and willingness and other factors, the Group determines whether there is any indication of impairment on margin financing and securities lending. Such financial assets with indications of impairment are subject to individual impairment assessment and allowance for impairment. The remaining of such financial assets are subject to collective assessment.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

(3) Fair value of financial instruments

If the market for a financial instrument is not active, the Group estimates fair value by using a valuation technique. Valuation techniques include using recent prices in arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, or discounted cash flow analyses and option pricing models. To the extent practicable, valuation technique makes the maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on such unobservable market inputs.

(4) Income tax

Determining provisions for income tax requires the Group to estimate the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and provides for taxes accordingly. In addition, deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. This requires significant estimation of the tax treatments of certain transactions and also significant judgement of the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

(5) Consolidation of structured entities

Management makes significant judgment on whether the Group controls and therefore is required to consolidate structured entities. The decision outcome impacts accounting treatment and the financial and operational results of the Group.

When assessing control, the Group considers: 1) the level of control of the Group over the investee; 2) variable returns gained through participation of relevant activities of the investee; and 3) the ability of the Group from using its power over the investee to affect its return. When there are changes over one or more of the three control elements as described above, the Group will reassess whether control is still valid.

When assessing whether there is control over the structured entities, the Group also considers whether the decisions it makes are as a principal or as an agent. Aspects of considerations normally include the decision making scope over the structured entities, substantive rights of third parties, reward of the Group, and the risk of undertaking variable returns from owning other benefits of the structured entities.

5 TAXATION

According to relevant PRC tax policies, the most significant categories of taxes to which the Group is currently subjected are as follows:

(1) Income tax

From 1 January 2008, the "Enterprise Income Tax Law of the PRC" and the "Regulations on the Implementation of Enterprise Income Tax Law of the PRC" became effective for the Company and its subsidiaries excluding China Futures Co., Ltd. and China Securities (International) Finance Holding Co., Ltd. Income tax computation and payment are governed by the "Announcement of the State Administration of Taxation on Printing and Distributing Administrative Measures for Collection of Consolidated Payments of Enterprise Income Tax by Enterprises with Multi-Location Operations" (Public Notice of the State Administration of Taxation [2012] No. 57). The PRC Enterprise income tax rate applicable to the Company is 25%.

In accordance with Explanation on Implementation of Tax Preferential Treatments concerning Western China Development Strategy issued by local taxation bureau in Yuzhong District, Chongqing City, the applicable income tax rates for China Futures Co., Ltd. is 15%.

The income tax rate for China Securities (International) Finance Holding Co., Ltd. (a Hong Kong Company) is 16.5%.

(2) Value added tax

Pursuant to the "Circular regarding the Comprehensive Implementation of the Pilot Programs for Transformation from Business Taxes to Value-added Taxes (the "VAT Pilot Programs")" (Cai Shui [2016] No. 36), the "Circular regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs (Cai Shui [2016] No. 46), the "Supplementary Circular regarding VAT Policies Applicable to Transactions between Financial Institutions" (Cai Shui [2016] No. 70) issued by the Ministry of Finance (the "MOF") and the State Administration of Taxation (the "SAT") of the PRC, effective from 1 May 2016, the Group is subject to value-added taxes on its income from principal businesses at 6%, instead of business tax at 5% prior to 1 May 2016.

5 TAXATION (Continued)

(2) Value added tax (Continued)

In accordance with the “Circular regarding the Value-added Taxes Policies for Financial, Real Estate Development and Education Ancillary and Other Services” (Cai Shui [2016] No. 140), the “Supplementary Circular regarding Issues concerning Value-added Taxes Policies for Asset Management Products” (Cai Shui [2017] No. 2) and the “Circular on the Relevant Issues concerning Value-added Tax Levied on Asset Management Products” (Cai Shui [2017] No. 56), the Group shall pay VAT at rate of 3% for related asset management taxable activities undertaken after 1 January 2018.

After the implementation of the VAT Pilot Programs, the Group’s related income is presented at value net of its respective VAT in the consolidated income statement.

(3) Business tax

The Group's computation and payment of business taxes were governed by “Interim Regulations of the PRC on Business Tax” (State Council Order [2008] No. 540), “the Implementation Rules for the Interim Regulations of the PRC on Business Tax” (Ministry of Finance Order [2011] No. 65), “the Announcement of the State Administration of Taxation on Issues concerning the Business Tax on the Transfer of Financial Commodities” (Guo Shui [2013] No. 63), and other relevant policies. The business tax was calculated and paid at the tax rate of 5% of taxable business income.

According to the “Circular of the Ministry of Finance and the State Administration of Taxation on Business Taxation in Capital Markets” (Cai Shui [2004] No. 203), securities companies were allowed to deduct following expenses charged on behalf of other parties from their taxable business income.

5 **TAXATION** (Continued)

(3) **Business tax** (Continued)

i. Securities trading regulatory fees collected on behalf of the securities exchanges;

ii. Fees received on behalf of the stock exchanges in its agency trading of securities;

iii. Activation fees of stockholder accounts (include A Shares and B Shares), account opening fees of special transferred stocks, and transfer fees, as well as settlement fees of B Shares, and custodian fees collected on behalf of the China Securities Depository and Clearing Co., Ltd.

According to the "Circular of the Ministry of Finance and the State Administration of Taxation on Issues Concerning the Business Tax of the Securities Investor Protection Fund" (Cai Shui [2006] No. 172), securities companies were allowed to deduct their investor protection fund contributions from their taxable business income.

Effective 1 May 2016, the aforesaid business is subject to value-added taxes.

(4) Urban maintenance and construction taxes and educational surcharges are charged at 7% and 3% of turnover taxes payable, respectively. In addition, according to the provisions of "Administrative Measures for Collection and Usage of Local Educational Surcharges in Beijing" (Jin Zheng Fa [2011] No. 72), since 1 January 2012, the local educational surcharges of the Company's head office and securities trading department located in Beijing are levied at 2% of the total amount of value-added tax, consumption tax and business tax.

(5) Vehicle and vessel taxes, property taxes and stamp duties are levied in accordance with the provisions of the relevant tax laws and regulations.

6 OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's operating segments represents a strategic business engaged in the following activities.

Investment banking segment: provides investment banking services, including financial advisory, sponsoring, underwriting of equity and debt securities.

Wealth management segment: serves as a brokerage agent for corporate and personal clients in the trading of equity stocks, funds, bonds and futures; and provides margin financing and securities lending services to these clients.

Trading and institutional client services segment: engages in trading of financial products; serves as a brokerage agent for institutional clients (financial institutions) in the trading of equity stocks, funds and bonds, and provides them with margin financing and securities lending; provides services in relation to sales of financial products to institutional clients, and provides specialized research and advisory services to assist their investment decision-making.

Investment management segment: develops asset management products, fund management products services, and private placement offerings, and provides related services through subsidiaries and consolidated structured entities.

Other segment: primarily the treasury function from the head office.

Management monitors the performance and results of these operating segments for considerations of resource allocation and operating decision-making.

Income taxes are managed as a whole and are not allocated to operating segments.

For the year ended 31 December 2017

(In RMB thousands, unless otherwise stated)

6 OPERATING SEGMENT INFORMATION (Continued)

	Year ended 31 December 2017					
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Total
Segment revenue and other income						
Fee and commission income	3,740,546	2,967,834	893,206	1,179,347	–	8,780,933
Interest income	–	4,209,732	617,049	30,428	399,966	5,257,175
Net investment gains	–	–	1,928,985	485,282	–	2,414,267
Other income	292	42,445	4,641	12,667	(91,025)	(30,980)
Total revenue and other income	3,740,838	7,220,011	3,443,881	1,707,724	308,941	16,421,395
Segment expenses	(1,834,157)	(5,331,498)	(3,079,353)	(594,567)	(232,570)	(11,072,145)
Including: Interest expenses	(83,293)	(1,840,648)	(1,909,017)	(99,000)	–	(3,931,958)
Impairment losses	(188)	(43,268)	(9,212)	(23,672)	–	(76,340)
Operating profit	1,906,681	1,888,513	364,528	1,113,157	76,371	5,349,250
Share of profits and losses of associates	–	–	–	6,156	(69)	6,087
Profit before income tax	1,906,681	1,888,513	364,528	1,119,313	76,302	5,355,337
Income tax expense						(1,293,690)
Net profit for the year						4,061,647
Total assets	197,783	92,137,982	90,364,365	13,198,623	9,984,639	205,883,392
Total liabilities	3,336,108	81,984,887	57,290,164	11,476,993	7,796,462	161,884,614
Other segment information:						
Depreciation and amortization	74,504	53,026	54,683	27,701	25,277	235,191
Capital expenditure	73,036	67,007	58,837	26,815	32,537	258,232

(In RMB thousands, unless otherwise stated)

6 OPERATING SEGMENT INFORMATION (Continued)

	Year ended 31 December 2016					
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Total
Segment revenue and other income						
Fee and commission income	4,682,209	3,671,108	1,130,692	1,100,147	–	10,584,156
Interest income	–	3,495,818	483,089	11,157	450,756	4,440,820
Net investment gains	–	–	1,961,314	450,457	–	2,411,771
Other income	–	67,226	–	2,696	78,046	147,968
Total revenue and other income	4,682,209	7,234,152	3,575,095	1,564,457	528,802	17,584,715
Segment expenses	(2,070,144)	(4,917,409)	(2,731,989)	(621,179)	(183,237)	(10,523,958)
Including: Interest expenses	(36,509)	(1,065,057)	(1,604,569)	(142,660)	–	(2,848,795)
Impairment losses	(358)	15,985	(13,960)	–	–	1,667
Operating profit	2,612,065	2,316,743	843,106	943,278	345,565	7,060,757
Share of profits and losses of associates	–	–	–	(1,608)	(1,729)	(3,337)
Profit before income tax	2,612,065	2,316,743	843,106	941,670	343,836	7,057,420
Income tax expense						(1,744,198)
Net profit for the year						5,313,222
Total assets	952,625	85,438,883	65,694,454	13,420,725	16,188,353	181,695,040
Total liabilities	3,394,369	66,760,579	55,773,761	10,960,103	3,543,549	140,432,361
Other segment information:						
Depreciation and amortization	68,036	57,425	36,881	21,854	21,285	205,481
Capital expenditure	80,117	76,187	45,901	34,947	24,940	262,092

For the year ended 31 December 2017

(In RMB thousands, unless otherwise stated)

7 FEE AND COMMISSION INCOME

	Year ended 31 December	
	2017	2016
Brokerage services	3,771,540	4,731,029
Investment banking	3,740,546	4,682,209
Asset and fund management	1,179,347	1,100,147
Others	89,500	70,771
Total	8,780,933	10,584,156

8 INTEREST INCOME

	Year ended 31 December	
	2017	2016
Margin financing and securities lending	2,945,680	2,416,812
Financial assets held under resale agreements	720,996	198,141
Bank deposits	1,567,673	1,790,100
Others	22,826	35,767
Total	5,257,175	4,440,820

(In RMB thousands, unless otherwise stated)

9 NET INVESTMENT GAINS

	Year ended 31 December	
	2017	2016
Net gains from disposal of available-for-sale financial assets	8,798	480,187
Dividend and interest income from available-for-sale financial assets	1,532,874	989,488
Net gains from financial assets held for trading	1,073,796	844,301
Net gains from financial liabilities held for trading	17,828	98,447
Net gains from financial instruments designated as at fair value through profit or loss	14,800	7,460
Net gains from derivatives	185,409	258,970
Interest Income from held-to-maturity investments	46,105	40,013
Net losses attributable to other interest holders of consolidated structured entities	(465,343)	(307,095)
Total	2,414,267	2,411,771

10 OTHER INCOME

	Year ended 31 December	
	2017	2016
Government grants	41,145	66,097
Rental income	14,921	14,991
Gains on disposal of property, plant and equipment	473	255
Net (losses)/gains on foreign exchange	(119,214)	31,943
Others	31,695	34,682
Total	(30,980)	147,968

(In RMB thousands, unless otherwise stated)

11 EXPENSES

	Year ended 31 December	
	2017	2016
Fee and commission expenses:		
Brokerage expenses	726,005	835,533
Investment banking expenses	392,684	519,382
Others	53,581	33,948
Total	1,172,270	1,388,863
Interest expenses:		
Accounts payable to brokerage clients	192,981	227,628
Financial assets sold under repurchase agreements	1,123,691	676,713
Placements from banks and other financial institutions	482,978	230,549
Borrowings	45,549	39,708
Bonds in issue and short-term financing instruments payable	1,962,635	1,457,294
Others	124,124	216,903
Total	3,931,958	2,848,795
Staff costs (including directors' and supervisors' remuneration):		
Salaries, bonuses and allowances	3,410,799	3,682,156
Staff benefits	413,047	368,818
Contributions to defined contribution schemes (i)	279,398	231,106
Total	4,103,244	4,282,080

(In RMB thousands, unless otherwise stated)

11 EXPENSES (Continued)

(i) Retirement benefits are included, and their nature is described below:

Full-time employees of the Group in Mainland China are covered by various government-sponsored retirement plans including social pension schemes and corporate pension schemes, under which the employees are entitled to a monthly pension. Relevant government agencies determine the amount of pension benefits and are responsible for the related pension liabilities to eligible retired employees. The Group is required to make monthly contributions to the government related to these government-sponsored retirement plans for active employees, which are expensed as incurred. The Group has no obligation for post-retirement benefits beyond these contributions.

In addition, the Group participates in various defined contribution retirement schemes for its qualified employees in certain countries or regions outside of Mainland China.

Other operating expenses and costs:

	Year ended 31 December	
	2017	2016
Leasing expenses	294,399	284,704
Depreciation and amortization expenses	235,191	205,481
Electronic equipment operating expenses	204,546	153,339
Business travel expenses	182,303	162,347
Postal and communication expenses	111,256	103,027
Business entertainment expenses	108,595	95,829
Vehicle operating expenses	75,177	56,922
Office operating expenses	74,737	120,754
Membership fees of Exchanges	67,378	63,599
Securities investor protection fund	47,355	62,431
Auditors' remuneration	2,080	3,447
– Audit services	1,981	3,089
– Non-audit services	99	358
Others	298,150	346,660
Total	1,701,167	1,658,540

(In RMB thousands, unless otherwise stated)

12 DIRECTORS' AND SUPERVISORS' REMUNERATION

(1) Details of the directors' and supervisors' remuneration before tax are as follows:

	Year ended 31 December 2017					
Name	Salaries, allowances and other benefits	Discretionary bonuses	Deferred bonuses (i)	Directors' fees	Retirement benefits	Total remuneration before tax
Executive Directors						
Wang Changqing (Chairman)	2,146	2,200	–	–	117	4,463
Qi Liang (President)	2,011	2,200	–	–	113	4,324
Non-executive Directors						
Yu Zhongfu	–	–	–	–	–	–
Hu Donghui *(ii)*	–	–	–	–	–	–
Wang Chenyang	–	–	–	–	–	–
Wang Shouye *(iii)*	–	–	–	–	–	–
Xu Gang *(iv)*	–	–	–	–	–	–
Dong Shi *(v)*	–	–	–	–	–	–
Wang Hao *(v)*	–	–	–	–	–	–
Qiu Jianyang *(vi)*	–	–	–	–	–	–
Liu Dingping *(vii)*	–	–	–	–	–	–
Wang Shumin *(vii)*	–	–	–	–	–	–
Independent Non-executive Directors						
Feng Genfu	–	–	–	175	–	175
Zhu Shengqin	–	–	–	170	–	170
Dai Deming *(viii)*	–	–	–	175	–	175
Bai Jianjun *(viii)*	–	–	–	175	–	175
Liu Qiao *(viii)*	–	–	–	175	–	175
Supervisors						
Li Shihua	1,528	2,200	–	–	95	3,823
Lu Ya						
Current year	1,208	1,500	–	–	88	2,796
Year ended – 31 December 2013	–	–	800	–	–	800
Wu Lili	727	180	–	–	63	970
Wang Jing *(ix)*	–	–	–	–	–	–
Ai Bo *(ix)*	–	–	–	–	–	–
Liu Hui	–	–	–	–	–	–
Total	7,620	8,280	800	870	476	18,046

(In RMB thousands, unless otherwise stated)

12 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(1) Details of the directors' and supervisors' remuneration before tax are as follows: (Continued)

	Year ended 31 December 2016					
Name	Salaries, allowances and other benefits	Discretionary bonuses	Deferred bonuses (i)	Directors' fees	Retirement benefits	Total remuneration before tax
Executive Directors						
Wang Changqing (Chairman)						
Current year	2,143	1,000	–	–	114	3,257
Year ended						
– 31 December 2011	–	–	2,600	–	–	2,600
– 31 December 2012	–	–	3,000	–	–	3,000
– 31 December 2013	–	–	520	–	–	520
Qi Liang (President)						
Current year	2,009	2,000	–	–	109	4,118
Year ended						
– 31 December 2012	–	–	3,000	–	–	3,000
– 31 December 2013	–	–	520	–	–	520
Non-executive Directors						
Yu Zhongfu	–	–	–	–	–	–
Hu Donghui *(ii)*	–	–	–	–	–	–
Wang Chenyang	–	–	–	–	–	–
Wang Shouye *(iii)*	–	–	–	–	–	–
Qiu Jianyang *(vi)*						
Liu Dingping *(vii)*	–	–	–	–	–	–
Wang Shumin (vii)	–	–	–	–	–	–
Yin Rongyan *(x)*	–	–	–	–	–	–
Li Huaqiang *(x)*	–	–	–	–	–	–

For the year ended 31 December 2017

(In RMB thousands, unless otherwise stated)

12 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(1) Details of the directors' and supervisors' remuneration before tax are as follows: (Continued)

	Year ended 31 December 2016					
Name	Salaries, allowances and other benefits	Discretionary bonuses	Deferred bonuses (i)	Directors' fees	Retirement benefits	Total remuneration before tax
Independent Non-executive Directors						
Feng Genfu	–	–	–	120	–	120
Zhu Shengqin	–	–	–	120	–	120
Dai Deming *(viii)*	–	–	–	30	–	30
Bai Jianjun *(viii)*	–	–	–	30	–	30
Liu Qiao *(viii)*	–	–	–	30	–	30
Song Chang *(xi)*	–	–	–	70	–	70
Guo Li *(xi)*	–	–	–	70	–	70
Supervisors						
Li Shihua						
Current year	1,525	2,800	–	–	92	4,417
Year ended						
– 31 December 2011	–	–	1,200	–	–	1,200
– 31 December 2012	–	–	1,200	–	–	1,200
– 31 December 2013	–	–	390	–	–	390
Lu Ya						
Current year	1,204	3,000	–	–	85	4,289
Year ended						
– 31 December 2012	–	–	900	–	–	900
Wu Lili	636	550	–	–	60	1,246
Wang Jing *(ix)*	–	–	–	–	–	–
Ai Bo *(ix)*	–	–	–	–	–	–
Liu Hui	–	–	–	–	–	–
Fan Yong *(xii)*	–	–	–	–	–	–
Total	7,517	9,350	13,330	470	460	31,127

12 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(1) Details of the directors' and supervisors' remuneration before tax are as follow: (Continued)

(i) For the year ended 31 December 2017, Supervisor Lu Ya received deferred bonuses for the year ended 31 December 2013 of RMB0.80 million.

For the year ended 31 December 2016, Executive Director Wang Changqing received deferred bonuses for the year ended 31 December 2011 of RMB2.60 million, deferred bonuses for the year ended 31 December 2012 of RMB3.00 million and deferred bonuses for the year ended 31 December 2013 of RMB0.52 million, Executive Director Qi Liang received deferred bonuses for the year ended 31 December 2012 of RMB3.00 million and deferred bonuses for the year ended 31 December 2013 of RMB0.52 million, Supervisor Li Shihua received deferred bonuses for the year ended 31 December 2011 of RMB1.20 million, deferred bonuses for the year ended 31 December 2012 of RMB1.20 million and deferred bonuses for the year ended 31 December 2013 of RMB0.39 million, Supervisor Lu Ya received deferred bonuses for the year ended 31 December 2012 of RMB0.90 million.

For each of the years ended 31 December 2017 and 31 December 2016, no directors and supervisors waived their remuneration. For non-executive directors and supervisors whose remuneration were not paid by the Group was shown as zero in the tables.

(ii) Hu Donghui was appointed as non-executive director in August 2016.

(iii) Wang Shouye resigned as supervisor and was appointed as non-executive director in August 2016.

(iv) Xu Gang was appointed as non-executive director in June 2017.

(v) Dong Shi and Wang Hao were appointed as non-executive directors in December 2017.

(vi) Qiu Jianyang resigned as non-executive director in March 2017.

(vii) Liu Dingping and Wang Shumin resigned as non-executive director in December 2017.

12 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(1) Details of the directors' and supervisors' remuneration before tax are as follow: (Continued)

(viii) Dai Deming, Bai Jianjun and Liu Qiao were appointed as independent non-executive directors in August 2016.

(ix) Wang Jing and Ai Bo were appointed as supervisor in August 2016.

(x) Yin Rongyan and Li Huaqiang resigned as non-executive director in August 2016.

(xi) Song Chang and Guo Li were appointed as independent non-executive directors in June 2015 and resigned as independent non-executive directors in July 2016.

(xii) Fan Yong resigned as supervisor in August 2016.

(2) Other benefits and rights of directors and supervisors

For each of the years ended 31 December 2017 and 31 December 2016, no emoluments were paid by the Group to any of the persons who are directors, or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office. Except for the contributions to social pension schemes and corporate pension schemes, there were no other retirement benefits for directors or supervisors; meanwhile, there were no consideration provided to third parties for making available directors' and supervisor' services.

For each of the years ended 31 December 2017 and 31 December 2016, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly. In addition, the Group did not provide any guarantees or securities to certain controlled body corporates and connected entities of the directors or supervisors in respect of their loans, quasi-loans or credit transactions.

(In RMB thousands, unless otherwise stated)

13 FIVE HIGHEST PAID EMPLOYEES

For the year ended 31 December 2017 and 31 December 2016, the five highest paid employees excluded directors and supervisors are as follows:

	Year ended 31 December	
	2017	2016
Salaries, allowances and other benefits	8,071	5,409
Discretionary bonuses	28,560	45,020
Deferred bonuses	3,750	3,300
Retirement benefits	426	399
Total	40,807	54,128

The number of these individuals whose remuneration fell within the following bands is set out below:

	Year ended 31 December	
	2017	2016
RMB6,000,001 to RMB7,000,000 yuan	–	–
RMB7,000,001 to RMB8,000,000 yuan	2	–
RMB8,000,001 to RMB9,000,000 yuan	3	–
RMB9,000,001 to RMB10,000,000 yuan	–	–
RMB10,000,001 to RMB11,000,000 yuan	–	2
RMB11,000,001 to RMB12,000,000 yuan	–	3
Total	5	5

For each of the years ended 31 December 2017 and 31 December 2016, no remunerations were paid by the Group to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

(In RMB thousands, unless otherwise stated)

14 IMPAIRMENT LOSSES/(REVERSAL)

	Year ended 31 December	
	2017	2016
Available-for-sale financial assets	32,140	14,775
Margin financing and securities lending	24,523	(38,259)
Financial assets held under resale agreements	19,111	21,454
Held-to-maturity investment	396	–
Others	170	363
Total	76,340	(1,667)

15 INCOME TAX EXPENSE

(1) Income tax

	Year ended 31 December	
	2017	2016
Current income tax		
– Mainland China	1,244,142	1,820,662
– Hong Kong and Macau	18,672	10,667
Subtotal	1,262,814	1,831,329
Deferred income tax	30,876	(87,131)
Total	1,293,690	1,744,198

(In RMB thousands, unless otherwise stated)

15 INCOME TAX EXPENSE (Continued)

(2) Reconciliation between income tax and accounting profit

A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate of 25% to income tax expense at the Group's effective income tax rate is as follows:

	Year ended 31 December	
	2017	2016
Profit before income tax	5,355,337	7,057,420
Income tax at the PRC statutory income tax rate	1,338,834	1,764,355
Effects of different applicable rates of tax prevailing in various jurisdictions	(30,190)	(27,439)
Non-deductible expenses	31,924	29,410
Non-taxable income	(37,959)	(56,131)
Others	(8,919)	34,003
Income tax expenses at the Group's effective income tax rate	1,293,690	1,744,198

16 DIVIDENDS

	Year ended 31 December	
	2017	2016
Dividends on ordinary shares declared and paid	1,304,349	–
Distribution to other equity instrument holders	294,000	294,000

A cash dividend of RMB1.80 (tax inclusive) per 10 ordinary shares related to the year ended 31 December 2016, amounting to RMB1,304,349,342.84 (tax inclusive) in total and based on 7,246,385,238 shares was approved at the Annual General Meeting held on 8 June 2017. No dividends on ordinary shares were paid, declared or proposed during the year 2016.

17 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculations of basic and diluted earnings per share are based on:

	Year ended 31 December	
	2017	2016
Earnings:		
Profit attributable to equity holders of the Company	4,015,428	5,259,251
Less: Profit attributable to other equity instrument holders of the Company (i)	(294,000)	(294,000)
Profit attributable to ordinary equity holders of the Company	3,721,428	4,965,251
Shares:		
Weighted average number of ordinary shares in issue *(thousand)* (ii)	7,245,427	6,164,706
Basic and diluted earnings per ordinary share *(in RMB yuan)*	0.51	0.81

Basic earnings per ordinary share was calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding.

For each of the years ended 31 December 2017 and 31 December 2016, there were no dilutive events. Therefore, the diluted earnings per share equals to the basic earnings per share.

(i) The Company issued two batches of perpetual subordinated bonds during the year ended 31 December 2015, under the terms and conditions as detailed in Note 45 Other Equity Instruments.

For the purpose of calculating basic earnings per ordinary share, distributions on perpetual subordinated bonds for the years ended 31 December 2017 and 31 December 2016 were deducted from the profit attributable to ordinary equity holders of the Company for the respective year.

(ii) Weighted average number of ordinary shares in issue in 2017 is the number of days that the shares are outstanding as a proportion of the total number of days in the year.

(In RMB thousands, unless otherwise stated)

18 PROPERTY, PLANT AND EQUIPMENT

	Properties and buildings	Electronic devices	Transportation vehicles	Communication equipment	Office equipment	Security equipment	Others	Total
Cost								
1 January 2017	424,761	501,669	37,485	7,240	71,357	8,817	31,031	1,082,360
Increases	6,711	92,566	853	116	8,912	786	5,789	115,733
Decreases	–	(20,992)	(787)	(30)	(1,730)	(387)	(173)	(24,099)
31 December 2017	431,472	573,243	37,551	7,326	78,539	9,216	36,647	1,173,994
Accumulated depreciation								
1 January 2017	(96,773)	(337,623)	(29,492)	(4,946)	(54,536)	(6,737)	(28,936)	(559,043)
Increases	(13,694)	(94,907)	(3,124)	(725)	(9,199)	(558)	(999)	(123,206)
Decreases	–	20,678	656	29	1,554	373	168	23,458
31 December 2017	(110,467)	(411,852)	(31,960)	(5,642)	(62,181)	(6,922)	(29,767)	(658,791)
Net carrying amount								
31 December 2017	321,005	161,391	5,591	1,684	16,358	2,294	6,880	515,203
Cost								
1 January 2016	415,001	427,579	37,313	6,317	63,364	7,626	30,990	988,190
Increases	9,760	96,104	1,044	981	8,813	1,340	48	118,090
Decreases	–	(22,014)	(872)	(58)	(820)	(149)	(7)	(23,920)
31 December 2016	424,761	501,669	37,485	7,240	71,357	8,817	31,031	1,082,360
Accumulated depreciation								
1 January 2016	(82,625)	(280,793)	(27,056)	(4,375)	(45,590)	(6,483)	(26,846)	(473,768)
Increases	(14,148)	(78,809)	(3,283)	(627)	(9,765)	(391)	(2,096)	(109,119)
Decreases	–	21,979	847	56	819	137	6	23,844
31 December 2016	(96,773)	(337,623)	(29,492)	(4,946)	(54,536)	(6,737)	(28,936)	(559,043)
Net carrying amount								
31 December 2016	327,988	164,046	7,993	2,294	16,821	2,080	2,095	523,317

For the year ended 31 December 2017

(In RMB thousands, unless otherwise stated)

19 INTANGIBLE ASSETS

	Software	Trading seat rights and others	Total
Cost			
1 January 2017	282,286	75,947	358,233
Increases	73,128	–	73,128
Decreases	(623)	(29)	(652)
31 December 2017	354,791	75,918	430,709
Accumulated amortization			
1 January 2017	(144,213)	(69,600)	(213,813)
Increases	(47,307)	–	(47,307)
Decreases	303	–	303
31 December 2017	(191,217)	(69,600)	(260,817)
Net carrying amount			
31 December 2017	163,574	6,318	169,892
Cost			
1 January 2016	222,084	75,919	298,003
Increases	60,202	28	60,230
Decreases	–	–	–
31 December 2016	282,286	75,947	358,233
Accumulated amortization			
1 January 2016	(106,850)	(69,600)	(176,450)
Increases	(37,363)	–	(37,363)
Decreases	–	–	–
31 December 2016	(144,213)	(69,600)	(213,813)
Net carrying amount			
31 December 2016	138,073	6,347	144,420

(In RMB thousands, unless otherwise stated)

20 INVESTMENTS IN SUBSIDIARIES

	31 December 2017	31 December 2016
Investments in subsidiaries	2,042,653	1,992,653

General information of the Company's principal subsidiaries are as follows:

Name of subsidiaries	Principal operating place	Place of registration	Registered share capital	Proportion of voting rights As at 31 December 2017	Proportion of voting rights As at 31 December 2016	Directly/ Indirectly hold	Principal activities
China Futures Co., Ltd.	Chongqing	Chongqing	RMB700 million	100%	100%	Directly	Futures brokerage
China Capital Management Co., Ltd.	Beijing	Beijing	RMB1,650 million	100%	100%	Directly	Project investment
China Securities (International) Finance Holding Co., Ltd.	Hong Kong	Hong Kong	Not applicable	100%	100%	Directly	Shareholding and investment
China Fund Management Co., Ltd.	Beijing	Beijing	RMB300 million	55%	55%	Directly	Funds business, asset management
China Securities Investment Co., Ltd.	Beijing	Beijing	RMB1,000 million	100%	–	Directly	Investment management, equity investment management, investment consultancy and project management

For the year ended 31 December 2017

(In RMB thousands, unless otherwise stated)

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2017	31 December 2016
Non-current		
At fair value:		
Equity investments	489,850	524,358
Fund investments	11,692	10,016
Others *(i)*	3,901,018	4,638,008
At cost:		
Equity investments	960,837	948,966
	5,363,397	6,121,348
Allowance for impairment losses	(36,813)	(9,290)
Total of non-current	5,326,584	6,112,058
Analysed into:		
Listed outside Hong Kong	479,729	525,084
Unlisted	4,846,855	5,586,974
Total of non-current	5,326,584	6,112,058

	31 December 2017	31 December 2016
Current		
At fair value:		
Debt instruments	26,687,032	20,168,666
Equity investments	202,197	174,457
Fund investments	473,903	413,300
Others *(i)*	6,931,746	7,757,548
	34,294,878	28,513,971
Allowance for impairment losses	(39,671)	(31,239)
Total of current	34,255,207	28,482,732
Analysed into:		
Listed in Hong Kong	87,550	95,876
Listed outside Hong Kong	29,439,643	21,051,307
Unlisted	4,728,014	7,335,549
Total of current	34,255,207	28,482,732
Total	39,581,791	34,594,790

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

(i) Classified as other available-for-sale financial assets of the Group include investments in asset management plans which have been disclosed in Note 48 Interests in Structured Entities.

In addition, as at 31 December 2017 and 31 December 2016, others of the non-current available-for-sale financial assets included specific accounts invested by the Company together with several other securities companies and managed by China Securities Finance Corporation Limited. According to the relevant contracts, the Company made investments on 6 July 2015 and 1 September 2015, in the aggregate amount of RMB4,244.00 million. Risks and returns of the specific accounts are shared by the Company and other investing securities companies based on investment proportion and the accounts are operated and managed by China Securities Finance Corporation Limited.

As at 31 December 2017, based on investment account report provided by China Securities Finance Corporation Limited, the balance of cost and fair value of the Company's specific investment were RMB3,075.00 million (31 December 2016: RMB4,244.00 million) and RMB3,411.91 million (31 December 2016: RMB3,990.58 million), respectively.

(ii) As at 31 December 2017, available-for-sale financial assets of the Group included securities lent to clients amounted to RMB0.37 million (31 December 2016: RMB0.25 million). In addition the fair value of securities of the Group which have been pledged as collateral for repurchase agreements (Note 37), placements from China Securities Finance Corporation Limited (Note 38) and securities borrowing business were RMB15,124.48 million (31 December 2016: RMB10,981.77 million).

For the year ended 31 December 2017

(In RMB thousands, unless otherwise stated)

22 HELD-TO-MATURITY INVESTMENTS

	31 December 2017	31 December 2016
Non-current		
Debt instruments	573,592	277,480
Analysed into:		
Listed in Hong Kong	261,368	277,480
Listed outside Hong Kong	312,224	–
Total	573,592	277,480

	31 December 2017	31 December 2016
Current		
Debt instruments	4,976	376,828
Analysed into:		
Listed in Hong Kong	–	376,828
Listed outside Hong Kong	4,976	–

As at 31 December 2017, the fair value of held-to-maturity investments held by the Group was RMB577.49 million (31 December 2016: RMB679.56 million).

As at 31 December 2017, held-to-maturity investments pledged as collateral for bonds in issue (Note 43) and repurchase agreements (Note 37) by the Group amounted to RMB261.37 million and RMB290.58 million, respectively (31 December 2016: RMB332.64 million and Nil).

(In RMB thousands, unless otherwise stated)

23 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	31 December 2017	31 December 2016
Non-current		
Analysed by collateral:		
Stock	5,136,215	633,670
Allowance for impairment losses	(26,835)	(8,226)
Total	5,109,380	625,444
Analysed by counterparty:		
Corporates and individuals	5,109,380	625,444

	31 December 2017	31 December 2016
Current		
Analysed by collateral:		
Stock	8,445,537	3,331,317
Debts	12,340,479	3,197,679
Others	185,492	565,983
Subtotal	20,971,508	7,094,979
Allowance for impairment losses	(15,812)	(15,310)
Total	20,955,696	7,079,669
Analysed by counterparty:		
Banks	2,218,114	674,299
Non-bank financial institutions	9,429,257	2,514,348
Corporates and individuals	9,308,325	3,891,022
Total	20,955,696	7,079,669

(In RMB thousands, unless otherwise stated)

23 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

The Group received securities as collateral in connection with financial assets under resale agreements. As part of the resale agreements, the Group received securities allowed to be re-pledged in the absence of default by counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral. The Group had an obligation to return the collateral to its counterparties at the maturity of the contracts.

The fair value of the collateral received in connection with financial assets under resale agreements, the collateral allowed to be re-pledged and the collateral re-pledged were as below:

	31 December 2017	31 December 2016
Collateral received	45,855,552	13,676,075
Collateral allowed to be re-pledged	1,691,476	1,517,270
Collateral re-pledged	1,247,270	939,366

24 REFUNDABLE DEPOSITS

	31 December 2017	31 December 2016
Performance bonds	1,630,871	1,579,190
Trading deposits	559,425	1,843,701
Credit deposits	38,482	37,446
Total	2,228,778	3,460,337

(In RMB thousands, unless otherwise stated)

25 DEFERRED TAX ASSETS AND LIABILITIES

Changes of deferred tax asset and deferred tax liabilities are as follow:

Deferred tax assets	Salaries, bonuses, and allowances payable	Fair value changes of financial instruments	Allowance for impairment losses	Others	Total
1 January 2016	688,618	13,583	42,207	2,989	747,397
(Charge)/Credit to profit or loss	(233)	16,249	(1,691)	3,183	17,508
Credit/(Debit) to other comprehensive income	–	46,926	(678)	–	46,248
31 December 2016	688,385	76,758	39,838	6,172	811,153
(Charge)/Credit to profit or loss	(57,130)	(29,792)	13,020	1,127	(72,775)
Credit to other comprehensive income	–	56,177	1,508	–	57,685
31 December 2017	631,255	103,143	54,366	7,299	796,063

Deferred tax liabilities	Fair value changes of financial instruments	Others	Total
1 January 2016	218,270	340	218,610
(Credit)/Charge to profit or loss	(71,641)	2,018	(69,623)
Credit to other comprehensive income	(102,140)	–	(102,140)
31 December 2016	44,489	2,358	46,847
Credit to profit or loss	(41,400)	(499)	(41,899)
Debit/(Credit) to other comprehensive income	31,070	–	31,070
31 December 2017	34,159	1,859	36,018

(In RMB thousands, unless otherwise stated)

26 OTHER NON-CURRENT ASSETS

As at 31 December 2017 and 31 December 2016, the other non-current assets of the Group represented long-term deferred expenses incurred on leasehold improvements of property, plant and equipment.

27 MARGIN ACCOUNTS

	31 December 2017	31 December 2016
Margin accounts		
– Individuals	43,847,465	29,502,776
– Institutions	4,085,231	1,590,840
Subtotal	47,932,696	31,093,616
Allowance for impairment losses	(111,466)	(86,943)
Total	47,821,230	31,006,673

Margin accounts are funds that the Group provided to clients in margin financing and securities lending business. As at 31 December 2017, the Group's beneficial rights over margin accounts pledged as collateral for repurchase agreements (Note 37) amounted to RMB5,497.40 million (31 December 2016: RMB1,282.54 million).

As at 31 December 2017, the Group received collateral with fair value amounted to RMB127,821.69 million (31 December 2016: RMB99,977.48 million), in connection with its margin financing and securities lending business.

(In RMB thousands, unless otherwise stated)

28 ACCOUNTS RECEIVABLE

	31 December 2017	31 December 2016
Clearing funds receivable	14,667	102,802
Assets management fee receivable	109,541	127,026
Clearing settlement fund and refundable deposits advanced on behalf of sponsored structured entities	23,724	23,348
Others	1,222,440	125,650
Subtotal	1,370,372	378,826
Allowance for impairment losses	(516)	(358)
Total	1,369,856	378,468

29 FINANCIAL ASSETS HELD FOR TRADING

	31 December 2017	31 December 2016
Debt instruments	22,490,703	21,512,825
Equity investments	4,295,117	1,246,894
Fund investments	908,104	1,210,008
Others	4,647,991	3,258,185
Total	32,341,915	27,227,912
Analysed into:		
Listed in Hong Kong	301,826	540,211
Listed outside Hong Kong	27,330,616	22,996,113
Unlisted	4,709,473	3,691,588
Total	32,341,915	27,227,912

As at 31 December 2017, the fair value of financial assets held for trading pledged as collateral for repurchase agreements (Note 37), placements from China Securities Finance Corporation Limited (Note 38), bonds in issue (Note 43) and securities borrowing business by the Group totaled RMB13,595.68 million (31 December 2016: RMB13,926.13 million).

(In RMB thousands, unless otherwise stated)

30 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2017	31 December 2016
Debt instruments	1,250	86,238
Equity investments	4,535	3,334
Fund investments	135,658	92,982
Others	165,741	142,657
Total	307,184	325,211
Analysed into:		
Listed outside Hong Kong	305,934	192,590
Unlisted	1,250	132,621
Total	307,184	325,211

As at 31 December 2017, financial assets designated as at fair value through profit or loss held by the Group included securities lent amounted to RMB86.34 million (31 December 2016: RMB38.09 million).

(In RMB thousands, unless otherwise stated)

31 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2017		
		Fair value	
	Nominal value	Assets	Liabilities
Interest rate derivatives	27,093,882	7,941	8,931
Equity derivatives	12,828,476	112,443	276,353
Others	32,441	–	–
Total	39,954,799	120,384	285,284

	As at 31 December 2016		
		Fair value	
	Nominal value	Assets	Liabilities
Interest rate derivatives	52,267,706	31,033	33,166
Equity derivatives	8,417,278	18,075	97,456
Others	388,475	–	1,954
Total	61,073,459	49,108	132,576

Any gains or losses on the Group's futures contract position and Interest rate swap in Shanghai Clearing House are settled in the settlement system on a daily basis and included in "Cash and Bank Balances". Accordingly, as at 31 December 2017 and 31 December 2016, the futures investments accounted under derivative financial instruments were presented on a net basis and were of zero balance.

32 CASH HELD ON BEHALF OF CLIENTS

The Group maintains segregated deposit accounts with banks and authorized institutions to hold cash on behalf of customers arising from its normal course of business. The Group has recorded the related amounts as cash held on behalf of clients and the corresponding liabilities as accounts payable to brokerage clients (Note 35). In Mainland China, the use of cash held on behalf of clients for securities trading and settlement is restricted and governed by relevant third-party custodian regulations issued by the CSRC. In Hong Kong, the "Securities and Futures (Client Money) Rules" under the Securities and Futures Ordinance impose similar restrictions.

(In RMB thousands, unless otherwise stated)

33 CASH AND BANK BALANCES

	31 December 2017	31 December 2016
Cash on hand	98	105
Deposits in banks	11,227,807	17,525,484
Total	11,227,905	17,525,589

As at 31 December 2017, the Group's deposits in banks of RMB20.00 million was collateralized for Bonds in issue (Note 43). At 31 December 2016, the Group's deposits in banks of RMB90.87 million was pledged for the Group's borrowings (Note 40).

As at 31 December 2017, the Group's deposits in banks of RMB23.94 million (31 December 2016: RMB6.76 million) was set aside by a subsidiary as a general reserve.

34 OTHER CURRENT ASSETS

	31 December 2017	31 December 2016
Interest receivable	2,223,253	1,565,621
Prepaid expenses	1,604	1,981
Deferred expenses	37,561	28,589
Others	335,205	227,878
Subtotal	2,597,623	1,824,069
Allowance for impairment losses	(38,821)	(38,838)
Total	2,558,802	1,785,231

(In RMB thousands, unless otherwise stated)

35 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

Accounts payable to brokerage clients represent the amounts received from and repayable to clients arising from the ordinary course of the Group's securities brokerage business. For more details, please refer to Note 32 Cash Held on Behalf of Clients.

36 FINANCIAL LIABILITIES HELD FOR TRADING

	31 December 2017	31 December 2016
Debt securities	126,780	2,972,738

Financial liabilities held for trading are generated from the Group's bonds investment.

37 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	31 December 2017	31 December 2016
Current		
Analysed by collateral:		
Debt securities	17,031,899	16,710,093
Beneficial rights over margin financing and securities lending *(Note 27)*	4,000,000	300,000
Gold	4,375,495	6,721,358
Others	3,739,899	799,991
Total	29,147,293	24,531,442
Analysed by counterparty:		
Banks	12,763,415	8,719,621
Non-bank financial institutions	12,643,979	15,011,830
Others	3,739,899	799,991
Total	29,147,293	24,531,442

(In RMB thousands, unless otherwise stated)

37 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS (Continued)

	31 December 2017	31 December 2016
Non-current		
Analysed by collateral:		
Beneficial rights over margin financing and securities lending *(Note 27)*	–	500,000
Analysed by counterparty:		
Non-bank financial institutions	–	500,000
Total	–	500,000

38 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2017	31 December 2016
Placements from banks	5,000,000	360,000
Placements from China Securities Finance Corporation Limited	9,000,000	9,000,000
Total	14,000,000	9,360,000

(In RMB thousands, unless otherwise stated)

39 TAXES PAYABLE

	31 December 2017	31 December 2016
Income tax	86,877	377,263
Value added tax	28,859	44,412
Others	230,447	334,307
Total	346,183	755,982

40 BORROWINGS

Short-term borrowings

	31 December 2017	31 December 2016
Analysed by nature:		
Credit borrowings	2,050,817	1,590,489
Collateral borrowings	–	110,992
Pledged borrowings *(Note 33)*	–	80,000
Total	2,050,817	1,781,481

As at 31 December 2017, the Group has variable-rate borrowings which carry interest at HIBOR or LIBOR. As at 31 December 2016, the fixed interest rates of the borrowings range from 8.72% to 8.82%, and the variable-rate borrowings carry interest at HIBOR or LIBOR.

For the year ended 31 December 2017

(In RMB thousands, unless otherwise stated)

41 SHORT-TERM FINANCING INSTRUMENTS PAYABLE

Name	Issue date	Maturity date	Coupon rate	1 January 2017	Increase	Decrease	31 December 2017
16 CSC D1	15/06/2016	12/03/2017	3.28%	2,999,520	–	(2,999,520)	–
17 CSC D1	17/01/2017	19/07/2017	4.00%	–	3,000,000	(3,000,000)	–
17 CSC D2	27/02/2017	25/08/2017	4.53%	–	3,000,000	(3,000,000)	–
17 CSC D3	22/03/2017	22/03/2018	4.80%	–	3,000,000	–	3,000,000
17 CSC D4	21/07/2017	21/07/2018	4.74%	–	3,496,120	–	3,496,120
17 CSC D5	12/09/2017	12/09/2018	4.85%	–	4,892,960	–	4,892,960
17 CSC D6	20/11/2017	20/11/2018	5.20%	–	3,902,822	–	3,902,822
Structured notes *(i)*	10/03/2017 ~29/12/2017	03/01/2018 ~18/12/2018		4,757,679	39,551,934	(31,959,842)	12,349,771
Total				7,757,199	60,843,836	(40,959,362)	27,641,673

Name	Issue date	Maturity date	Coupon rate	1 January 2016	Increase	Decrease	31 December 2016
15 CSC CP007	25/11/2015	24/02/2016	3.20%	3,000,000	–	(3,000,000)	–
15 CSC CP008	21/12/2015	18/03/2016	3.10%	2,500,000	–	(2,500,000)	–
16 CSC CP001	08/03/2016	03/06/2016	2.63%	–	3,000,000	(3,000,000)	–
16 CSC D1	15/06/2016	12/03/2017	3.28%	–	2,999,520	–	2,999,520
Structured notes *(i)*	17/06/2016 ~29/12/2016	04/01/2017 ~03/04/2017		5,822,686	8,816,778	(9,881,785)	4,757,679
Total				11,322,686	14,816,298	(18,381,785)	7,757,199

As at 31 December 2017 and 31 December 2016, there were no defaults related to any short-term financing instruments payable by the Group.

(i) As at 31 December 2017 and 31 December 2016, the Group had issued two types of structured notes. One type accrues interests at a fixed annual rate in the range of 3.00%–6.60% and 3.00%–4.20%, respectively. The other one accrues interests at floating rate linked to one or more indexes.

(In RMB thousands, unless otherwise stated)

42 OTHER CURRENT LIABILITIES

	31 December 2017	31 December 2016
Salaries, bonuses and allowances payable	2,591,643	2,789,462
Interest payable *(1)*	1,435,456	885,733
Settlement deposits payable	443,324	573,378
Dividends payable	294,000	294,000
Futures settlement risk funds payable	71,630	58,597
Provision	57,425	60,456
Accounts payable to underwriting clients	31,573	668,599
Securities investor protection fund payable	26,107	33,502
Funds payable to securities holders	6,184	6,090
Amounts due to other holders of consolidated structured entities	8,247,497	9,173,295
Bonds in issue with maturity within one year *(2)*	7,000,000	6,000,000
Others	2,713,832	1,641,348
Total	22,918,671	22,184,460

(1) The movements in interest payable that are mainly attributable to bonds in issue, short-term financing instruments payable and short-term borrowings between 31 December 2017 and 31 December 2016 mainly represented cash payments of interest expenses of RMB1,484.00 million and accretion of interest payable of RMB2,044.43 million. Except for the accretion of interest payable, the Group did not have any significant non-cash changes to liabilities arising from financing activities during the year ended 31 December 2017.

(In RMB thousands, unless otherwise stated)

42 OTHER CURRENT LIABILITIES (Continued)

(2) Bonds in issue with maturity within one year as at 31 December 2017 and 31 December 2016 were as follows:

	31 December 2017	31 December 2016
15 Zhong Jiantou *(i)*	–	6,000,000
15 Xinjiantou *(ii)*	6,000,000	–
"Zhi Yingbao"-076 *(iii)*	1,000,000	–
Total	7,000,000	6,000,000

(i) 15 Zhong Jiantou was a subordinated debt privately issued in April 2015, with a 3-year fixed rate corporate bond and a face value of RMB6 billion, which offered the options, at the end of the second year, for the Company to redeem in full at face value or increase the coupon rate, or the investors to put back the bond. The bond paid interest annually at 5.45% per annum and was not guaranteed. The bond was fully redeemed in April 2017.

(ii) In June 2015, the Company privately issued a 5-year fixed rate corporate bond, 15 Xinjiantou, with a face value of RMB6 billion which offers the options, at the end of the third year, for the Company to redeem in full at face value or increase the coupon rate, or the investors to put back the bond. The bond pays interest annually at 5.32% per annum and is not guaranteed.

(iii) In August 2017, the Company issued a 450-days fixed rate structured note, "Zhi Yingbao"-076, with a face value of RMB1 billion. The structured note pays interest quarterly at 5.10% per year and is not guaranteed.

(In RMB thousands, unless otherwise stated)

43 BONDS IN ISSUE

	31 December 2017	31 December 2016
Corporate bonds in issue	22,372,761	13,653,036
Structured notes in issue	1,500,000	–
Total	23,872,761	13,653,036

(1) As at 31 December 2017 and 31 December 2016, there were no defaults related to any bonds in issue.

(2) The details of bonds in issue

		31 December 2017	31 December 2016
Corporate bonds			
15 Xinjiantou	42(2)	–	6,000,000
15 Xintou 01	(i)	1,798,176	1,795,749
CSCIFN15B2009	(ii)	1,296,288	1,372,401
16 Xintou G1	(iii)	2,996,195	2,990,493
16 Xintou G2	(iv)	1,497,122	1,494,393
17 Xintou G1	(v)	3,957,908	–
17 Xintou G2	(vi)	2,990,630	–
17 Xintou F1	(vii)	4,919,873	–
17 Xintou F2	(viii)	2,916,569	–
Structured notes “Zhi Yingbao”-070	(ix)	1,500,000	–
Carrying amount		23,872,761	13,653,036

(i) In August 2015, the Company publicly issued a 10-year fixed rate corporate bond with a face value of RMB1.8 billion, which offers the options, at the end of the fifth year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 4.20% per annum and is not guaranteed.

43 BONDS IN ISSUE (Continued)

(2) The details of bonds in issue (Continued)

(ii) In September 2015, the Company's subsidiary CSCI Finance (2015) Co., Ltd. publicly issued a 5-year fixed rate credit enhancement bond with a face value of USD0.2 billion. The bond pays interest semi-annually at 3.125% per annum and is unconditionally and irrevocably guaranteed by another subsidiary of the Company China Securities (International) Finance Holding Co., Ltd.

(iii) In May 2016, the Company publicly issued a 5-year fixed rate corporate bond with a face value of RMB3 billion, which offers the options, at the end of the third year, for the Company to redeem it at face value or increase the coupon rate, or the investors to put back the bond. The bond pays interest annually at 3.14% per annum and is not guaranteed.

(iv) In August 2016, the Company publicly issued a 5-year fixed rate corporate bond with a face value of RMB1.5 billion, which offers the options, at the end of the third year, for the Company to redeem it at face value or increase the coupon rate, or for the investors to put back the bond. The bond pays interest annually at 2.90% per annum and is not guaranteed.

(v) In April 2017, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB4 billion. The bond pays interest annually at 4.48% per annum and is not guaranteed.

(vi) In May 2017, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB3 billion. The bond pays interest annually at 4.88% per annum and is not guaranteed.

(vii) In July 2017, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB5 billion. The bond pays interest annually at 4.74% per annum and is not guaranteed.

(viii) In October 2017, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB3 billion. The bond pays interest annually at 5.07% per annum and is not guaranteed.

(ix) In March 2017, the Company publicly issued a 2-year fixed rate structured note with a face value of RMB1.5 billion. The structured note pays interest annually at 4.60% per annum and is not guaranteed.

44 SHARE CAPITAL

All shares issued by the Company are fully paid common shares, with a notional value of RMB1 per share. The number of shares and nominal value of the Company's share capital are as follows:

	31 December 2017	31 December 2016
Issued and fully paid ordinary shares of RMB1 each *(in thousands)*		
– Domestic shares	5,985,361	5,992,353
– H shares	1,261,024	1,184,117
Total	7,246,385	7,176,470

	31 December 2017	31 December 2016
Ordinary equity share capital *(in RMB'000)*		
– Domestic shares	5,985,361	5,992,353
– H shares	1,261,024	1,184,117
Total	7,246,385	7,176,470

On 9 December 2016, the Group completed its initial public offering of 1,076,470,000 H shares on the Main Board of The Stock Exchange of Hong Kong Limited.

According to the relevant PRC requirements, certain existing shareholders of the state-owned shares of the Company have transferred an aggregate of 107,647,000 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.

On 30 December 2016, the over-allotment option of the Group's H Shares Global Offering was partially exercised by the International Underwriters with 69,915,238 newly issued H shares, for a total contribution of RMB414,863,592, resulting in a capital reserve of RMB344,948,354. According to the relevant PRC requirements, certain existing shareholders of the state-owned shares of the Company carried out their obligations of state-owned share reduction and have transferred an aggregate of 6,991,524 shares of the Company to the National Social Security Fund of the PRC based on 10% of the actual number of new shares issued, and such shares were then converted into H shares on a one-for-one basis. The over-allotment shares were listed and traded on the Main Board of The Stock Exchange of Hong Kong Limited on 5 January 2017.

45 OTHER EQUITY INSTRUMENTS

In January 2015, the Company issued first batch of perpetual subordinated bonds amounted to RMB2 billion. In March 2015, the second batch amounted to RMB3 billion was issued.

Key terms and conditions relating to the above equity instruments are as follows:

– The bonds are repriced every 5 interest-accruing years, and at the end of the repricing cycle, the issuer has the option to extend the bonds for another repricing cycle (another five years) or redeem them in full;

– The bonds offer no redemption option to the investors so that investors cannot require the issuer to redeem their bonds during the duration of the bonds;

– The issuer has the option to defer interest payment, except in the event of mandatory interest payments, so that at each interest payment date, the issuer may choose to defer the interest payment to the next payment date for the current period as well as all interests and accreted interests already deferred according to the related terms, without any limitation with respect to the number of deferrals. Mandatory interest payment events are limited to dividend distributions to ordinary shareholders and reductions of registered capital;

– The priority over repayment of these bonds is subordinated to the Company's general debts but senior to the Company's ordinary equity shares. Unless in the event of discontinuance, closure or liquidation of the Company, investors of these bonds cannot require the Company to accelerate payment of bonds' principals.

The perpetual subordinated bonds issued by the Company are classified as equity instruments, and recognized under equity in the consolidated statement of financial position.

46 RESERVES

The amounts of the Group's reserves and the related movements are presented in the consolidated statement of changes in equity.

(1) Capital reserve

Capital reserve primarily includes share premium arising from the issuance of new shares at prices in excess of par value.

(2) Surplus reserve

(i) Statutory surplus reserve

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

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses, if any, and may also be converted into capital of the Company, provided that the balance of the statutory surplus reserve after this capitalization is not less than 25% of the registered capital immediately before capitalization.

(ii) Discretionary surplus reserve

After making the appropriation to the statutory surplus reserve, the Company may also appropriate its after-tax profit for the year, as determined under China Accounting Standards for Business Enterprises, to its discretionary surplus reserve upon approval by the ordinary equity holders in Annual General Meeting. Subject to the shareholders' approval, the discretionary surplus reserve may be used to offset accumulated losses, if any, and may be converted into capital of the Company.

46 RESERVES (Continued)

(3) General reserves

Pursuant to the requirements of regulatory authorities, including the Ministry of Finance and the CSRC, the Company is required to appropriate 10% of its after-tax profit for the year for the general risk reserve and 10% for the transaction risk reserve. These reserves may be used to offset accumulated losses of the Company but shall not be declared as dividends or converted into share capital. Regulatory reserve represents reserves that are established by subsidiaries and branches in certain countries or jurisdictions outside Mainland China in accordance with the regulatory requirements in their respective territories are also included herein.

(4) Investment revaluation reserve

The investment revaluation reserve represents the fair value changes of available-for-sale financial assets.

(5) Foreign currency translation reserve

The foreign currency translation reserve represents the exchange difference arising from the translation of the financial statements of the subsidiaries incorporated outside Mainland China with functional currencies other than RMB.

(6) Distributable profits

The Company's distributable profits are based on the retained profits of the Company as determined under China Accounting Standards for Business Enterprises and IFRSs, whichever is lower.

(In RMB thousands, unless otherwise stated)

47 CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash and bank balance	11,227,905	17,525,589
Less: Restricted deposits *(Note 33)*	(43,943)	(97,629)
Cash and cash equivalents	11,183,962	17,427,960

48 INTERESTS IN STRUCTURED ENTITIES

The Group is involved with structured entities primarily through investments management business. The Group determines whether to consolidate these structured entities depending on whether the Group has control over them.

(1) Structured entities included in consolidated financial statements

Considering that the Company acts as either the investment manager for the structured entities, or as principal in investing in the subordinated tranches or all of the shares issued by the structured entities, bearing most or all the risk of the products and obtaining most or all of the variable returns, the Group therefore consolidated these structured entities in its consolidated financial statements.

As at 31 December 2017 and 31 December 2016, total assets of consolidated structured entities, the Group's investments and maximum exposure arising from its investments in consolidated structured entities are as follows:

	31 December 2017	31 December 2016
Total assets	10,675,013	12,371,832
Investments	1,554,432	2,303,554
Maximum exposure	1,553,682	2,496,362

48 INTERESTS IN STRUCTURED ENTITIES (Continued)

(2) Interests in unconsolidated structured entities

(i) Structured entities sponsored by the Group

Unconsolidated structured entities sponsored by the Group primarily include asset management plans and investment funds sponsored by the Group. As the manager of these structured entities, the Group invests, on behalf of its customers, the funds raised in the assets as described in the investment plan related to each structured entities. The interests held by the Group in these unconsolidated structured entities primarily include investments held directly and/or management fees, commission and performance fee earned from managed structured entities. The variable return that the Group has in relation to these structured entities specified the Group is the agent of these structured entities, but not the principal. Therefore, these structured entities are not consolidated by the Group.

For the year ended 31 December 2017, the Group earned management fee, commission and performance fee amounted to RMB931.68 million (31 December 2016: RMB830.39 million) from unconsolidated structured entities sponsored by the Group, for which the Group held no interest in as at the end of the reporting year.

(In RMB thousands, unless otherwise stated)

48 INTERESTS IN STRUCTURED ENTITIES (Continued)

(2) Interests in unconsolidated structured entities (Continued)

(i) Structured entities sponsored by the Group (Continued)

As at 31 December 2017 and 31 December 2016, the maximum exposure and the carrying amount of relevant balance sheet items of the Group arising from these unconsolidated structured entities, for which the Group held interests in as at the end of the reporting year, were set out as below:

	31 December 2017	31 December 2016
Financial assets for trading		
– Carrying amount	77,382	–
– Maximum exposure	77,433	–
Financial assets designated as at fair value through profit or loss		
– Carrying amount	9,968	10,037
– Maximum exposure	9,968	10,037
Available-for-sale financial assets		
– Carrying amount	1,206,896	1,280,749
– Maximum exposure	1,229,456	1,283,193

(ii) Structured entities sponsored by third party financial institutions

As at 31 December 2017 and 31 December 2016, the maximum exposure and the book value of relevant balance sheet items of the Group arising from the interest held of directly invested structured entities sponsored by third party financial institutions were set out as below:

	31 December 2017	31 December 2016
Financial assets held for trading	5,478,438	4,452,706
Financial assets designated as at fair value through profit or loss	291,431	225,602
Available-for-sale financial assets	7,034,912	7,718,855

49 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognized financial assets to third parties or customers. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognize the transferred assets.

Repurchase transactions

Transferred financial assets that do not qualify for derecognition include debt securities held by counterparties as collateral under repurchase transactions. The counterparties are allowed to repledge those securities sold under repurchase transactions in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require counterparties to return part of collateral or be required to pay additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore does not derecognize them. A financial liability is recognized for cash received.

Securities lending arrangements

Transferred financial assets that do not qualify for derecognition include securities lent to customers for securities selling transactions, for which the customers provide the Group with collateral that could fully cover the credit risk exposure of the securities lent. The customers have an obligation to return the securities according to the contracts. If the securities increase or decrease in value, the Group may in certain circumstances be required to return part of collateral or require counterparties to pay additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore does not derecognize them.

(In RMB thousands, unless otherwise stated)

49 TRANSFERRED FINANCIAL ASSETS (Continued)

The following table analyses the carrying amount of the above-mentioned financial assets transferred to third parties or customers that did not qualify for derecognition and their associated financial liabilities:

	31 December 2017	31 December 2016
Carrying amount of transferred assets		
– Financial assets sold under repurchase agreements	52,149	–
– Securities lending	86,707	38,343
Total	138,856	38,343
Carrying amount of related liabilities		
– Financial assets sold under repurchase agreements	52,866	–

50 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Capital commitments

	31 December 2017	31 December 2016
Contracted, but not provided for	29,740	7,064

The above-mentioned capital commitments are primarily in respect of the construction of properties and purchase of equipment by the Group.

(In RMB thousands, unless otherwise stated)

50 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(2) Operating lease commitments

At the end of the reporting years, the Group leased certain office properties under operating lease arrangements. The total future minimum lease payments under irrevocable operating lease arrangements are summarized below.

	31 December 2017	31 December 2016
Within one year	342,887	266,957
After one year but not more than two years	270,275	238,517
After two years but not more than three years	219,985	182,688
After three years	309,371	239,094
Total	1,142,518	927,256

(3) Legal proceedings

The Company and its subsidiaries are subject to claims and are parties to legal and regulatory proceedings in their ordinary course of businesses. As at 31 December 2017 and 31 December 2016, management of the Group believes that the Group was not involved in any material legal, or arbitration proceedings that if adversely determined, would have material impact on its financial position or results of operations of the Group.

(In RMB thousands, unless otherwise stated)

51 RELATED PARTY DISCLOSURES

(1) Beijing State-owned Capital Operation and Management Center

As at 31 December 2017, Beijing State-Owned Capital Operation and Management Center owned 37.04% of the equity interest and voting rights of the Company (31 December 2016: 37.46%).

Beijing State-Owned Capital Operation and Management Center was established by State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality, which is a People-owned enterprise controlled by the PRC government.

The Group enters into transactions with Beijing State-Owned Capital Operation and Management Center were as follows:

	Year ended 31 December	
	2017	2016
Investment banking income	1,132	94

(2) Central Huijin and companies under Central Huijin

As at 31 December 2017, Central Huijin Investment Limited ("Central Huijin") owned 32.93% of the equity interest and voting rights of the Company (31 December 2016: 33.29%).

Central Huijin is a wholly-owned subsidiary of China Investment Corporation, which is incorporated in Beijing, the PRC. Central Huijin was established to hold certain equity interests in state-owned financial institutions as authorized by the China State Council and does not engage in other commercial activities. Central Huijin exercises its legal rights and assumes obligations related to the Company on behalf of the PRC Government. Central Huijin has equity interests in certain other banks and financial institutions under the direction of the PRC government.

(In RMB thousands, unless otherwise stated)

51 RELATED PARTY DISCLOSURES (Continued)

(2) Central Huijin and companies under Central Huijin (Continued)

The Group enters into transactions with Central Huijin and its related parties in the ordinary course of business under normal commercial terms. Corresponding transactions and balances with these banks and financial institutions were as follows:

	Year ended 31 December 2017	2016
Brokerage services income	4,160	5,814
Investment banking income	134,938	54,773
Other fee income	113	1,008
Interest income from bank deposits	227,060	254,029
Other interest income	5,954	6,866
Brokerage expenses	(16,725)	(21,179)
Investment banking expenses	–	(383)
Other fee and expenses	(23,098)	(2,615)
Interest expenses	(160,275)	(80,631)
Others	–	(33)

	31 December 2017	31 December 2016
Assets		
Available-for-sale financial assets	1,007,608	489,599
Financial assets held for trading	334,617	781,983
Financial assets designated as at fair value through profit or loss	230	–
Financial assets held under resale agreements	137,200	–
Derivative financial assets	20,809	3,858
Cash held on behalf of clients	6,694,184	9,856,640
Cash and bank balances	1,098,211	5,984,859
Interest receivable	27,846	26,084
Other assets	7,633	–
Liabilities		
Accounts payable to brokerage clients	7,509	7,865
Derivative financial liabilities	900	3,158
Financial assets sold under repurchase agreements	3,267,750	3,328,106
Interest payable	19,660	28,321
Accounts payable	313,934	33
Placements from banks and other financial institutions	900,000	–

(In RMB thousands, unless otherwise stated)

51 RELATED PARTY DISCLOSURES (Continued)

(3) Government related entities

According to the provisions of IAS 24 – Related Parties Disclosures, government entities controlled and jointly controlled by the PRC government and their subsidiaries (the "government related entities") are also regarded as related parties of the Group.

Part of the Group's transactions including securities and futures dealing and broking, underwriting of debt securities, purchase and sale of government bonds, and equity and debt securities issued by other government related entities are entered into with government related entities.

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

(4) Other major shareholders and its related parties

	Year ended 31 December	
	2017	2016
Brokerage services income	11,071	–
Investment banking income	4,810	–
Other fee income	283	–
Interest income from bank deposits	45,912	–
Other interest income	531	–
Investment banking expenses	(68,555)	–
Other fee and expenses	(198)	–
Interest expenses	(9,897)	–

(In RMB thousands, unless otherwise stated)

51 RELATED PARTY DISCLOSURES (Continued)

(4) Other major shareholders and its related parties (Continued)

	31 December 2017	31 December 2016
Assets		
Available-for-sale financial assets	824,447	–
Financial assets held for trading	333,924	79,600
Cash held on behalf of clients	1,412,160	–
Cash and bank balances	669,879	–
Financial assets held under resale agreement	184,572	–
Interest receivable	9,567	244
Account receivable	963	–
Liabilities		
Derivative financial liabilities	1,336	–
Accounts payable to brokerage clients	115,760	–
Short-term borrowings	320,491	–
Interest payable	1,049	–
Accounts payable	458	–

(5) The Group's associate

The Group entered into transactions with its associate at arm's length in the ordinary course of business. Management considers that transactions between the Group and its associate are not significant.

(In RMB thousands, unless otherwise stated)

51 RELATED PARTY DISCLOSURES (Continued)

(6) Key management personnel

Key management personnel are those who have the authority and responsibility to directly or indirectly plan, direct and control the Group activities, including the board of directors, the board of supervisors and other senior management personnel.

The Group's remuneration for key management personnel (including Note 12 Directors' and Supervisors' Remuneration) are disclosed as follow:

	Year ended 31 December	
	2017	2016
Salaries, bonuses and allowances	63,214	124,277
Staff benefits	2,527	2,753
Contributions to defined contribution schemes	1,548	1,645
Total	67,289	128,675

52 FAIR VALUE AND FAIR VALUE HIERARCHY

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: where the inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2: where the inputs are all directly and indirectly observable inputs other than the quoted market prices of assets and liabilities in Level 1.

Level 3: where the inputs are unobservable inputs for relevant assets or liabilities.

The Group uses valuation techniques or counterparty quotations to determine fair value when market prices are not available in active markets.

The major parameters used in valuation techniques include, among others, underlying securities prices, interest rates, foreign exchange rates, volatilities, correlations and counterparty credit spreads, which are all observable and available from an active market.

For certain unlisted equity securities (private equity securities), thinly traded equity securities, unlisted asset management plans, and certain over-the-counter derivative contracts, the management uses counterparty quotations or valuation techniques to determine their fair value. Valuation techniques used include discounted cash flow analysis and market comparison approach. The fair value measurement of these financial instruments may use unobservable inputs that may have significant impact on the valuation results, and therefore, the Group includes them as Level 3 assets and liabilities. The unobservable inputs that may have impact on the valuation include, among others, weighted average cost of capital, liquidity discount, and price to book ratio. As at 31 December 2017 and 31 December 2016, fair value changes resulting from the changes in the unobservable inputs were not significant. The Group has implemented internal control procedures to monitor and control the Group's exposures to such financial instruments.

(In RMB thousands, unless otherwise stated)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(1) Financial instruments recorded at fair value

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt instruments	7,025,061	15,465,642	–	22,490,703
– Equity investments	3,232,916	1,062,201	–	4,295,117
– Fund investments	908,104	–	–	908,104
– Others	274	4,601,767	45,950	4,647,991
Subtotal	11,166,355	21,129,610	45,950	32,341,915
Financial assets designated as at fair value through profit or loss	140,193	166,991	–	307,184
Derivative financial assets	6,734	95,121	18,529	120,384
Available-for-sale financial assets				
– Debt instruments	163,086	26,523,946	–	26,687,032
– Equity investments	386,106	163,617	80,840	630,563
– Fund investments	438,470	47,125	–	485,595
– Others	–	10,521,139	311,625	10,832,764
Subtotal	987,662	37,255,827	392,465	38,635,954
Total assets	12,300,944	58,647,549	456,944	71,405,437
Financial liabilities held for trading	–	126,780	–	126,780
Financial liabilities designated as at fair value through profit or loss	–	–	11,640	11,640
Derivative financial liabilities	6,041	181,579	97,664	285,284
Total liabilities	6,041	308,359	109,304	423,704

For the year ended 31 December 2017

(In RMB thousands, unless otherwise stated)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(1) Financial instruments recorded at fair value (Continued)

	31 December 2016			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt instruments	7,662,569	13,850,256	–	21,512,825
– Equity investments	1,246,894	–	–	1,246,894
– Fund investments	1,210,008	–	–	1,210,008
– Others	–	3,258,185	–	3,258,185
Subtotal	10,119,471	17,108,441	–	27,227,912
Financial assets designated as at fair value through profit or loss	96,315	228,896	–	325,211
Derivative financial assets	15,358	31,032	2,718	49,108
Available-for-sale financial assets				
– Debt instruments	84,174	20,084,492	–	20,168,666
– Equity investments	466,633	92,769	98,884	658,286
– Fund investments	423,316	–	–	423,316
– Others	–	12,189,556	206,000	12,395,556
Subtotal	974,123	32,366,817	304,884	33,645,824
Total assets	11,205,267	49,735,186	307,602	61,248,055
Financial liabilities held for trading	–	2,972,738	–	2,972,738
Financial liabilities designated as at fair value through profit or loss	–	–	9,938	9,938
Derivative financial liabilities	16,060	90,898	25,618	132,576
Total liabilities	16,060	3,063,636	35,556	3,115,252

(In RMB thousands, unless otherwise stated)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(2) Movements in Level 3 financial instruments measured at fair value

Movements in Level 3 financial instruments measured at fair value in each year are as follow:

	Year ended 31 December 2017				
	Financial assets held for trading	Available-for-sale financial assets	Derivative financial assets	Financial liabilities designated as at fair value through profit or loss	Derivative financial liabilities
Beginning balance	–	304,884	2,718	9,938	25,618
Total gains or losses for the year	–	95,184	(3,254)	1,702	(161,029)
Changes in fair value in other comprehensive income for the year	–	(123,283)	–	–	–
Increases	45,950	357,465	20,818	–	598,832
Decreases	–	(184,420)	(1,753)	–	(365,757)
Transfers to Level 1 from Level 3	–	(27,365)	–	–	–
Transfers to Level 2 from Level 3	–	(30,000)	–	–	–
Ending balance	45,950	392,465	18,529	11,640	97,664
Gains for the year included in profit or loss for assets/liabilities held at the end of the year	–	95,184	(3,254)	(1,702)	161,029

(In RMB thousands, unless otherwise stated)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(2) Movements in Level 3 financial instruments measured at fair value (Continued)

	Year ended 31 December 2016				
	Financial assets held for trading	Available-for-sale financial assets	Derivative financial assets	Financial liabilities designated as at fair value through profit or loss	Derivative financial liabilities
Beginning balance	–	21,698	–	–	–
Total gains or losses for the year	–	–	(3,202)	138	(12,455)
Changes in fair value in other comprehensive income for the year	–	43,668	–	–	–
Increases	–	250,644	5,920	9,800	38,073
Decreases	–	(1,626)	–	–	–
Transfers to Level 1 from Level 3	–	(9,500)	–	–	–
Ending balance	–	304,884	2,718	9,938	25,618
Gains/(Losses) for the year included in profit or loss for assets/liabilities held at the end of the year	–	–	(3,202)	(138)	12,455

(In RMB thousands, unless otherwise stated)

52 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(3) Important unobservable input value in fair value measurement of Level 3

The fair value of financial instruments under Level 3 are determined by comparable company methods, discounted cash flow models and Black-Scholes option pricing model. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are primarily based on the significance of the unobservable inputs which mainly include market data and inputs with reference to comparable companies, risk-adjusted discount rate and price volatility of underlying assets to the overall fair value measurement.

(4) Transfers between Level 1 and Level 2

For each of the years ended 31 December 2017 and 31 December 2016, there were no transfers of fair value measurement between Level 1 and Level 2.

(5) Financial assets and financial liabilities not measured at fair value

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not measured in the consolidated statement of financial position at their fair value. Financial assets held under resale agreements, refundable deposits, margin accounts, accounts receivable, cash held on behalf of clients, cash and bank balances, accounts payable to brokerage clients, financial assets sold under repurchase agreements, placements from banks and other financial institutions, short-term borrowings and short-term financing instruments payable are not included in table as their fair values approximate their carrying amounts.

As at 31 December 2017 and 31 December 2016, the carrying amounts and fair value of held-to-maturity investments are disclosed in Note 22 and the carrying amounts and fair value of bonds in issue are summarized below:

	31 December 2017	31 December 2016
Bonds in issue		
– Carrying amount	30,872,761	19,653,036
– Fair value	30,383,102	19,799,766

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT

Overview

The management considers effective risk management a critical element in ensuring the Company's successful operations. Therefore, the Company has established a set of comprehensive risk management and internal control systems to enable the Company to monitor, evaluate and manage various financial risks in its business activities, including primarily credit risk, market risk and liquidity risk and operational risk.

Structure of risk management

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

The Board of Directors is the Company's highest decision-making body in risk management, which makes decisions with respect to the Company's overall risk-management strategies and policies, internal control arrangements, and actions to address material risks faced by the Company, among other things.

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

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

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Structure of risk management (Continued)

The Company Risk Management Committee of the Executives Committee is responsible for discussing and proposing the Company's risk preference and tolerance as well as key risk limits for further decision-making; review and approval of specific risk limits and risk control criteria for each business lines; drafting and promoting the implementation of various risk management rules and measures; review and approval of new businesses and products; review and approval of the Company's risk reports; and formulating risk control strategies and plans for material business matters.

The Chief Risk Officer of the Company, serving also as the chairman of the Company Risk Management Committee, is responsible for leading risk management activities across the Company, including organizing the formulation of relevant risk management rules and procedures, improving the Company's risk management practices, and guiding the Risk Management Department in the identification, evaluation, monitoring and reporting of various risks.

Each and every department and branch/subsidiary of the Company, within their respective roles and responsibilities, is responsible for following the decisions, rules and procedures, and risk control polices, and implementing risk-control measures and engaging in direct risk control efforts in their business activities. Every staff of the Company has the responsibility to comply with the Company's relevant rules and procedures and contribute to daily risk control efforts as part of their own job responsibilities.

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

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk management activities

The Risk Management Department works with business departments and back-office departments to jointly identify major risks facing the business and management lines, and create the Risk Catalogue and Key Control List; and continues to update the Risk Catalogue and Key Control List in light of business changes and monitoring findings.

The Risk Management Department formulates the risk monitoring processes and indicators for key business and management lines, with risk monitoring indicators for brokerage business, proprietary business, securities financing business, and asset management business embedded in the monitoring system, while the risk monitoring for other business or management lines primarily relies on regular and ad hoc monitoring.

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

The Risk Management Department is responsible for building and maintaining mechanisms for communicating and reporting risk information and significant risk early warning information. The Company has established a risk information management system for communicating and managing risk information and providing early warnings for significant risk, and the Risk Management Department is responsible for formulating operational procedures for communicating and reporting risk information and issuing risk early warnings, so that the departments and branches and subsidiaries can report risk information or issue early warnings on potential risks identified to the Risk Management Department. The Risk Management Department then aggregates and manages the risk information, performs comprehensive analyses on various risk information to identify risk control weaknesses and loopholes and prepare improvement recommendations on risk control, reports significant risks to the Chief Risk Officer and executive management or Risk Management Committee, and at the same time, and communicates risk information to relevant parties, while tracking any follow-up activities. The Risk Management Department prepares risk reports and risk control recommendation report in controlling the risk before the event and risk monitoring before and during the event and evaluation. The Risk Management Department reports the findings to relevant parties, responsible persons, the President and the chairman of the Board of directors. The Risk Management Department continuously monitors the risks and the risk control status by following up on the implementation of risk control recommendations by relevant parties in managing risks identified in the risk reports.

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk management activities (Continued)

The Legal and Compliance Department manages legal and compliance risks through contract review, litigation management, and compliance management before and during the event, and reports legal and compliance risks to the Company's Chief Compliance Officer and executive management.

The Internal Audit Department detects defects in rules and procedures and processes or internal control weaknesses through audits, reports these issues to the Company's Board of Supervisors, the Board's Audit Committee, executive management, the Legal and Compliance Department and the Risk Management Department, and drives and reviews any follow-up actions.

Risk analysis and control

Financial risks in the Company's daily operating activities primarily include market risk, liquidity risk, credit risk, and operational risk. The Company has established specific policies and procedures to identify and address these risks, set out appropriate risk limits and internal control processes to manage these risks, and built integrated control system and information technology systems to continuously monitor these risks.

53.1 Credit risk

Credit risk refers to potential losses due to borrowers or counterparties' failures to meet their contractual obligations.

The Company primarily faces four types of credit risk: firstly, the credit risk associated with its securities financing activities, which is risk of losses due to defaults of its margin financing and securities lending clients, repurchase clients and collateralized stock repurchase clients; secondly, the default risk of bond investments, namely the risk of asset impairment and changes in investment returns due to defaults of bond issuers or counterparties who refuse to repay matured principals and interests; thirdly, the risk associated with over-the-counter derivative transactions where the customers default and are unable to provide margin deposits in full or make settlement payments; and fourthly, the risk of loss arising from the Company's obligations to settle on behalf of its customers in securities trading or derivative trading on the customers' accounts which become under-margined on the settlement date due to the Company's failure to require full margin deposits before the transactions or because the customers are unable to cover their transactions due to other reasons.

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

Credit risk arises from securities financing business primarily due to among others fraudulent credit information from customers, failure of customers to repay debts in full on a timely manner, customers' breach of contract with respect to the size and structures of trading positions, customers' violation of regulatory requirements in their trading activities, decline in value or liquidity of collateral provided by customers, and involvement of collateral in legal disputes. Measures for controlling credit risk arising from this type of business primarily include customer education, credit investigation and verification, setting proper limits, credit review and approval, daily marking to market, customer risk warnings, forced closure customers' positions, and rights of recourse.

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

The Company controls credit risk arising from over-the-counter derivative transactions by setting counterparty ratings and credit lines, and setting limits to the sizes of transactions and credit risk exposures before transactions take place. The Company has also adopted daily monitoring, measuring counterparties risk exposures, implementing the system of underlying securities trading contract, and valuation of collateral, mark-to-market, and established forced position squaring procedures to help control its credit risk exposures within established limits.

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

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.1 Credit risk (Continued)

Furthermore, the Company's Risk Management Department monitors the credit risk on an on-going basis, including tracking the credit risk status of counterparties and the Company's businesses and products, as well as using stress testing and sensitivity analysis, among other methods, to measure and estimate the credit risk of major business lines.

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

	31 December 2017	31 December 2016
Available-for-sale financial assets	34,398,142	28,949,550
Held-to-maturity investments	578,568	654,308
Financial assets held under resale agreements	26,065,076	7,705,113
Refundable deposits	2,228,778	3,460,337
Margin accounts	47,821,230	31,006,673
Financial assets held for trading	27,866,531	25,885,137
Financial assets designated as at fair value through profit or loss	166,991	228,895
Derivative financial assets	120,384	49,108
Cash held on behalf of clients	39,740,852	55,082,662
Bank balances	11,227,807	17,525,484
Others	3,891,098	2,135,109
Total maximum credit risk exposure	194,105,457	172,682,376

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.2 Liquidity risk

Liquidity risk is the risk of loss when the Company is unable to fund its obligations to financial liabilities. The Company has established clear decision-making levels, authority delegation and risk control rules and procedures, and clearly defined the roles and responsibilities of the Board of Directors, executive management and business departments in liquidity risk management. The Company has established strict rules and procedures for managing its own funds and requires strict compliance with these rules and procedures in taking debts, providing guarantees and making investments; it also sets liquidity risk limits and conducts daily position analyses and monthly liquidity position analyses to manage liquidity movements. For effective management of market liquidity risk of its securities portfolios, the Company has implemented securities centralization management for securities investment and financing activities, and adopted credit rating criteria for fixed-income securities investments. The Company also calculates liquidity coverage ratio and net stable funds ratio as per regulatory requirements and all indicators fall within the safety zone.

The Company has the Treasury Operation Department to manage the liquidity of its own funds, including developing long-term and stable funding channels, improving asset allocation between business lines, and steadily optimizing its of assets and liabilities structure. The Company continues to improve its daily practices for liquidity risk management with the help of level-by-level liquidity reserves, liquidity contingency planning, and stress testing. In addition to improving liquidity risk management practices and systems, the Company aims to further improve the use of technology and the level of automation in process management, fund allocation, and position monitoring. The Company has adopted its Funds Transfer Pricing (FTP) since 2016 for trial implementation, which improves the funding allocation in each business lines by marketization and liquidity risk controls.

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.2 Liquidity risk (Continued)

The maturity profile of the financial liabilities as at the end of the reporting year, based on their contractual undiscounted payments, is as follows:

	31 December 2017					
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Accounts payable to brokerage clients	41,416,503	–	–	–	–	41,416,503
Derivative financial liabilities	276,347	12	3,338	5,587	–	285,284
Financial liabilities held for trading	–	126,840	–	–	–	126,840
Financial liabilities designated as at fair value through profit or loss	–	–	–	11,640	–	11,640
Financial assets sold under repurchase agreements	–	20,705,875	8,752,291	–	–	29,458,166
Placements from banks and other financial institutions	–	11,097,797	3,077,350	–	–	14,175,147
Short-term borrowings	–	2,122,985	–	–	–	2,122,985
Short-term financing instruments payable	–	14,062,313	14,615,607	–	–	28,677,920
Bonds in issue	–	79,173	966,843	25,783,874	–	26,829,890
Other debts	4,888,460	6,303,265	8,008,571	30,437	554	19,231,287
Total	46,581,310	54,498,260	35,424,000	25,831,538	554	162,335,662
Cash flows from derivative financial liabilities settled on a net basis	276,347	6	3,338	5,587	–	285,278
Gross-settled derivative financial liabilities	–	6	–	–	–	6
Contractual amounts receivable	–	–	–	–	–	–
Contractual amounts payable	–	6	–	–	–	6

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.2 Liquidity risk (Continued)

The maturity profile of the financial liabilities as at the end of the reporting year, based on their contractual undiscounted payments, is as follows (continued):

	31 December 2016					
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Accounts payable to brokerage clients	56,736,034	–	–	–	–	56,736,034
Derivative financial liabilities	97,361	53	5,556	29,606	–	132,576
Financial liabilities held for trading	–	2,974,594	–	–	–	2,974,594
Financial liabilities designated as at fair value through profit or loss	–	–	–	9,938	–	9,938
Financial assets sold under repurchase agreements	–	18,990,592	5,825,754	510,956	–	25,327,302
Placements from banks and other financial institutions	–	7,445,178	2,030,333	–	–	9,475,511
Short-term borrowings	–	1,782,793	–	–	–	1,782,793
Short-term financing instruments payable	–	7,839,785	29,355	–	–	7,869,140
Bonds in issue	–	10,691	565,166	14,626,396	–	15,202,253
Other debts	2,991,681	6,900,322	8,883,804	10,615	13	18,786,435
Total	59,825,076	45,944,008	17,339,968	15,187,511	13	138,296,576
Cash flows from derivative financial liabilities settled on a net basis	97,361	145	5,371	29,606	–	132,483
Gross-settled derivative financial liabilities	–	(92)	185	–	–	93
Contractual amounts receivable	–	–	–	–	–	–
Contractual amounts payable	–	(92)	185	–	–	93

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.3 Market risk

Market risk represents risk of fluctuations in fair values or future cash flows of financial instruments due to movements in market prices. Market risks primarily include stock price risk, interest rate risk, foreign exchange rate risk, and other price risks.

For market risks, the Company has established a sound risk management organizational structure and built risk management processes that enables end-to-end coverage of investment activities before, during and after making the investments, with risk limits applied to every investment. The Company annually reviews and approves risk limits for the Company as well as each and every proprietary business lines, including exposure limits, stop-loss limits, VaR limits and stress testing limits, and charges the Risk Management Department to monitor and supervise their implementation and compliance. The Company has adopted daily mark-to-market practices, and implemented stop-loss procedures commensurate with its trading strategies. On a regular basis, the Company assesses the risk tolerance of its proprietary business lines and the effectiveness of its risks, and includes the assessment results in the performance evaluation of these business lines. The Company makes on-going efforts to improve its proprietary business management system, including automated controls over relevant limit indicators.

(1) Value at risk (VaR)

The Company adopts VaR as a tool to measure the market risk of its entire securities investment portfolio comprising different types and varieties of financial instruments. VaR is a method that estimates the maximum possible loss on the portfolio due to movements in market interest rates or securities prices over a specified time period and within a given confidence level.

VaR is calculated using the Company's historical data (at a confidence level of 95% and with a holding period of 10 trading days). Although VaR analysis is a key instrument for measuring market risk, it has to rely on historical data and relevant information, and accordingly, it has certain inherent limitations so that it may not accurately predict the future changes of risk factors and in particular, cannot effectively reflect the risk under extreme market conditions.

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.3 Market risk (Continued)

(1) Value at risk (VaR) (Continued)

The Company's VaR analysis by risk categories is summarised as follows:

	Year ended 31 December 2017			
	As at 31 December 2017	Average	Maximum	Minimum
Equity price-sensitive financial instruments	24,267	22,683	41,847	13,994
Interest rate-sensitive financial instruments	181,072	203,933	264,721	168,945

	Year ended 31 December 2016			
	As at 31 December 2016	Average	Maximum	Minimum
Equity price-sensitive financial instruments	36,653	89,955	178,640	36,653
Interest rate-sensitive financial instruments	156,075	79,501	157,120	42,667

In addition, for the purpose of maintaining market stability, the Company made contributions to a special account solely managed by China Securities Finance Corporation Limited and agreed with other investing securities companies to share risks and returns on the investments in proportion to their respective contributions. This investment is also exposed to market risks, but since it is impossible to accurately estimate the exposure, it is not included in the calculations for the above VaR indicators.

(In RMB thousands, unless otherwise stated)

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.3 Market risk (Continued)

(2) Interest rate risk

Interest rate risk represents the risk of losses to the fair values or future cash flows of financial instruments due to adverse movements in market interest rates. The Company's interest rate risk primarily comes from the interest rate-sensitive financial instruments whose fair values are subject to changes due to adverse movements in market interest rates.

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

Interest rate sensitivity analysis of the Group are as follows:

	Year ended 31 December	
Sensitivity of revenue	2017	2016
Change in basis points		
+25 basis points	(120,103)	(103,902)
– 25 basis points	121,122	105,409

Sensitivity of equity	31 December 2017	31 December 2016
Change in basis points		
+25 basis points	(173,675)	(152,260)
– 25 basis points	175,859	154,381

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.3 Market risk (Continued)

(3) *Foreign currency rate risk*

With respect to foreign exchange rate risk, the Group's foreign-currency-denominated assets and liabilities represent only a small portion in its entire assets and liabilities portfolio. After the public offering on the Stock Exchange of Hong Kong Limited, the Group raised approximately HKD7.81 billion in foreign funds. The Group has strictly followed the plans and arrangements for these funds as disclosed in the Prospectuses, requiring that 15% of these funds be retained to support its overseas operations under proper and effective control of its foreign exchange risk exposures, and the rest be remitted back to Mainland China and converted into Renminbi to support its domestic operations, including wealth management, institutional client services and investment management. As at 31 December 2017, the Group had converted about HKD6.71 billion into Renminbi to support its afore-mentioned business activities, as its foreign exchange risk exposures further decreased. The Group manages its foreign exchange rate risk by limiting the size of its foreign-currency-denominated assets and liabilities and setting stop-loss limits for proprietary investments by its overseas subsidiaries. The majority of its income-generating business activities under the current structure are conducted in Renminbi, with only a small portion denominated in foreign currencies. Given the small portion of the foreign-currency-denominated businesses in both its assets and liabilities portfolio and income structure, the Group believes that its foreign exchange rate risk has an insignificant impact on its current operations.

(4) *Other price risks*

Other price risks refer to risks of fair value decline to the Group's investment portfolio due to fluctuations in market prices other than stock prices, interest rates, and foreign exchange rates, including primarily commodity prices. The Group's investment portfolio primarily comprises equity securities and their derivative instruments as well as fixed income businesses. Other market price-related businesses include gold trading where the Group primarily focuses on providing liquidity services and arbitrage trading, and economically hedges its positions with deferred gold trading and gold future transactions. The size of its gold portfolio represents a very small portion of the Group's portfolio and a negligible risk exposure. Accordingly, the Group believes that other price risks do not have a significant impact on the Group's current operations.

53 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

53.4 Capital management

The Group's objectives of capital management are:

- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for equity holders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2016) (the "Administrative Measures") issued by the CSRC and effective 1 October 2016, the Company is required to meet the following standards for risk control indicators on a continual basis:

- The risk coverage ratio shall be no less than 100%;
- The capital leverage ratio shall be no less than 8%;
- The liquidity coverage ratio shall be no less than 100%;
- The net stable funding ratio shall be no less than 100%;

Risk coverage ratio = net capital/sum of various risk capital provisions x 100%,

Capital leverage ratio = core net capital/total asset on-/off-balance-sheet x 100%,

Liquidity coverage ratio = high quality liquid assets/net cash outflow in 30 days x 100%,

Net stable funding ratio = available amount of stable funding/required amount of stable funding x 100%.

Core net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

For the year ended 31 December 2017

(In RMB thousands, unless otherwise stated)

54 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	31 December 2017	31 December 2016
Non-current assets		
Property, plant and equipment	504,140	512,606
Investment properties	49,648	56,282
Intangible assets	149,560	125,500
Investments in subsidiaries	2,042,653	1,992,653
Investment in associates	48,425	48,272
Available-for-sale financial assets	5,247,049	6,924,059
Financial assets held under resale agreements	5,109,380	625,444
Refundable deposits	691,871	1,963,744
Deferred tax assets	780,140	802,818
Other non-current assets	176,016	169,863
Total non-current assets	14,798,882	13,221,241
Current assets		
Margin accounts	46,162,994	29,745,830
Accounts receivable	1,202,919	198,573
Financial assets held for trading	20,228,355	14,407,781
Financial assets designated as at fair value through profit or loss	307,184	238,973
Available-for-sale financial assets	33,497,784	27,476,955
Derivative financial assets	120,384	49,108
Financial assets held under resale agreements	20,278,676	6,420,749
Cash held on behalf of clients	35,024,479	49,941,012
Cash and bank balances	9,779,983	16,167,801
Other current assets	2,941,459	1,368,306
Total current assets	169,544,217	146,015,088
Total assets	184,343,099	159,236,329

For the year ended 31 December 2017

(In RMB thousands, unless otherwise stated)

54 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	31 December 2017	31 December 2016
Current liabilities		
Accounts payable to brokerage clients	35,163,375	50,098,190
Derivative financial liabilities	285,284	132,576
Financial liabilities held for trading	126,780	2,972,738
Financial assets sold under repurchase agreements	27,150,206	22,722,732
Placements from banks and other financial institutions	14,000,000	9,360,000
Taxes payable	275,585	692,380
Short-term financing instruments payable	27,831,673	7,757,199
Other current liabilities	14,256,417	12,619,688
Total current liabilities	119,089,320	106,355,503
Net current assets	50,454,897	39,659,585
Total assets less current liabilities	65,253,779	52,880,826
Non-current liabilities		
Financial liabilities designated as at fair value through profit or loss	11,640	9,938
Financial assets sold under repurchase agreements	–	500,000
Bonds in issue	22,736,472	12,280,635
Deferred tax liabilities	27,359	17,667
Other non-current liabilities	6,532	4,159
Total non-current liabilities	22,782,003	12,812,399
Net assets	42,471,776	40,068,427
Equity		
Share capital	7,246,385	7,176,470
Other equity instruments	5,000,000	5,000,000
Reserves	16,149,035	14,847,008
Retained earnings	14,076,356	13,044,949
Total equity	42,471,776	40,068,427

For the year ended 31 December 2017

(In RMB thousands, unless otherwise stated)

55 STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Retained Earnings	Total
At 1 January 2017	7,176,470	5,000,000	6,677,315	2,213,575	6,088,639	(132,521)	13,044,949	40,068,427
Profit for the year	–	–	–	–	–	–	3,756,795	3,756,795
Other comprehensive income for the year	–	–	–	–	–	(169,960)	–	(169,960)
Total comprehensive income for the year	–	–	–	–	–	(169,960)	3,756,795	3,586,835
Capital injected by equity holders								
– issuance of H shares	69,915	–	344,948	–	–	–	–	414,863
Appropriation to surplus reserves	–	–	–	375,680	–	–	(375,680)	–
Appropriation to general reserves	–	–	–	–	751,359	–	(751,359)	–
Distribution to other equity instrument holders	–	–	–	–	–	–	(294,000)	(294,000)
Dividend – 2016	–	–	–	–	–	–	(1,304,349)	(1,304,349)
At 31 December 2017	7,246,385	5,000,000	7,022,263	2,589,255	6,839,998	(302,481)	14,076,356	42,471,776

(In RMB thousands, unless otherwise stated)

55 STATEMENT OF CHANGES IN EQUITY OF THE COMPANY (Continued)

	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Retained Earnings	Total
At 1 January 2016	6,100,000	5,000,000	1,435,956	1,702,588	5,066,664	420,860	9,762,038	29,488,106
Profit for the year	–	–	–	–	–	–	5,109,873	5,109,873
Other comprehensive income for the year	–	–	–	–	–	(553,381)	–	(553,381)
Total comprehensive income for the year	–	–	–	–	–	(553,381)	5,109,873	4,556,492
Capital injected by equity holders – issuance of H shares	1,076,470	–	5,241,359	–	–	–	–	6,317,829
Appropriation to surplus reserves	–	–	–	510,987	–	–	(510,987)	–
Appropriation to general reserves	–	–	–	–	1,021,975	–	(1,021,975)	–
Distribution to other equity instrument holders	–	–	–	–	–	–	(294,000)	(294,000)
At 31 December 2016	7,176,470	5,000,000	6,677,315	2,213,575	6,088,639	(132,521)	13,044,949	40,068,427

56 EVENTS AFTER THE REPORTING PERIOD

(1) Issuance of corporate bonds

(i) In February 2018, the Company privately issued a 350-days fixed rate short-term corporate bond ("18 Xintou D1") with a face value of RMB3 billion. The bond bears interest at 5.34% per annum and is not guaranteed.

(ii) In March 2018, the Company privately issued a 2-year fixed rate corporate bond ("18 Xintou F1") with a face value of RMB4 billion. The bond pays interest annually at 5.43% per annum and is not guaranteed.

(iii) The Company plans to privately issue a corporate bond denominated in RMB with a nominal value not more than RMB4 billion ("18 Xintou F2") with a term of three years by the end of April 2018. The bond is not guaranteed.

(2) Dividend

On 16 April 2018, the Company held the 2018 First Extraordinary General Meeting at which the resolution of not proposing profit distribution by the Company for the year ended 31 December 2017 taking into consideration the company's development and equity holders' interests was passed.

中信建投証券股份有限公司
CSC Financial Co., Ltd.