



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

(A joint stock company incorporated in the People's Republic of China with limited liability)
Stock code: 6099

2017 Annual Report



CMS  招商证券



Chairman and Executive Director

HUO Da

Statement of HUO Da, Chairman, for the 2017 Annual Report

Focus on transformation and upgrade to open up new situation of development

Amid complex and ever-changing market environment, we held fast to the strategic focus, stuck to the bottom line of compliance and followed through on the “catching up and forging ahead strategy” in 2017. As a result, our profitability enhanced obviously; our operating revenue and net profit grew much faster than the industrial average; our overall strength and competitive edge in all principal business lines improved significantly; and our business scale expanded steadily, thus to conclude the preceding three-year strategy period consummately.

Achieving results with focus on principal business lines and through serving the real economy.

Serving the real economy is a bounden duty of securities firms and also the cornerstone underpinning their development and growth, and as for us, it represents the original aspiration in seeking development and the vital engine for rapid growth. In 2017, we continued to eagerly engage in national development strategies by fully leveraging on our investing and financing functions in the multi-layer capital market comprising Shanghai and Shenzhen stock exchanges, NEEQ, regional equity transaction centres and securities firm OTC market. Dedicated to such areas as equity financing, debt financing, asset securitization, M&A and restructuring as well as capital investment, we successfully led a range of model projects with market influence that served the real economy and set up a number of venture capital funds. Such efforts, by channelling in “fresh water” of capital to the real economy at multiple levels and in multiple dimensions, facilitated the efficient allocation of resources to meet the diverse financial service demands of enterprises in different stages of development at varying business scales. Besides, while serving the real economy, we found impetus to our own growth and showcased our strong edge in competition and prominent expertise in modern investment banking.

Driving diversified development by relying on full-function platforms covering the entire industry chain.

As the reform of capital market was deepening, the market presented more opportunities and possibilities to investors. In 2017, we adhered to the original aspiration and continued to create values for our clients by virtue of excellent financial services. Internally, we issued the Customer Service Standards of China Merchants Securities (《招商證券客戶服務準則》), so as to establish norms and guidelines on the service conduct across the Company, promote the “client-oriented” operating philosophy in all practises, and raise our marketing and service levels in all aspects. Externally, we actively seized market opportunities by incorporating digitalized and intelligent factors of development to gradually build up and perfect the one-stop professional financial service platform that offers full functions covering the entire industry chain. With comprehensive layout in various fields, we realized higher positions in terms of many core indicators and unceasingly created values for clients, investors and the society.

Striding forward firmly on the basis of operational compliance.

As a state-owned large-scale securities firm with comprehensive business operations and facing the environment of “lawful, comprehensive and stringent” regulations, the Company upheld the concept of prudent operation in compliance with law, valued reputation, and conducted business in good faith. In 2017, cherishing the attitude of being socially responsible and the spirit of taking up tasks required for the industry, we consistently insisted on compliance-based development and devotedly built the culture of compliance and risk control. Specifically, we constantly improved the internal control system, solidly fulfilled the internal control requirements and earnestly oversaw the details of internal control. As a result, the Company became one of the only two securities firms to receive the “AA” regulatory rating, being the highest rating granted for companies in its industrial class, for 10 consecutive years in 2017, standing out as a quality enterprise boasting prudence, discipline and enterprising spirit. Owing to our concrete actions, we have won trust on and respect to our brand from clients and laid an ever solid foundation for development in a long time to come.

In the new era when China’s economy is on the track towards development in higher quality, new changes to happen in the capital market promise hope to all market players, but only those well prepared can ride the tide. Facing new issues in the new era, we will seize new opportunities and embrace new challenges in light of the objective to “become the best investment bank in China”, so as to create greater values for and deliver higher returns to investors, the society and our employees.



Executive Director, President
and Chief Executive Officer

WANG Yan

Statement of WANG Yan, President and Chief Executive Officer, for the 2017 Annual Report

Starting the new expedition to become a first-class investment bank in the world

2017 was the final year of our three-year catching up and forging ahead strategy. During this year, in the context of macro-economical deleveraging and stringent financial regulation according to the law in all areas, the securities industry of China saw a year-on-year decrease of 5.1% and 8.5% in overall revenue and net profit, respectively. In face of complex and ever-changing market and regulatory environment, we sturdily pushed forward the “forging ahead and catching up strategy”, stayed committed to the yearly business guidelines to “boost income, enhance capability, maintain steady growth and achieve breakthrough”, actively promoted our “hard power represented by scale” and “soft power represented by expertise”, and adhered to the concept of balanced development across various business platforms. As a result, we accomplished the operation target of “outrunning the market and outperforming the peers” in reliance on endogenous growth with remarkable advancement in our overall strength and market competitiveness, and achieved rapid, healthy, stable and high-quality development, thus to conclude the three-year strategy consummately. Our developmental results for the year of 2017 just ended mainly fall into the following five aspects:

Firstly, both operating revenue and net profit achieved higher rankings within the industry. In 2017, we realized a consolidated operating revenue of RMB13.353 billion and a consolidated net profit of RMB5.805 billion, representing an increase of 14% and 7% as compared with 2016, respectively. Both the operating revenue and the net profit (for the parent company together with securities business subsidiaries) surpassed competitors in rankings to rank sixth in the industry, up by 3 positions and 2 positions from 2014, respectively.

Secondly, core business indicators led the industry. Over the past three years, we achieved a growth rate in operating revenue and net profit higher than the average of the top ten securities firms, despite a slower-than-average growth in net assets and total assets. The compound annual growth rate of our net profit from 2015 to 2017 ranked third among the top ten securities firms. In 2016 and 2017, our net profit margin ranked first and second among the top ten securities firms, respectively. Our return on total assets was one of the highest among the top ten securities firms for 3 consecutive years. Our core performance indicators also led the industry.

Thirdly, a number of core businesses moved up in their business rankings. As compared with 2016, 5 indicators, namely the scale of our custody and outsourcing services, brokerage fees received from mutual funds, amount of investment banking projects underwritten as a lead underwriter, amount of bond underwritten as a lead underwriter and amount of asset securitization underwritten, ranked third in the industry; while 10 indicators including net revenue from agency trading of securities, balance of margin financing and securities lending, outstanding amount of securities-backed lending, net revenue from investment banking, amount of stock underwritten as a lead underwriter, size of entrusted asset management under regulations achieved higher rankings.

Fourthly, the growth mode further optimizes. We unswervingly implemented the strategy of balanced development across all business platforms, and boasted a sound system of business platforms without apparent weak points in expertise. We possessed relatively powerful overall operation strength, diverse sources of revenue, a balanced revenue structure and improving resistance to risks. We kept promoting the integrated services ability in prime brokerage with focus on custody, trading and investment research to develop our leading differentiated competitive advantage in institutional business.

Fifthly, good quality in development was attained. The assets of the Company were kept at high quality all the time, and major risk indicators covering liquidity risk and credit risk met regulatory provisions and the requirements of the Board. Our “AA” rating for 10 consecutive years helped us establish a brand image of legal compliance and sound operation.

In 2018, as the construction of socialism with Chinese characteristics enters a new era and the initiative to build China into a country with strong capital market ushers in new opportunities, we start the new expedition to become a first-class investment bank in the world with these opportunities. In the next 3 years, we will maintain the fearless spirit in overcoming fortified obstacles, and diligently press ahead the reformative strategy. We will spur our vitality by transformation from within, remove bottlenecks and promote development, thus achieving a complete metamorphosis. We will brave rogue waves to become the best investment bank in China and a first-class investment bank in the world!

Important Notice

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

The proposal on profit distribution for 2017 is as follow: based on the total share capital of 6,699,409,329 shares, a cash dividend of RMB3.46 (tax inclusive) will be distributed to every 10 shares. The actual total cash dividend distributed for the period amounted to RMB2,317,995,627.83, representing 40.06% of the net profit attributable to the owners of the parent company for 2017 according to the consolidated financial statements.

Such cash dividend will be denominated and declared in RMB and paid to holders of A Shares in RMB and to holders of H Shares in Hong Kong dollar. The actual amount of dividend paid in Hong Kong dollar will be determined based on the average exchange rate of RMB and Hong Kong dollar published by the People's Bank of China for the five business days immediately before the date of the 2017 shareholders' annual general meeting of the Company. In view of the procedure of the distribution of dividend of H Shares, it was agreed that Computershare Hong Kong Trustees Limited was appointed as the trustee in respect of the distribution of dividend to holders of H Shares of the Company. Mr. WU Huifeng was authorized to exercise the rights on behalf of the Company to execute all instructions, guidelines, decisions, notices and approvals to nominees in relation to the nominee agreement. The profit distribution plan will be submitted to the 2017 shareholders' general meeting of the Company for consideration and approval. Subject to the approval of the 2017 shareholders' general meeting, the Company will pay the final dividend for 2017 to its shareholders by no later than August 30, 2018.

VI. Risks Statement relating to forward-looking statements

Forward-looking statements, such as future plans and development strategies, contained in this annual report do not constitute any substantive commitments of the Company to investors. Investors should be aware of the investment risks.

VII. Whether there is appropriation of the Company's funds by the controlling shareholder and its associates for non-operating purposes?

There is no appropriation of the Company's funds by the controlling shareholder and its associates for non-operating purposes.

VIII. Whether there is provision of guarantee by the Company in favour of any third party in violation of the prescribed decision-making procedures?

There is no provision of guarantee by the Company in favour of any third party in violation of the prescribed decision-making procedures.

IX. This report is prepared in both Chinese and English by the Company. In case of any inconsistency between the Chinese version and the English version, the Chinese version shall prevail.

X. Warning on material risks

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

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

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

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Chapter 1: Definitions

1. Definitions

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

Common terms and expressions	
"Company Law"	the Company Law of the PRC (《中華人民共和國公司法》)
"Securities Law"	the Securities Law of the PRC (《中華人民共和國證券法》)
"Articles of Association"	the Articles of Association of China Merchants Securities Co., Ltd.
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"SFC"	the Securities and Futures Commission of Hong Kong
"CSRC Shenzhen Office"	the Shenzhen office of the CSRC
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
"Exchanges"	the Shanghai Stock Exchange and the Shenzhen Stock Exchange
"SSE"	the Shanghai Stock Exchange (上海證券交易所)
"SZSE"	the Shenzhen Stock Exchange (深圳證券交易所)
"SSE website"	http://www.sse.com.cn , the website of the Shanghai Stock Exchange
"CSDC"	China Securities Depository and Clearing Corporation Limited
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange website"	http://www.hkexnews.hk , the website of The Stock Exchange of Hong Kong Limited
"NSSF"	the National Council for Social Security Fund of the PRC (全國社會保障基金理事會)
"Company", "our Company", "Group", "our Group", "China Merchants Securities" or "Issuer"	China Merchants Securities Co., Ltd. (招商證券股份有限公司) and, unless the context otherwise requires, its subsidiaries
"Company's website"	http://www.cmschina.com , the website of China Merchants Securities Co., Ltd.
"China Merchants Group"	China Merchants Group Limited (招商局集團有限公司)
"CM Finance Investment"	China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)
"Jisheng Investment"	Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)
"China Ocean Shipping"	China Ocean Shipping Co., Ltd. (中國遠洋運輸有限公司) (formerly known as China Ocean Shipping (Group) Company (中國遠洋運輸(集團)總公司))
"CM Steam Navigation"	China Merchants Steam Navigation Co., Ltd. (招商局輪船有限公司) (formerly known as 招商局輪船股份有限公司)
"Liaoneng Holdings"	Liaoning Liaoneng Holdings Co., Ltd. (遼寧遼能實業有限公司)

Chapter 1: Definitions

Common terms and expressions	
“China Merchants Bank”	China Merchants Bank Co., Ltd. (招商銀行股份有限公司)
“CMS International”	China Merchants Securities International Company Limited (招商證券國際有限公司)
“China Merchants Futures”	China Merchants Futures Co., Limited (招商期貨有限公司)
“CMS Zhiyuan”	China Merchants Zhiyuan Capital Investment Co., Ltd. (招商致遠資本投資有限公司)
“CMS Investment”	China Merchants Securities Investment Co., Ltd. (招商證券投資有限公司)
“CMS Asset Management”	China Merchants Securities Asset Management Co., Ltd. (招商證券資產管理有限公司)
“Bosera Funds”	Bosera Asset Management Co., Limited (博時基金管理有限公司)
“China Merchants Fund”	China Merchants Fund Management Co., Ltd. (招商基金管理有限公司)
“ECT”	E-Capital Transfer Co., Ltd. (證通股份有限公司)
“Shanghai Brilliance”	Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. (上海新世紀資信評估投資服務有限公司)
“CCXR”	China Chengxin Securities Rating Co., Ltd. (中誠信證券評估有限公司)
“Huatai United Securities”	Huatai United Securities Co., Ltd. (華泰聯合證券有限責任公司)
“Everbright Securities”	Everbright Securities Company Limited (光大證券股份有限公司)
“Galaxy Securities”	China Galaxy Securities Co., Ltd. (中國銀河證券股份有限公司)
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
“independent Directors” or “independent non-executive Directors”	independent non-executive directors of the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“A Share(s)”	domestic share(s) in the ordinary share capital of our Company with a nominal value of RMB1.00 each, which are listed on the SSE (stock code: 600999)
“H Share(s)”	overseas-listed foreign share(s) in the ordinary share capital of our Company with a nominal value of RMB1.00 each, which are listed on the main board of the Hong Kong Stock Exchange (stock code: 6099)
“A Shareholder(s)”	holders of A Shares
“H Shareholder(s)”	holders of H Shares
“Reporting Period”	from January 1, 2017 to December 31, 2017
“Last Year”	from January 1, 2016 to December 31, 2016
RMB1, RMB1 thousand, RMB1 million, and RMB1 billion	Renminbi 1 yuan, Renminbi 1,000 yuan, Renminbi 1,000,000 yuan and Renminbi 1,000,000,000 yuan

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

Chapter 2: Corporate Profile and Key Financial Indicators

I. Corporate Information

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

Registered Capital and Net Capital of the Company

Unit: RMB Currency: RMB

	As at the end of the Reporting Period	As at the end of Last Year
Registered capital	6,699,409,329.00	5,808,135,529.00
Net capital (Parent Company)	54,180,986,692.26	45,524,144,216.62

Business Qualifications of the Company

The Company is a member of the Securities Association of China (Membership code: 185053), Shanghai Stock Exchange (Membership code: 0037) and Shenzhen Stock Exchange (Membership code: 000011). Qualifications of each of the business lines are as follows:

Number	Qualification	Approval authority	Date of approval
1	Core dealer of credit risk mitigation instruments	National Association of Financial Market Institutional Investors	January 2017
2	Qualification to issue credit risk mitigation certificates	National Association of Financial Market Institutional Investors	January 2017
3	Qualification to issue credit-linked notes	National Association of Financial Market Institutional Investors	January 2017
4	Non-bank member of the Shanghai Commercial Paper Exchange	The People's Bank of China	November 2016
5	Trading Authority for Access to Southbound Trading Business under Shenzhen-Hong Kong Stock Connect	Shenzhen Stock Exchange	November 2016
6	Approval for pilot provision of online account opening service	Institution Department (機構部) of CSRC	April 2015

Chapter 2: Corporate Profile and Key Financial Indicators

Number	Qualification	Approval authority	Date of approval
7	Approval for financing through exercising incentive share options of listed companies	Shenzhen Stock Exchange	March 2015
8	Licence for spot gold proprietary trading business	Institution Department (機構部) of CSRC	March 2015
9	Qualification to provide payment services for customers' funds	China Securities Investor Protection Fund Corporation Limited	March 2015
10	Licence for stock options market-making business	CSRC	January 2015
11	Licence for market-making business for SSE 50 ETF options trading	Shanghai Stock Exchange	January 2015
12	Authority for proprietary trading of share options	Shanghai Stock Exchange	January 2015
13	Licence for futures settlement	China Securities Depository and Clearing Corporation Limited	January 2015
14	Stock options trading participant on the Shanghai Stock Exchange	Shanghai Stock Exchange	January 2015
15	Licence for online securities business	Securities Association of China	November 2014
16	Trading Authority for Access to Southbound Trading Business	Shanghai Stock Exchange	October 2014
17	Ordinary member of Shanghai Clearing House for centralised settlement of RMB interest rate swaps	Shanghai Clearing House	June 2014
18	Qualification of lead manager business (market-making business)	National Equities Exchange and Quotations	June 2014
19	Licence for OTC options trading business	Securities Association of China	February 2014
20	Licence for investment fund custody business	CSRC	January 2014
21	Qualification for agency business of securities pledge registration	China Securities Depository and Clearing Corporation Limited	July 2013
22	Licence for stock-pledged repo business	Shanghai Stock Exchange, Shenzhen Stock Exchange	June 2013
23	Licence for interest rate swap business	CSRC Shenzhen Office	May 2013
24	Permit for conducting insurance agency businesses	China Insurance Regulatory Commission	April 2013
25	Qualification of lead manager business (recommendation and brokerage businesses)	National Equities Exchange and Quotations	March 2013
26	Licence for OTC trading business	Securities Association of China	February 2013

Chapter 2: Corporate Profile and Key Financial Indicators

Number	Qualification	Approval authority	Date of approval
27	Licence for equity total return swap business	CSRC	January 2013
28	Licence for special institutional client business of insurance companies	China Insurance Regulatory Commission	January 2013
29	Licence for sale of financial products	CSRC	December 2012
30	Qualification of underwriting debt financing instruments of non-financial enterprises	National Association of Financial Market Institutional Investors	November 2012
31	Qualification to provide comprehensive custodian services for private investment funds	CSRC	October 2012
32	Licence for margin and securities refinancing	China Securities Finance Co., Ltd.	August 2012
33	Qualification of underwriting private placement bonds of small and medium enterprises	Securities Association of China	June 2012
34	Licence for stock repurchase business	CSRC	May 2012
35	Qualification for dealer-quoted bond-pledged repo transactions	CSRC	January 2012
36	Qualification for third-party custodian services for one customer — multiple bank services	CSRC Shenzhen Office	June 2011
37	Qualification for margin financing and securities lending business	CSRC	June 2010
38	Licence for direct investment business	CSRC	August 2009
39	Qualification for intermediary introduction business for China Merchants Futures	CSRC	February 2008
40	Qualified Domestic Institutional Investors	CSRC	August 2007
41	Tier-1 dealer on the integrated e-platform for fixed income securities of the Shanghai Stock Exchange	Shanghai Stock Exchange	July 2007
42	Permit for foreign exchange operation in the securities business	State Administration of Foreign Exchange	December 2006
43	Clearing participant of China Securities Depository and Clearing Corporation Limited	China Securities Depository and Clearing Corporation Limited	March 2006
44	Primary dealer of SSE 180 Index Exchange Traded Fund	Shanghai Stock Exchange	March 2006
45	Qualification for underwriting business of commercial paper	The People's Bank of China	July 2005

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Number	Qualification	Approval authority	Date of approval
46	Qualification for operation of foreign shares business	CSRC	September 2002
47	Qualification for open-end securities investment fund consignment business	CSRC	August 2002
48	Qualification for online securities agency business	CSRC	February 2001
49	Qualified member of interbank market	The People's Bank of China	September 1999

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

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

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

Number	Qualification	Approval authority	Date of approval
1	Licence for basis trading	China Futures Association	April 2017
2	Licence for pricing services	China Futures Association	April 2017
3	Licence for cooperative hedging	China Futures Association	March 2017
4	Licence for warehouse receipt services	China Futures Association	December 2016
5	Filing for entry of the interbank bond market	The People's Bank of China	July 2016
6	Licence for asset management	CSRC	March 2013
7	Licence for futures investment consulting	CSRC	August 2011
8	Licence for financial futures brokerage	CSRC	October 2007
9	Licence for commodities futures brokerage	CSRC	January 1993

Chapter 2: Corporate Profile and Key Financial Indicators

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

Number	Qualification	Approval authority	Date of approval
1	Private investment fund subsidiary of a securities firm	Securities Association of China	November 2017

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

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

Note: The above qualification has been deregistered in February 2018. Currently, CMS Investment conducts business activities in accordance with relevant regulations of Management Standard on Securities Companies' Alternative Investment Subsidiaries (《證券公司另類投資子公司管理規範》).

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

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

II. Contact Persons and Contact Methods

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

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

III. Basic Information

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

IV. Information Disclosure and Place of Document Inspection

Designated media for information disclosure	China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily
Website designated by the CSRC for publishing this annual report	http://www.sse.com.cn
Website designated by the Hong Kong Stock Exchange for publishing this annual report	http://www.hkexnews.hk
Place for inspection of the Company's annual reports	38/F-45/F, Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen

V. Information on the Company's Shares

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

Chapter 2: Corporate Profile and Key Financial Indicators

VI. Other Information

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

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

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

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

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

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

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

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

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

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

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

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

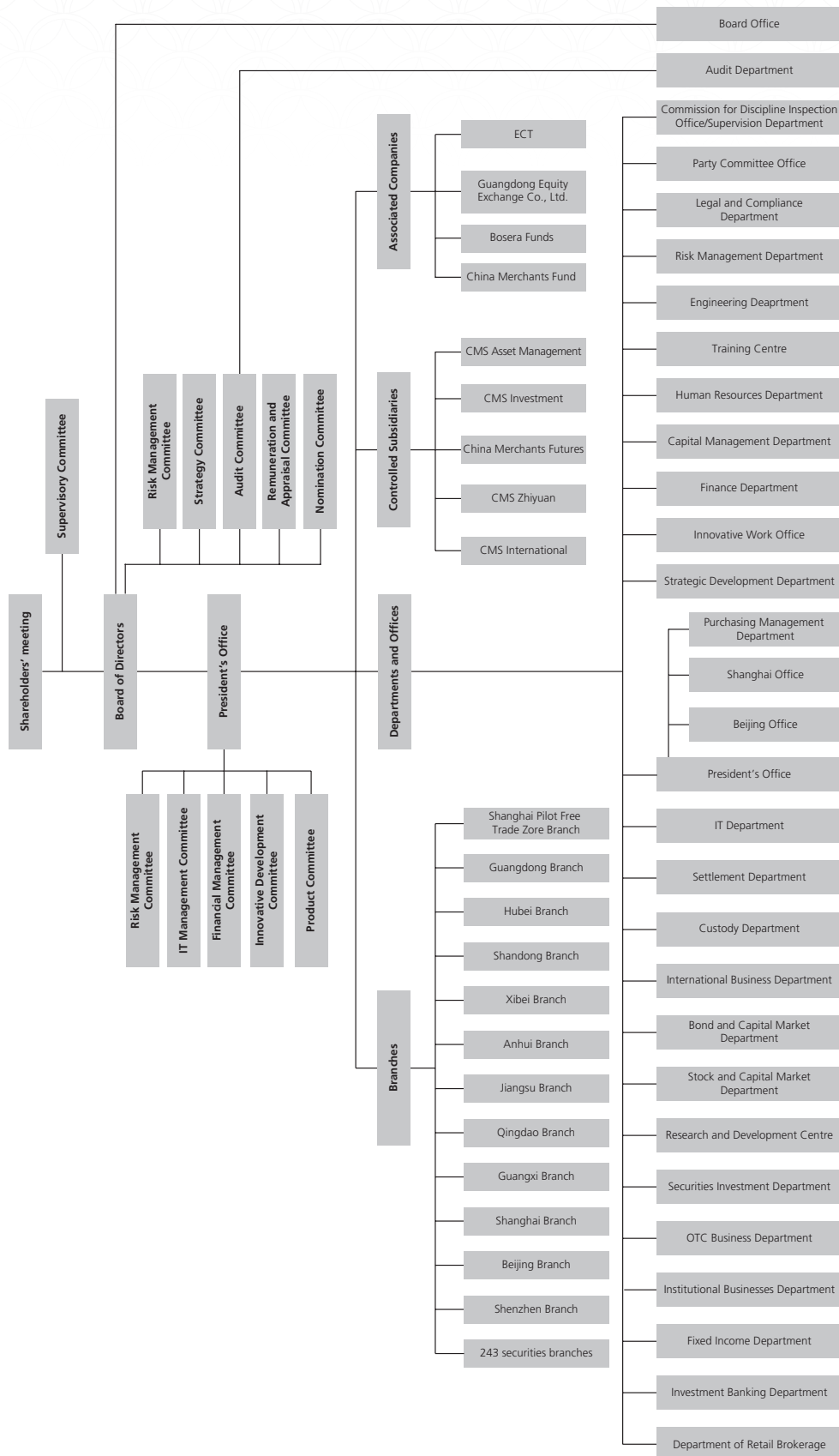
In May 2014, being approved by the CSRC pursuant to the Approval for the Private Placement of Shares of China Merchants Securities Co., Ltd., (Zheng Jian Xu Ke [2014] No. 455) (《關於核准招商證券股份有限公司非公開發行股票的批覆》) (證監許可[2014] 455號), the Company issued 1,147,035,700 shares (A Shares) at RMB9.72 each by way of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

On October 7, 2016, the Company completed the public issuance of overseas-listed foreign shares (H Shares) at an offer price of HK\$12.00 per share, raising total proceeds of HK\$10,695,285,600.00. After deducting the offering expenses, the net proceeds amounted to RMB8,947,439,178.14. On the same day, being approved by the Hong Kong Stock Exchange, the Company issued 891,273,800 overseas-listed foreign shares (H Shares) for the listing and trading on the Main Board of the Hong Kong Stock Exchange. Following the offering, the total share capital of the Company has increased from 5,808,135,529 shares to 6,699,422,311 shares. Due to a change in the shareholding by Liaoneng Holdings, an original state-owned shareholder of the Company, the deregistration for 12,982 A Shares which should have been transferred by it has not yet completed.

On March 27, 2017, deregistration for 12,982 A Shares held by Liaoneng Holdings, an original state-owned shareholder of the Company, was completed. Total share capital of the Company was changed to 6,699,409,329 shares. For details, please see the Announcement on the Replenishment of State-owned Shares for Fulfilment of Transfer Obligation by Liaoneng Holdings, an Original State-Owned Shareholder (《關於原國有股東遼寧遼能實業有限公司補充履行國有股轉持義務的公告》) of the Company dated March 27, 2017 published on the SSE website and the Overseas Regulatory Announcement dated March 24, 2017 published on the Hong Kong Stock Exchange website. On May 17, 2017, the Company completed the increase of its registered capital to RMB6,699,406,329.

Chapter 2: Corporate Profile and Key Financial Indicators

(II) Corporate organizational structure



Chapter 2: Corporate Profile and Key Financial Indicators

As at the end of 2017, the Company had 12 branches, the basic information of which is as follows:

Number	Name of the branch	Date of incorporation	Place of business	Person-in-charge	Contact number
1	Shenzhen Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司深圳分公司)	February 1, 2010	Suite 16F2, 16G & 16H, Times Fortune Building, South Eastern Part, Central Area, Futian District, Shenzhen	HE Jincheng (何錦成)	0755-82922188
2	Shanghai Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司上海分公司)	February 12, 2010	Room 3008, Orient Building, No. 1500 Century Avenue, Pudong New District, Shanghai	SHEN Yun (沈雲)	021-68407177
3	Beijing Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司北京分公司)	February 26, 2010	Unit A1A2, 8/F, Unit C2D1, 9/F & Unit B1B2, 11/F, No. 118 Jianguo Road, Chaoyang District, Beijing	YAN Xiaohui (嚴曉暉)	010-65684912
4	Guangxi Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司廣西分公司)	May 25, 2011	No. 1203 Jinyuan Modern City, No.63 Jinhua Road, Qingxiu District, Nanning	HU Yi (胡毅)	0771-5625318
5	Qingdao Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司青島分公司)	September 1, 2011	Room 901, Qindao Building, No.89 Xiang Gang Zhong Road, Shinan District, Qingdao	PENG Xiuling (彭秀玲)	0532-66889555
6	Jiangsu Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司江蘇分公司)	December 28, 2012	3/F, Touzi Building, No.414, Zhongshannan Road, Nanjing	MURONG Xinyao (慕容馨韻)	025-52868366
7	Anhui Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司安徽分公司)	January 4, 2013	Suite 1-501 to 1-511, Hui Feng Plaza, No.118 Sui Xi Road, Luyang District, Hefei	YANG Delong (楊德龍)	0551-65697168
8	Shandong Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司山東分公司)	January 9, 2013	3/F, Huang Ting Complex, No.15 Quancheng Road, Lixia District, Jinan	LI Hongying (李紅英)	0531-67885777
9	Xibei Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司西北分公司)	February 5, 2013	Semiconductor Industrial Park, No.125 Gao Xin Jin Ye Road, Xi'an, Shaanxi Province	ZHANG Lixin (張立新)	029-87883708
10	Guangdong Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司廣東分公司)	May 16, 2013	Room 1101B, No. 5 Huasui Road, Tianhe District, Guangzhou	YU Jinbiao (余錦標)	020-38394801
11	Hubei Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司湖北分公司)	October 4, 2013	No. 236 Zhong Bei Road, Wuchang District, Wuhan	ZHANG Yin (張銀)	027-86770878
12	Shanghai Pilot Free Trade Zone Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司上海自貿試驗區分公司)	January 3, 2017	Room 302, 3/F, No. 1500 Century Avenue, China (Shanghai) Pilot Free Trade Zone	ZHANWEI CAO	021-20398500

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Currently, the Company has five tier-1 wholly-owned subsidiaries, namely CMS International, China Merchants Futures, CMS Zhiyuan, CMS Investment and CMS Asset Management.

Number	Company name	Address	Time of establishment	Registered Capital (RMB10,000)	Person-in-charge	Contact number
1	CMS International	48/F, One Exchange Square, Central, Hong Kong	July 14, 1999	N/A	WANG Yan (王岩)	0755-82943666
2	China Merchants Futures	9/F Unit 9-15, 7/F Unit 1-8 and Unit 22-26, Duty Free Building, No. 6 Fuhua Yi Road, Futian District, Shenzhen	January 4, 1993	63,000	YAN Yushu (閔玉書)	0755-82943666
3	CMS Zhiyuan	7/F, Financial Street Centre, Financial Street A No.9, Xicheng District, Beijing	August 28, 2009	180,000	LI Zongjun (李宗軍)	0755-82943666
4	CMS Investment	Room 201, Block A, Administrative Office Building, No.1, Qianwan Road 1, Liyumen Street 1, Qianhaishen Port Cooperative District, Shenzhen	December 2, 2013	120,000	WANG Yan (王岩)	0755-82943666
5	CMS Asset Management	Room 201, Block A, No.1, Qianwan Road 1, Qianhaishen Port Cooperative District, Shenzhen	April 3, 2015	100,000	XIONG Jiantao (熊劍濤)	0755-82943666

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

The distribution of the current 243 securities branches of the Company is as follows:

Regional Distribution	Number
Beijing and Tianjin	29
Yangtze River Delta: Shanghai, Jiangsu and Zhejiang	45
Guangdong Pearl River Delta	52
Other cities	117

Chapter 2: Corporate Profile and Key Financial Indicators

VII. Other Relevant Information

Domestic accounting firm appointed by the Company during the Reporting Period	Name	ShineWing Certified Public Accountants LLP
	Office address	8/F, Block A, Fu Hua Mansion No.8 Chao Yang Men Bei Da Jie, Dong Cheng District, Beijing
	Names of the signing accountants	LUO Yucheng, CUI Weiwei
International accounting firm appointed by the Company during the Reporting Period	Name	SHINEWING (HK) CPA Limited
	Office address	43/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong
	Name of the signing accountant	CHAN Wing Kit
Domestic legal adviser appointed by the Company	Name	Jia Yuan Law Offices (Shenzhen)
	Office address	Suite 2511, Landmark, 4028 Jintian Road, Futian District, Shenzhen, Guangdong Province
Hong Kong legal adviser appointed by the Company	Name	Clifford Chance
	Office address	27/F, Jardine House, One Connaught Place, Central, Hong Kong
A Share Registrar	Name	Shanghai Branch of China Securities Depository and Clearing Corporation Limited
	Office address	36/F, China Insurance Building, 166 Lujiazui East Road, Pudong New District, Shanghai
H Share Registrar	Name	Computershare Hong Kong Investor Services Limited
	Office address	17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Chapter 2: Corporate Profile and Key Financial Indicators

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

(I) Key accounting data

Unit: RMB'000 Currency: RMB

Key accounting data	2017	2016	Change (%)	2015
Total revenue and other income	19,258,886	18,551,718	3.81	34,988,568
Profit of the year attributable to shareholders of the Company	5,785,956	5,403,451	7.08	10,908,749
Profit of the year attributable to shareholders of the Company after deduction of non-recurring profit or loss	5,783,983	5,353,862	8.03	10,863,330
Net cash from operating activities	-27,313,337	-2,448,925	—	-29,572,813
Other comprehensive income	476,241	-620,506	—	371,576

	As at the end of 2017	As at the end of 2016	Change (%)	As at the end of 2015
Total assets	285,643,555	243,058,428	17.52	291,655,585
Total liabilities	206,309,851	183,143,389	12.65	243,223,795
Equity attributable to shareholders of the Company	79,230,149	59,826,337	32.43	48,351,119
Total equity	79,333,704	59,915,039	32.41	48,431,790

Chapter 2: Corporate Profile and Key Financial Indicators

(II) Major financial indicators

Major financial indicators	2017	2016	Change (%)	2015
Basic earnings per share (RMB per share)	0.7753	0.9071	-14.53	1.8782
Diluted earnings per share (RMB per share)	0.7753	0.9071	-14.53	1.8782
Basic earnings per share after deduction of non-recurring profit or loss (RMB per share)	0.7750	0.8988	-13.77	1.8704
Weighted average return on net asset (%)	8.39	10.58	Decreased by 2.19 percentage points	23.95
Weighted average return on net asset after deduction of non-recurring profit or loss (%)	8.38	10.48	Decreased by 2.10 percentage points	23.85

(III) Net capital and risk control indicators of the parent company

Unit: RMB Currency: RMB

Items	As at the end of the Reporting Period	As at the end of Last Year
Net capital	54,180,986,692.26	45,524,144,216.62
Net assets	75,177,450,197.99	56,884,318,589.01
Sum of Risk Base Capital Provisions	18,059,640,452.88	14,258,394,120.66
Total assets on- and off- balance sheet	225,840,602,361.27	168,000,435,649.00
Risk coverage ratio (%)	300.01	319.28
Capital leverage ratio (%)	18.57	24.30
Liquidity coverage ratio (%)	392.17	151.00
Net stable funding ratio (%)	132.69	134.94
Net capital/net assets (%)	72.07	80.03
Net capital/liabilities (%)	38.10	43.03
Net assets/liabilities (%)	52.87	53.77
Value of proprietary equity securities and its derivatives/net capital (%)	30.77	37.01
Value of proprietary non-equity securities and its derivatives/net capital (%)	148.89	98.12

Chapter 2: Corporate Profile and Key Financial Indicators

(IV) Key financial data and indicators for the last four years

1. Earnings

Unit: RMB million Currency: RMB

Items	2017	2016	2015	2014	2013
Revenue and other income	19,259	18,552	34,989	13,766	7,740
Total expenses	12,998	12,728	21,906	9,133	5,359
Profit before income tax	7,107	6,453	13,634	4,972	2,650
Profit for the year attributable to shareholders of the Company	5,786	5,403	10,909	3,851	2,232

2. Assets

Unit: RMB million Currency: RMB

Items	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014	December 31, 2013
Total assets	285,644	243,058	291,656	193,408	83,860
Total liabilities	206,310	183,143	243,224	151,812	56,675
Accounts payable to brokerage clients	51,095	67,582	88,749	57,694	26,718
Equity attributable to shareholders of the Company	79,230	59,826	48,351	41,537	27,159
Share capital	6,699	6,699	5,808	5,808	4,661

3. Key Financial Indicators

Items	2017	2016	2015	2014	2013
Basic earnings per share (in RMB)	0.7753	0.9071	1.8782	0.7224	0.4789
Diluted earnings per share (in RMB)	0.7753	0.9071	1.8782	0.7224	0.4789
Weighted average return on net assets (%)	8.39	10.58	23.95	10.85	8.45
Gearing ratio (%)	66.18	65.86	76.13	69.35	52.43

Note: Gearing ratio = (Total liabilities – Accounts payable to brokerage clients)/(Total assets – Accounts payable to brokerage clients)

Chapter 2: Corporate Profile and Key Financial Indicators

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

There was no difference between the net profit for 2017 and 2016 and net assets as of December 31, 2017 and December 31, 2016 as set out in the consolidated financial statements prepared in accordance with the China Accounting Standards for Business Enterprises and in the consolidated financial statements prepared in accordance with the International Financial Reporting Standards.

Chapter 3: Summary of Operation

I. Principal Business and Operating Models of the Company and Relevant Industry Condition during the Reporting Period

(I) Principal business and operating models of the Company during the Reporting Period

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

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

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

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

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

(II) Development of the industry and market where the Company operates during the Reporting Period

During the Reporting Period, the average daily trading volume of stocks and funds in the SSE and the SZSE was RMB474.967 billion, representing a year-on-year decrease of 11.30%. Throughout the year, the CSI 300 registered a rise of 21.78%, while the ChiNext Index recorded a fall of 10.67%. As at the end of the Reporting Period, the balance of margin financing and securities lending on the SSE and the SZSE amounted to RMB1.03 trillion, representing a year-on-year increase of 9.28%; the outstanding amount of securities-backed lending reached RMB1.62 trillion, representing a year-on-year increase of 26.91%. The ChinaBond composite net value (in aggregate) index fell by 4.16% in the year. During the Reporting Period, the financing through IPO of shares on the primary stock market amounted to RMB218.61 billion, representing a year-on-year increase of 33.82%. The equity-related refinancing amounted to RMB1.27 trillion, representing a year-on-year decrease of 36.65%. The issuance of credit bonds totalled RMB8.98 trillion, representing a year-on-year decrease of 17.35%.

Chapter 3: Summary of Operation

In 2017, the securities industry continued with the pressure of stringent regulation pursuant to law in all areas, and saw a steady development in general. According to the statistics of the Securities Association of China, the industry earned a total income of RMB311.328 billion, representing a year-on-year decrease of 5.08%. The net profit amounted to RMB112.995 billion, representing a year-on-year decrease of 8.47%. As at the end of 2017, the total assets of the securities industry amounted to RMB6.14 trillion, representing a year-on-year increase of 5.97%. The net assets amounted to RMB1.85 trillion, representing a year-on-year increase of 12.56%. Net capital amounted to RMB1.58 trillion, representing a year-on-year increase of 7.35%.

II Significant Changes in Major Assets of the Company during the Reporting Period

As at the end of 2017, the financial assets of the Company amounted to RMB107.367 billion, representing a year-on-year increase of RMB33.291 billion or 44.94%, which was mainly because the Company expanded its bonds and other proprietary investment businesses. The closing balance of margin loans and financial assets held under resale agreements totalled RMB95.335 billion, representing a year-on-year increase of RMB23.03 billion or 31.85%, which was mainly due to the larger size of securities-backed lending, margin financing and securities lending of the Company.

III. Analysis on Core Competitiveness during the Reporting Period

(I) Market position of the Company

During the Reporting Period, the Company made further advancement in its market positions with multiple indicators capturing best rankings ever. Specifically, the Company moved up by one position to rank seventh in terms of the volume of stocks and funds traded in the SSE and the SZSE. The Company ranked seventh in terms of the amount of equity underwritten, up by four positions. The Company ranked second in terms of the amount of bond underwritten as a lead underwriter, up by two positions. The Company ranked second in terms of the amount of asset-backed securities underwritten. As at the end of 2017, the Company ranked sixth in terms of the balance of margin financing and securities lending, up by one position; and ranked fifth in terms of the outstanding amount of securities-backed lending, up by two positions. The scale of the Company's entrusted funds amounted to 769.481 billion units, which ranked fifth, up by three positions. The Company's research team still ranked sixth among the best domestic research teams according to *New Fortune*. In the first half of 2017, the Company ranked second in terms of the brokerage fees received from mutual funds.

Chapter 3: Summary of Operation

(II) Analysis on the Company's Competitiveness

1. *A leading modern investment bank in China with robust innovation capabilities*

The Company boasts a full-service business platform, a balanced business structure and industry leading comprehensive strength. It has been among the top ten securities companies for years in terms of revenue and asset scale. The Company was one of the first securities firms to be qualified for the pilot innovation program in 2004, and innovation has always been an important strategic direction of the Company. With the ongoing efforts in developing and expanding new products and services, the Company has established a leading position in different segments, including the prime brokerage, custody and outsourcing, merger and restructuring, asset securitization, cross-border investment banking and global commodity trading.

During the Reporting Period, the Company obtained qualifications for various new businesses ahead of its peers, including the qualification of core dealer of credit risk hedging instruments in the inter-bank market. The Company also obtained qualifications for the market-making of soybean meal options and then white sugar options, becoming the only fully-licensed market-maker of options in the PRC. The Company retained the high-profile competence in independent research and development. For example, the Company launched xFrameworks, its own application development framework towards corporate clients, consisting of a visualized development kit, universal interfaces, micro-service middleware and a uniform development framework for back-office operations; and installed a head office data centre strictly at the national top criteria (Level A) and with the performance of key indicators up to the highest tier under the Uptime Tier IV, an international accreditation system.

2. *The prime broker of choice for institutional investors with strong institutional client service capabilities*

The Company is the first choice of prime broker preferred by a host of famous professional institutional investors in the PRC. The Company is the first prime broker in the securities industry providing one-stop services for institutional investors. In addition, the Company is the first securities firm to obtain the approval for providing comprehensive custodian services for private investment funds, and one of the first batch of securities firms to establish a prime brokerage trading system. The Company is also a leading provider of securities lending services and OTC products for institutional investors. The Company has launched xTradeMaster, an industry leading platform of comprehensive entrusted financial services for institutional clients.

As at the end of the Reporting Period, the Company had 9,490 private investment funds under custody that were filed with the relevant authority, representing an increase of 58.06% over the end of last year. The Company accounted for 26.89% of the total number of products under custody across the securities industry and ranked first. The value of assets under the Company's comprehensive custody and outsourcing services amounted to RMB2,078.861 billion (including RMB779.388 billion relating to the products of asset management subsidiaries), representing a year-on-year increase of 23.58%. During the Reporting Period, the Company acquired seven mutual funds as its new customers. As at the end of year, the Company became the custodian of both the largest number of mutual funds and the largest number of private investment funds under custody that were filed with the relevant authority.



Chapter 3: Summary of Operation

3. Differentiated and diversified capability of wealth management services and a strategically positioned business network

The Company has devoted substantial resources to transform its brokerage business from traditional securities brokerage to wealth management. Based on customers' asset size and investment needs, the Company has provided differentiated and diversified services and has been increasing the penetration of the capital-based intermediary services such as margin financing and securities lending business among affluent and high-net-worth customers, in order to satisfy customer needs through personalized, customized and diversified wealth management services.

The Company has steadily enlarged the geographical coverage of its branches. As at the end of the Reporting Period, the Company had 243 branches, with 62.14% of which are located in the well-developed and affluent regions of Pearl River Delta, Yangtze River Delta and the Bohai Rim, and 30.45% of which are located in Beijing, Shanghai and Shenzhen.

4. A comprehensive investment banking platform with premier integrated service capabilities for corporate clients

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

During the Reporting Period, the Company became one of the top three lead underwriters of stocks and bonds in terms of the total underwriting amount and one of the first-tier players in the industry. The Company ranked fifth in terms of the number of disclosed merger and restructuring projects for which it served as financial advisor, and obtained the highest rating (Class A) in the professional assessment of merger and restructuring business from the Securities Association of China for three consecutive years. In January 2018, the Company served as the sole underwriter of the "Belt and Road" corporate bond issued by GLP Iowa (普洛斯洛華), the first publicly-offered panda bond approved to be issued under the title of "Belt and Road" on the Chinese market. The Company ranked second among all PRC-based securities firms in terms of the IPO underwriting amount on the Hong Kong market, and third among all securities firms across the market. The Company completed the project that Zhengzhou Coal Mining Machinery (a flagship company in China making hydraulic support for integrated coal mining) acquired 100% equity interests of SG Holding (a famous electrical machinery company under BOSCH Group from Germany and a world-leading first-tier supplier of starters and electric generators of passenger vehicles and commercial vehicles). The conclusion of this project marked a vital step of the Company in facilitating the overseas acquisitions by high-end Chinese enterprises.

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5. *A highly collaborative business model with strong cross-selling capabilities*

The Company has established effective internal collaboration and service systems, including operating model of committees, project team approach and the recognition, assessment and incentive in respect of internal collaboration efforts. The Company has developed a comprehensive measurement and appraisal system based on synergistic value to record the synergistic effect of different business lines, further enhance the synergies across business lines and facilitate collaboration and cross-selling of different businesses in China and overseas. Also, through the full-service business platform, the Company provides comprehensive and one-stop financial wealth management services to clients.

6. *Prudent, proactive and comprehensive risk management and internal controls*

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

During the Reporting Period, the Company received the AA regulatory rating under the class of securities firms issued by the CSRC again, making it one of the only two securities firms to receive the "AA" regulatory rating for 10 consecutive years.



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

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

During the Reporting Period, the Company completed a number of projects relating to “Collaboration between Industrial Companies and Financial Companies (產融結合)” and “Collaboration between Financial Companies (融融結合)”, including the non-public issuance of preference shares worth RMB27.5 billion by China Merchants Bank and the stock-for-stock merger of Huabei Expressway Co., Ltd by China Merchants Highway Co., Ltd. (招商公路).

8. A visionary management with an international perspective supported by a professional team

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

Chapter 4: Report of the Board of Directors

I. Operation Discussion and Analysis

In 2017, China still adhered to the overall goal of achieving progress in stability. The supply-side structural reform continued to deepen, and the economy showed a positive trend toward steady growth. In the context of financial deleveraging and prevention of major risks, especially financial risks, the securities industry maintained a robust development as a whole with its development base being further solidified. During the Reporting Period, the average daily trading volume of stocks and funds in the SSE and the SZSE amounted to RMB474.967 billion, representing a year-on-year decrease of 11.30%. The performance of various market indexes was structurally divided, as the CSI 300 rose by 21.78% while the ChiNext Index and the ChinaBond composite net value (in aggregate) index fell by 10.67% and 4.16% respectively. The financing through IPO of shares on the primary stock market ramped up but the refinancing contracted, which led to a decrease in the total equity financing. The performance of bond financing was also structurally divided, as the issue of corporate bonds decreased by 60.26% year on year while the issue of asset-backed securities increased by 65.39% year on year. During the Reporting Period, the balance of margin financing and securities lending and the outstanding amount of securities-backed lending and stock repurchases in the SSE and SZSE continued to expand. According to the statistics of the Securities Association of China, the total revenue and net profit of the industry amounted to RMB311.328 billion and RMB112.995 billion, representing a year-on-year decrease of 5.08% and 8.47%, respectively.

2017 was the final year of the “catching up and forging ahead strategy” of the Company. Holding fast to the strategic focus, the Company worked hard to temper its skills, capabilities, quality standard and efficiency in line with the business guidelines to “boost income, enhance capability, maintain steady growth and achieve breakthrough”. As a result, the Company realized the objective of “outrunning the market and outperforming the peers” with multiple indicators capturing the best rankings ever, thus to conclude the three-year catch-up strategy consummately. Firstly, the Company’s core business indicators outperformed the market. Its revenue and other income as well as net profit amounted to RMB19.259 billion and RMB5.786 billion, respectively, both achieving higher rankings. Secondly, all business lines of the Company forged ahead with all strength against extremely fierce competition. Its leading positions are maintained or established in a number of business areas with strategic development prospects, such as prime brokerage, custody and outsourcing, bond underwriting, M&A and restructuring. Thirdly, assets of the Company were kept at high quality all the time, and major risk indicators covering liquidity risk and credit risk met regulatory requirements and the requirements of the Board. In 2017, the Company became one of the only two securities firms to receive the “AA” regulatory rating, being the highest rating granted for companies in its industrial class, for 10 consecutive years, establishing a good image of legal compliance and sound operation in the industry.

2017 witnessed the all-around boom of financial technologies, and in this year securities companies increasingly invested in IT research and development. During the Reporting Period, the Company continued to increase investment and enhance innovation in financial technologies. With the help of emerging information technologies such as artificial intelligence, blockchain, big data and cloud computing, the Company kept creating new market opportunities as well as improving customer experience, service efficiency and risk management. Firstly, the Company vigorously promoted its AI investment consulting services. Its AI information platform won the “Highest Achievement Award” for IT application projects at the Second Cloud Eagle Awards in 2017 (2017年度第二屆雲鷹獎) granted by the Cloud Application Branch of China Computer Users Association (中國計算機用戶協會雲應用分會). Secondly, the Company valued customer needs and further entrenched the industry-leading status of its smart online transactions platform, xTradeMaster and comprehensive trust services platform among other systems. Thirdly, the Company initiated the “Big Operation (大運營)” program that uses technology and data to establish an efficient and unified operating platform at company level in the future. Fourthly, the Company established the “Fund for Financial Technology Innovations (金融科技創新項目基金)” to fund the Company’s projects regarding financial technology innovation.

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II. Operating Results of Major Businesses for the Reporting Period

(I) Analysis of Principal Businesses

The Company offers comprehensive financial products and services to individual, institutional and corporate clients. The Company mainly operates in four business lines, namely brokerage and wealth management, investment banking, investment management, and investment and trading.

Unit: RMB'000

Item	Revenues from Principal Businesses and Business Lines				
	2017	Percentage	2016	Percentage	Change
Brokerage and wealth management	12,290,808	63.82%	12,759,670	68.78%	-3.67%
Investment banking	2,576,609	13.38%	2,459,479	13.26%	4.76%
Investment management	1,750,112	9.09%	1,322,651	7.13%	32.32%
Investment and trading	2,454,640	12.75%	1,286,558	6.93%	90.79%
Others	840,469	4.36%	786,310	4.24%	6.89%

In 2017, the revenue and other income of the Company amounted to RMB19.259 billion. In analysis, revenue from brokerage and wealth management business decreased by 3.67% year-on-year, representing a drop of 4.96 percentage points in its contribution to the total revenue and other income; revenue from investment banking business increased by 4.76% year-on-year, representing a rise of 0.12 percentage point in its contribution to the total revenue and other income; revenue from investment management business increased by 32.32% year-on-year, representing a rise of 1.96 percentage points in its contribution to the revenue and other income; and revenue from investment and trading business increased sharply by 90.79% year-on-year.

1. Brokerage and Wealth Management Business

The brokerage and wealth management business of the Company mainly includes retail brokerage and wealth management, capital-based intermediary business and institutional client services.

(1) Retail brokerage and wealth management

In 2017, the one-way transaction volume of stocks and funds in the A-share market amounted to RMB115.89 trillion, representing a year-on-year decrease of 11.30% and a decrease for two consecutive years. For the same period, the average net commission rate of the industry decreased by 12.11% to 0.354% as compared with the same period of last year, representing a continuation of the downward trend over previous years though at much narrower margin.

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In 2017, the Company persistently promoted retail brokerage business through mobile internet while tapping into offline channel resources. The Company specially built and upgraded the mobile platform – Zhiyuan Yi Hu Tong (智遠一戶通) and intensified efforts to build up the data operation system and big data platform, so as to identify customer needs with data and improve customer experience with Internet thinking. During the Reporting Period, the Company ranked seventh in terms of transaction volume of stocks and funds, up by one position as compared with the last year.

The Company continuously transformed its retail brokerage business towards wealth management and pursued stable commission rates. By integrating abundant R&D resources from within, the Company provided high value-added services to customers. For instance, the Company launched the scheme of asset allocation by broad types, the program of “trend-riding” (抓風口) for products and the service of customized institutional MOM and FOF, all of which generated good returns for our clients and made up a sustainable business model. Through big data analysis, the Company established a precise marketing model and a funds evaluation system to improve its capability of marketing and quality of after-sales service in all aspects, and optimized its wealth management plan packages to meet customer needs. In 2017, the Company recorded further growth in both the sales of financial products and the total number of customers of wealth management plans. During the Reporting Period, the sales of financial products amounted to RMB875.1 billion, representing a year-on-year increase of 2.24%; while the number of clients of wealth management plans totaled 2.54 million, representing a year-on-year increase of 4.1%. Meanwhile, the Company revised relevant rules and optimized relevant systems and processes in strict compliance with the requirements of the Administrative Measures on the Suitability of Securities and Futures Investors (《證券期貨投資者適當性管理辦法》) to forcefully regulate agency sales of financial products, which underpinned the effective implementation of requirements concerning the management of investors’ suitability.

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In respect of the business of Southbound Trading, the Company maintained its leading position in the market, and the commission income earned therefrom took ever larger share of its total commission income.

Operating indicators	Major Operational Data of Retail Brokerage and Wealth Management Business of the Company		
	2017	2016	Change
Total transaction amount of stock and funds	RMB9,288.111 billion	RMB10,129.838 billion	-8.31%
Market share of the trading volume of stock and funds	4.01%	3.88%	Increased by 0.13 percentage point
Ranking in terms of the trading volume of stock and funds	7th	8th	Increased by one rank
Number of eligible accounts (Note 1)	8.6141 million	6.7110 million	28.36%
Number of new accounts opened in the year	1.7026 million	1.7834 million	-4.56%
Number of branches	243	222	Increased by 21
Total trading volume under Southbound Trading	RMB105.487 billion	RMB40.320 billion	161.62%
Number of wealth management advisors	846	824	2.67%
Number of clients of wealth management plans	2.54 million	2.44 million	4.10%
Transaction amount of clients of wealth management plans	RMB1,876.8 billion	RMB1,933.8 billion	-2.95%
Total sales of wealth management products (Note 2)	RMB875.1 billion	RMB855.9 billion	2.24%

- Note: 1. Eligible accounts refer to fund accounts which are not dormant or unqualified.
2. The wealth management products sold by the Company include mutual funds, private investment funds and collective wealth management products of the Company (including subscription for and subsequent purchase of margin management products), trust products and products of fund subsidiaries.

In respect of futures brokerage, the Company engages in futures brokerage business through China Merchants Futures, a wholly-owned subsidiary. In 2017, the Company's market share in the futures market grew against a relatively obvious downtrend in the transactions of the futures market. As at the end of the Reporting Period, the market share of financial futures and commodity futures of the Company increased by 89.16% and 12.85% over the end of the previous period, respectively. At the same time, the Company actively developed relevant innovative businesses, and in particular, the Company established a risk management subsidiary and completed the filings of its business scope within the period. The scale of futures asset management business realized a year-on-year growth of 132.75% at the end of the period. The Company maintained its "AA" regulatory rating.

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(2) Capital-based intermediary services

The capital-based intermediary services of the Company mainly include margin financing and securities lending, securities-backed lending and stock repurchases.

In 2017, margin financing and securities lending in the A-share market grew stably. As at the end of 2017, the balance of margin financing and securities lending of the industry was RMB1.03 trillion, representing a year-on-year increase of 9.28%. The securities-backed lending market continued to grow rapidly. At the end of the year, the outstanding amount of securities-backed lending was RMB1.62 trillion, representing an increase of 26.91% over the end of last year.

During the Reporting Period, the Company actively promoted the quality and improved the efficiency of its capital-based intermediary services. The Company diligently tapped into the existing customer base of margin financing and securities lending through strengthening research on supporting services. It also optimized its credit policies for securities-backed lending and stock repurchases and provided customers with whole industry chain services, which further consolidated the competitiveness of such business. Compared with the end of 2016, the scale of margin financing and securities lending, securities-backed lending and stock repurchases steadily increased, and their rankings were further enhanced. As at the end of 2017, the balance of margin financing and securities lending grew by 7.23% year on year to RMB54.699 billion with market ranking rising to sixth. The general collateral ratio was 290.6%. The balance of securities-backed lending and stock repurchases increased by 36.44% year on year to RMB59.128 billion with market ranking rising to fifth, which supported the financing needs of customers and the development of the real economy. At the end of the year, the overall performance guarantee ratio of the securities-backed lending was 230.89%.

Operating indicators	Capital-based Intermediary Business of the Company and its Ranking		
	2017	2016	Change
Balance of margin financing and securities lending	RMB54.699 billion	RMB51.008 billion	7.23%
Ranking in terms of the balance of margin financing and securities lending	6th	7th	Up by one position
Market share of margin financing and securities lending	5.33%	5.43%	Decreased by 0.1 percentage point
Outstanding amount of securities-backed lending	RMB59.128 billion	RMB43.337 billion	36.44%
Ranking in terms of the outstanding amount of securities-backed lending	5th	7th	Up by two positions
Market share of securities-backed lending	3.64%	3.38%	Increased by 0.26 percentage point

Source: Exchanges, internal statistics of the Company

Note: The ranking is calculated on a consolidated basis. Data of CITIC Securities, CITIC Zhejiang and CITIC Shandong were consolidated, and data of Shenwan Hongyuan and Shenwan Hongyuan (Western) were consolidated.



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(3) Institutional client services

The Company keeps improving its institutional client services system. It has established an integrated prime brokerage services system with investment research, trading and custody service as basic core businesses and product sale, margin financing and securities lending, market making, operational outsourcing, funds hatching and Hedge Fund College program as value-added services, that provides institutional clients with one-stop solutions.

① Institutional sales and research

Operating with a client-oriented approach, the Company offered differentiated and personalized research services for institutional customers as an effort to enhance its capability of marketing towards institutional clients. The Company enjoyed an obvious advantage in terms of commission for its mutual funds, with the market share ranking among the top three for three consecutive years. According to the statistics of Wind, both the trading volume and commission for mutual funds of the Company ranked second in the industry in the first half of 2017 (the full year ranking has not yet been published). Besides, the Company kept improving its investment researches and sales services for key mutual funds to consolidate its leading position in commission for mutual funds.

In respect of research business, the Company continued to reinforce its research team. It introduced high-level researchers on market terms and established 20 industry research groups in an echelon structure to eliminate weak links in its research capability, and thus basically achieved full coverage of researches in all areas. In 2017, the Company's research team as a whole ranked sixth among the best domestic research teams announced by *New Fortune*, same as the last year. The research team was also selected as finalist for its researches on 18 industries, with rankings among top five relating to 15 industries. As at the end of 2017, the Company had a total of 186 researchers for researches on macroeconomic analysis, investment strategy, sector trend and company status, fixed-income products and derivatives. Among those research areas, A Share research involved more than 35 industries and over 1,170 listed companies, covering 85% of the total market capitalization of CSI 300 Index constituent stocks and 66% of the total market capitalization of ChiNext Index constituent stocks. In 2017, the Company issued a total of over 5,400 research reports, representing a year-on-year increase of approximately 36%; organized more than 30 medium- and large-sized industry forums and seminars; and arranged over 450 teleconferences for institutional investors, roadshows for 16,000 participants and more than 1,700 joint researches for listed companies.

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② Prime brokerage

The Company was the first to establish the prime brokerage business platform in the industry, and always maintains a leading position in the industry. The company continues to take advantage of the prime brokerage service chain “sales ability + capital referral + custody strength + R&D capabilities + prime brokerage PB system + financial strength” to provide high quality integrated financial services for prime brokerage customers including private investment funds, fund subsidiaries and trust companies.

In terms of sales ability, the Company forged a all-round product agency sales system, with its amount of agency sales ranking among the top players in the industry. In terms of capital referral, the Company cooperated with a number of third-party sales platforms to vigorously diversify financing channels of private investment funds. In terms of custody and outsourcing business, the Company provided one-stop services including asset custody, liquidation, shareholding registration, valuation and performance assessment. In terms of R&D services, the Company provided quality investment research and financial engineering services to assist the development of personalized trading strategies or products. In terms of constructing the prime brokerage system and platform, it upgraded relevant IT system services, created a complete IT system ecosystem for prime brokerage business, gave strong services support to customers and provided capital-based intermediary businesses such as margin financing and securities lending to customers by leveraging on its strong financial strength. In addition, the “Hedge Fund College” program of the Company for the start-up private investment funds achieved initial success and became a featured brand and an important component of the Company’s prime brokerage business platform.

As at the end of 2017, the tradable securities assets under the Company’s prime brokerage business reached RMB182.5 billion, representing a year-on-year increase of 39%. During the Reporting Period, the prime brokerage trading volume of stocks and funds increased by 24% as compared with last year.

③ Custody and outsourcing

In 2017, though the regulatory environment became increasingly stringent and industry competition became more and more fierce, the Company still led the industry in terms of various performance indicators on the custody and outsourcing business. Indicators such as the number and value of products relating to private investment funds under our custody and outsourcing and the number of custody products of mutual funds ranked first in the industry for four consecutive years. As at the end of 2017, the Company had a total of 16,354 custody and outsourcing products (including 660 products of asset management subsidiaries) with a total value of RMB2,078.861 billion (including total value of products of asset management subsidiaries of RMB779.388 billion), representing year-on-year increases of 37.72% and 23.58%, respectively. According to the Asset Management Association of China, the market share of products under the custody of the Company which had been filed with the authority reached 26.89%. In addition, the Company vigorously developed new business types and sought qualifications as provider of new services. During the year, it became the first company in the industry that was approved to provide outsourcing services for mutual funds and to serve as outsourcer for the first WFOE (Wholly Foreign Owned Enterprise) private investment fund. As for marketing, the Company successfully hosted or co-organized multiple industry conferences in 2017, which have enhanced its influence at home and abroad.

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2. *Investment Banking Business*

Investment banking businesses of the Company include equity underwriting and sponsoring, debt underwriting, financial advisory and OTC investment banking businesses.

(1) Equity underwriting and sponsoring

According to Wind (using issuance dates as statistics caliber) statistics, the total equity financing in the A-share market was RMB1.5 trillion (including share issuance for asset acquisition, excluding exchangeable bonds) in 2017, representing a year-on-year decrease of 31.36%. IPO market has remarkably expanded as driven by the accelerated approval and offering of IPOs. The number of and proceeds from A Share IPOs were 419 and RMB218.609 billion, representing a significant year-on-year increase of 68.95% and 33.82%, respectively. However, affected by new regulations on refinancing and reduction in shareholding as well as stricter regulatory reviews, the refinancing market has remarkably shrunk. There were 567 companies conducting A-share refinancing with proceeds (including share issuance for asset acquisition, excluding exchangeable bonds) of RMB1.27 trillion, representing a year-on-year decrease of 31.52% and 36.65%, respectively.

During the Reporting Period, in face of a complex and ever-changing market environment, the Company overcame multiple difficulties and actively adjusted its investment banking business strategy, achieving higher rankings for its equity financing on the whole. According to Wind, the Company ranked seventh in the industry in terms of the amount of A Share underwritten and eighth in terms of the number of A Share underwriting projects as a lead underwriter, up by four and five positions from last year, respectively. The Company ranked seventh in the industry in terms of both the amount of IPO underwritten and the number of IPO underwriting projects. The ranking of the amount of IPO underwritten moved up by four positions from last year, mainly because the financing size was boosted by the completion of some high-quality medium and large IPO projects. The Company ranked sixth in the industry in terms of both the amount of refinancing underwritten and the number of refinancing underwriting projects, both much higher than 2016. Meanwhile, the Company made more efforts to expand IPO projects reserve, and in particular waged marketing campaigns targeting large and medium enterprises and high-growth companies in high-quality industries. According to the CSRC, as at the end of 2017, the number of IPO projects handled by the Company pending approval was 36 (including approved projects to be offered), ranking third in the industry.

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In 2017, the Company's capability to offer all kinds of investment banking products and services was improved, and more results were delivered by relevant transformation. While maintaining its advantages in serving small and medium clients, the Company made progress in marketing towards medium and large clients and SOE clients, which led to better customer structure. It also sharpened the focus on and intensified efforts in developing clients in key industries such as medical and health care, high-end equipment manufacturing, automobiles and consumption. During the Reporting Period, the Company completed a series of high-profile IPO projects with great market influence such as those for Electric Connector Technology Co., Ltd., Guangzhou Shangpin Home Collection Co., Ltd. and Monalisa Group Co., Ltd.

Project	Amount of Equity Underwriting and Number of Companies Underwritten by the Company				Year-on-year change in underwriting amount as lead underwriter
	2017		2016		
	Underwriting amount as lead underwriter (RMB100 million)	Number of companies	Underwriting amount as lead underwriter (RMB100 million)	Number of companies	
A Share IPO	93.23	17	59.92	12	55.59%
A Share refinancing	383.43	29	455.36	18	-15.80%
Total	476.66	46	515.29	30	-7.50%

Source: Wind Info, using issuance dates as statistics caliber

Note: Refinancing includes share issuance for asset acquisition but excludes convertible bonds

(2) Debt underwriting

In 2017, the bond market structure adjusted obviously. According to Wind, the issuance of credit bonds (deducting treasury bonds, local government bonds, inter-bank deposit certificates and policy bank debt) totaled RMB8.98 trillion for the year, representing a year-on-year decrease of 17.35%. Bonds issued by financial institutions (such as tier-two capital instruments and securities companies bonds), equity-related bonds (such as convertible bonds and exchangeable bonds) and asset-backed securities maintained a relatively strong growth momentum. However, the volume of issuance of traditional products including enterprise bonds, corporate bonds, medium-term notes, commercial paper and private placement notes all dropped to varying degrees, with the issuance of corporate bonds plunged by 60.26% year on year.

During the Reporting Period, in addition to enhancing its superior products, the Company increased its efforts to develop financial institution clients and asset-backed securities projects and continued to build up its pool of professionals. It maintained strong market competitiveness in bond underwriting, and ranked among the top three in the industry in terms of the amount of asset-backed securities underwritten for three consecutive years. Its amount of bonds underwritten (including debt securities issued as a principal) in 2017 (including debt securities issued as a principal) amounted to RMB411.189 billion, representing a year-on-year increase of 44.91%, achieving a rapid increase despite the adverse market condition. According to Wind, the Company ranked second in term of the amounts of both bonds underwritten and assets securitization underwritten. The Company was a leading product innovator in the market. It successfully underwrote the first bank REITs (BOC & CMS – Beijing Metro World Center ABS (中銀招商—北京凱恒大廈資產支持專項計劃)), the first internet consumer finance trust ABN (2017 JD Baitiao Trust ABN (Tranche I) of Beijing Jingdong Century Trading Co., Ltd. (北京京東世紀貿易有限公

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司2017年度第一期京東白條信託資產支持票據)), and one of the first PPP ABS traded on the Exchanges (Securities Backed by the Right to Heat Supply Fees under the New Urbanization PPP Project in Gu'an Industrial Zone of China Fortune Land Development Co., Ltd. (華夏幸福固安工業園區新型城鎮化PPP項目供熱收費收益權資產支持專項計劃)). The Company also successfully underwrote the first "Bond Connect" ABS (Fuyuan 2017-2 (福元2017-2)) and other projects to provide more foreign institutions with domestic and overseas debt financing services, in its march towards internationalization and diversification.

Project	Amount of Bonds and Number of Companies Underwritten by the Company				Year-on-year change in underwriting amount as lead underwriter
	2017		2016		
	Underwriting amount as lead underwriter (RMB100 million)	Issuance amount (tranche)	Underwriting amount as lead underwriter (RMB100 million)	Issuance amount (tranche)	
Asset-backed securities	2,085.40	278	1,042.30	163	100.08%
Financial bonds	1,080.50	41	290.50	18	271.94%
Corporate bonds	385.12	61	1,083.68	105	-64.46%
Commercial paper	112.66	14	40.00	10	181.66%
Other	448.21	112	377.25	53	18.81%
Total	4,111.89	506	2,833.73	349	45.11%

Source: Wind Info

(3) Financial advisory

Affected by the promulgation of new requirements on restructuring and accelerated pace of IPOs in 2016, the market size of the M&A and restructuring decreased slightly in 2017. According to Wind, in 2017, the transaction amount of M&A market in China (excluding inbound M&A and overseas M&A) amounted to RMB2.75 trillion, representing a year-on-year decrease of 13.02%. Under stringent regulatory environment, more M&A transactions were settled in cash and the number of transactions was 6,624, representing a year-on-year increase of 70.37%. Industrial M&A remained the most common transactions in the market, while cross-border (outbound) M&A was on the rise.

During the Reporting Period, to serve the needs of the real economy and industrial development, the Company actively captured business opportunities in SOE reforms, transformation and upgrading of economic structure and industrial integration, and kept improving its expertise in M&A and restructuring. According to Wind, the Company conducted 28 M&A transactions as disclosed, ranked third in the industry, increased by two ranks over last year. The total M&A transaction amount as disclosed was RMB58.218 billion, ranking sixth, which was the same as 2016. The Company completed a number of projects with great market influence, including the restructuring and listing of S.F. Holding, a leader in the courier services industry, the absorption and merger of Huabei Expressway by CMET and the acquisition and restructuring of Zhengzhou Coal Mining Machinery, which increased the Company's presence in the market and contributed to the development of the real economy, the transformation and upgrade of industries as well as SOE reform and integration.

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(4) OTC Business

In respect of the OTC business, the National Equities Exchange and Quotations (NEEQ) market experienced a dramatic change in 2017, as the number of enterprise candidates qualified for listing has been decreasing and a large number of such enterprises shifted to conduct IPO. As the favourable policies were yet to be implemented, enterprises which intended to list on the NEEQ held off their plans, resulting in a significant slowdown in the growth of sponsoring business for NEEQ. According to the Choice Financial Terminal (Choice 金融終端), as at the end of 2017, the number of newly listed companies on the NEEQ was 2,141, representing a year-on-year decrease of 56.89%. The number of fund-raising projects was 2,782, representing a year-on-year decrease of 28.50%. The amount of fund raised was RMB171.836 billion, representing a year-on-year decrease of 29.36%.

During the Reporting Period, the Company proactively adjusted the development strategy of OTC business and steadily promoted various businesses. In 2017, the Company helped 67 companies get listed and entered into contracts with 240 companies seeking listing. In aggregate, the company had helped 401 companies get listed, ranking fourth in the industry, up by two positions from the last year. The higher ranking was mainly due to the Company actively engaging in business involving the change of sponsorship broker, relating to the listings of 63 companies in total during the year. The Company managed the placing of shares by 88 companies, ranking fifth, which raised a total of RMB10.005 billion, ranking first, up by four positions from last year. The main breakthroughs were made in the development of large projects.

3. Investment Management Business

The Company engages in securities asset management business and private investment fund business through China Merchants Securities Asset Management Co., Ltd. and China Merchants Zhiyuan Capital Investment Co., Ltd., its wholly-owned subsidiaries, respectively. The Company engages in fund management business through Bosera Funds and China Merchants Fund, its associates.

(1) Asset management

In 2017, amid the relatively complicated market environment where the stock market experienced a 20/80 division and the bond market remained sluggish, it became more difficult to invest in asset management products. Asset management business faced ever tighter regulations. The PBOC, the CBRC, the CSRC and the CIRC jointly issued the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (Exposure Draft) (《關於規範金融機構資產管理業務的指導意見 (徵求意見稿)》 (hereinafter referred to as the “New Regulations on Asset Management”), which requires the removal of terms on guaranteed return (剛兌), prohibition of regulation-related arbitrage and multi-layered arrangement to circumvent regulation, and guides asset management business towards a model of active asset management. Though the New Regulations on Asset Management may deflate the business scale of the industry in a short term, it will help the industry return to its original purpose in a long run, reshape the industrial ecosystem, reduce systematic risks, and lay the foundation for its next boom of China’s asset management industry.

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During the Reporting Period, CMS Asset Management actively adjusted its business strategies, thus achieving steady growth in its operating results and asset management scale and higher position in the industry. First, the Company improved active asset management and significantly increased the core product investment performance. Second, the Company vigorously developed the asset securitization business. The issuance of asset securitization products amounted to RMB28.5 billion for the year, representing a year-on-year increase of 83%. Third, the Company energetically expanded the MOM business, entrenching the industry leading positions in product value and investment capability. Fourth, the Company made innovations in quick response to market hotspots. It launched the “CMS Gold Bull (招金牛)”, the first product linked to the DAX30 index, offered customized fixed-income products for banks and other institutions, and developed new modes of collective stock pledge. Fifth, the Company strictly performed risk control and compliance. The operations remained stable throughout the year and no risk events occurred. As at the end of 2017, the assets managed by the Company reached RMB779.166 billion, representing a year-on-year increase of 23.70%; and the assets under active management was RMB127.195 billion, representing a year-on-year increase of 24.85%. The Company ranked fifth in the industry in terms of the managed assets, up by three positions from last year, and its market share of asset management was 4.46%, up by 0.82 percentage point year on year.

Category	Business scale and net revenue of securities asset management business of the Company				Change in business scale
	Asset under management (RMB100 million)		Net revenue of asset management (RMB100 million)		
	2017	2016	2017	2016	
Collective wealth management	471.46	446.54	7.88	8.08	5.58%
Targeted wealth management	6,876.35	5,619.96	2.26	2.14	22.36%
Specialized wealth management	443.85	232.22	0.18	0.42	91.13%
Total	7,791.66	6,298.72	10.32	10.64	23.70%

Source: Wind

(2) Private Investment Funds

In 2017, the regulatory authorities continued to issue new policies and regulations on the equity investment industry with an aim to optimize the environment of capital market and establish a sustainable ecosystem with Chinese characteristics for private investment funds. The private investment fund industry kept moving forward in the new area of regulated development that values original purpose, intrinsic nature, bottom line and integrity. As at the end of 2017, there were 22,446 private investment fund managers registered with Asset Management Association of China, and a total of 66,418 private investment funds were filed. Among them, there were 13,200 registered private equity and venture capital fund managers who managed 28,465 funds, with the managed assets totaling RMB7.09 trillion.

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During the Reporting Period, CMS Zhiyuan eagerly made rectifications according to the Management Criteria for Private Investment Fund Subsidiaries of a Securities Firm (《證券公司私募投資基金子公司管理規範》) and was listed by the Securities Association of China among the third batch of regulated platforms regarding securities companies and their private investment fund subsidiaries on November 27, 2017. CMS Zhiyuan further strengthened its core competitiveness in respect of fund raising, investment, management and exiting with view to higher investment performance. At the same time, it continuously promoted business development and establishment of management platform and system, keeping the Company on the track of transformation from brokerage direct investment to brokerage private equity. In 2017, CMS Zhiyuan innovated the model of funds and actively organized for the setup of several funds. It completed the set-up of industrial investment fund with Anhui Transportation Holding Group Co., Ltd., and prepared for the set-up of Dachuang FOF (大創母基金), M&A fund, cultural industry fund and logistics industry fund with substantial progress being achieved. CMS Zhiyuan kept strengthening investor development and building up its management capacity, and actively searched for potential investors such as banks, insurers, FOF, local governments and investment platforms, listed companies, and third-party wealth management institutions. CMS Zhiyuan also entered into comprehensive strategic cooperation agreements with institutions such as CMET, Haier Electronics Group, and Shaanxi Cultural Industry Investment Holdings (Group) Co., Ltd. At the same time, CMS Zhiyuan continuously improved its ability of active asset management and fostered expertise of its investment team. It paid close attention to high-end manufacturing, TMT and other industries, and completed investments in projects such as cross-border purchases of a subsidiary of Bosch Group, iView (廣景科技), and Yida Media(藝達影視). As at the end of 2017, the total assets managed by CMS Zhiyuan exceeded RMB20 billion, ranking among the top in private investment funds.

(3) Fund management

① Bosera Funds

The Company holds 49% equity interest in Bosera Funds.

During the Reporting Period, Bosera Funds focused on the work priorities of “enhancing abilities, improving quality and efficiency, and consolidating development”, entrenched its traditional advantages, insisted on management innovation, and continuously enhanced the abilities of investment, sale and service as well as risk compliance. As a result, it attained steady growth in various businesses.

As at the end of 2017, the assets managed by Bosera Funds was RMB758.7 billion (excluding the assets managed by subsidiaries), representing a year-on-year increase of 23.68%, of which assets managed under mutual funds (excluding feeder funds) was RMB441.2 billion, representing a year-on-year increase of 17.35%. According to the statistics of the Asset Management Association of China, in 2017, the average monthly value of the non-monetary mutual funds of Bosera Funds was RMB245.4 billion, representing a year-on-year increase of 64.5%, ranking second in the industry.

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② China Merchants Fund

The Company holds 45% equity interest in China Merchants Fund.

During the Reporting Period, China Merchants Fund stepped up strategic thrust and talent pool building, with constant focus on quality improvement, cost reduction and efficiency increase. It reformed the investment research framework, perfected mechanisms and processes to increase sustainable good performance. It also closely tracked the market changes and tried to attract more investments under management under the principle of investors' suitability.

As at the end of 2017, the assets managed by China Merchants Fund was RMB507.3 billion (excluding the assets managed by subsidiaries), representing a year-on-year increase of 14.26%, of which the asset value of mutual funds under its management (excluding feeder funds) was RMB391.9 billion, representing a year-on-year increase of 13.45%. According to the statistics of the Asset Management Association of China, in 2017, the average monthly value of the non-monetary mutual funds of China Merchants Fund was RMB172.1 billion, representing a year-on-year increase of 38.5%, ranking eighth in the industry.

4. *Investment and Trading Business*

Investment and trading business includes the investment and trading of equity and fixed-income securities and other financial products.

In 2017, the financial market changed remarkably. Overseas economies continued to recover, and domestic economy improved in its internal stability. The profitability of leading companies rebounded, monetary policy marginally tightened, and financial deleveraging accelerated. All these factors resulted in a structurally-divided A-share market to a great extent, where the performance of quality blue chips diverged from that of medium and small cap stocks. The leading core assets represented by the SSE 50 Index took a long bull run. In the bond market, market liquidity was increasingly tighter. The bond market was adjusted profoundly, as bond yield kept rising and the market fluctuated more violently.

(1) Equity investment

In the context of strong regulation and deleveraging in the financial market, the Company strictly complied with regulatory requirements in conducting its proprietary equity investment. By adjusting the structure of investment positions, ramping up investment research and using hedging and other strategies, the directional investment of A Shares delivered good results, with investment return rising sharply year on year. In addition, the Company engaged in derivative investments by adopting quantifying and hedging approaches, in order to gain stable excess return with low risk exposure. Its existing businesses mainly included market-making for funds and exchange-traded options and trading of OTC derivatives. In terms of market-making for funds, the Company actively developed new projects and expanded the business scale. In terms of OTC options, the Company intensified marketing and promotion efforts, and the business grew rapidly. In terms of market-making for exchange-traded options, the Company greatly enhanced the market competitiveness of the quotation. The Company became the only full-license market-maker qualified to conduct market-making for all types of domestic options.

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(2) Fixed-income instruments, currencies and commodities (FICC)

In respect of the proprietary bond trading business, the Company continued to strengthen macro-economic research and credit research, steadily expanded the investment scale, vigorously developed neutral arbitrage strategies, enlarged revenue from innovative businesses, and strengthened management of interest rate risk, credit risk and liquidity, thus achieving good results in a complex operating environment. At the same time, the Company kept developing its commodity business with strong efforts, by broadening its proprietary trading of derivatives to cover both non-ferrous metals and ferrous metals, and by gradually establishing multi-variety and multi-strategy portfolios, which boosted its profitability. In respect of foreign exchange business, the Company was eagerly applying for foreign exchange business qualification with the State Administration of Foreign Exchange and the CSRC, developing our working team and system steadily.

(3) Sale and trading of OTC products

In 2017, the Company steadily pressed ahead the creation and launch of its OTC products. Specifically, it optimized product design, further enriched product offerings and fully promoted personalized services to corporate customers. During the Reporting Period, the Company issued a total of 216 structured notes worth RMB46.06 billion; and offered 40 private investment funds as sales agency, with the cumulative subscriptions of RMB2.2 billion.

In respect of the NEEQ market-making business, the Company eliminated projects with poor fundamentals and high risks. It also adjusted the positions, increased the turnover rate of existing stocks, and improved the efficiency of fund utilization while controlling the overall scale. In 2017, the NEEQ market-making index fell by 10.65% during the year, and the market-making business of the Company outstripped the market by 3.5 percentage points. The Company is providing market-making services for 119 stocks with cumulative investment amount of RMB661 million.

5. Overseas Business

The Company operates overseas business through China Merchants Securities International Company Limited, its wholly-owned subsidiary. CMS International is principally engaged in securities and futures contracts brokerage, custodian services, listing sponsorship, financial advisory, corporate financing, investment management, asset management, market researches and other businesses permitted by the regulatory rules in places where the subsidiaries are located, through the establishment of different subsidiaries. In recent years, taking Hong Kong as a centre of operation, the Company has obtained regulatory licenses in the UK, South Korea and other places successively and pushed forward its internationalization strategy, and it has cultivated some leading businesses among China-based securities firms, including overseas investment banking and global commodity business.

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In recent years, the demand of domestic customers for interconnection with overseas markets has been on the rise. The connect regimes between mainland and Hong Kong markets and between Chinese and overseas markets have advanced steadily, enabling capital from China to invest overseas. The “Belt and Road” national strategy has ushered in a new historical period for Chinese enterprises and funds to conduct overseas acquisition, M&A, investment and financing. The gradual implementation of such regimes as mutual recognition of funds, Shenzhen-Hong Kong Stock Connect, Shanghai-Hong Kong Stock Connect and Bond Connect has created new opportunities for China-based securities firms in the Hong Kong market to build cross-border business platforms. In 2017, the stock market in Hong Kong saw improvement in both trading volume and price, with Hang Seng Index increasing by approximately 36%. The average daily trading volume was RMB88.2 billion, representing a year-on-year increase of 32%. The number of companies went public through IPO was 174 (including listed companies transferred from the GEM to the main board), representing a year-on-year increase of 38%, which raised RMB128.2 billion, representing a year-on-year decrease of 34%.

During the Reporting Period, CMS International continued to develop the full-service investment banking business model following the client-oriented approach, and actively collaborated with the Group and the head office in marketing campaigns targeting major strategic clients to drive the development of cross-border business. In 2017, the Company underwrote 10 IPOs in the Hong Kong market as lead underwriter with a total underwriting amount of US\$940 million, ranking third in the market. A great number of IPO projects with great market influence was underwritten by the Company as lead underwriter, including those for WuXi Biologics (藥明生物), China Literature (閱文集團) and Yixin Group (易鑫集團). The Company underwrote 42 tranches of bonds worth US\$3.377 billion which represented a surge of 392.3% over the last year, and ranked 29th in the industry, up 13 positions from last year. Major breakthroughs were made in cross-border M&A business. The Company helped Prax Capital complete the disposal of its major apparel brand to Belle Group (百麗集團), and assisted Shanghai Pharmaceuticals to acquire 100% equity of the medical and medical product distribution business in China of Cardinal Health Inc, a world-leading medical company.

The Company continued to transform and upgrade its securities business segment, with relevant core business indicators improved substantially as compared with last year. In respect of fix income business, the annualized yield of credit bonds investments of CMS International outperformed the market in 2017, driving the overall investment return of CMS International to increase by 3.5 times year-on-year. CMS International ranked third among the Top Asset Managers in Asian G3 Bonds (亞洲G3債券最佳資產管理機構) for 2017 released by *The Asset*, which is the highest ranking among Chinese firms for two consecutive years.

In June 2017, the Korean subsidiary of CMS International obtained the license for financial investment business from the Financial Services Commission of the Republic of Korea. The Company became the first securities firm in China to expand its business to Korea.

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6. Outlook for 2018

In 2018, the economy of China is expected to maintain a moderate yet steady growth, shifting from the developmental stage of “scale expansion” to that of “quality improvement”. Under the overall requirements of serving the real economy and raising the proportion of direct financing, the capital market is expected to see a robust rally in its size, degree of activity and amount of direct financing. The trend that favors institutional players in the market will become more and more pronounced, and the capital market will become increasingly internationalized. More regulatory policies will be introduced to safeguard the bottom line against systematic financial risk, while efforts will be maintained on reform and innovation, in pursuit of healthy development towards a multi-layer capital market. The Company has established the operating guideline of “facilitating reform, stabilizing growth, renewing strategic layout, preventing risks”, and accordingly it will diligently enlarge the revenue and actively renew its strategic layout.

In respect of brokerage and wealth management businesses: the Company will improve the system of wealth management services for trading purpose and expedite the transformation towards non-trading wealth management. It will expand the source of customers for capital-based intermediary services, optimize capital pricing and risk-based pricing, enhance credit management capability, and seek higher ranking and market share for its interest income. For institutional business in particular, the Company will seize the opportunity arising from pilot programs on the transition of mutual funds settlement model, actively study and adjust marketing service methods, and capitalize on policy changes to entrench its advantages in institutional brokerage. It will establish and perfect the model of integrated institutional clients management, solidify and expand its advantages in services as investment research, sales, market making and system provision, with an aim to achieve rapid growth in the comprehensive income from prime brokerage. It will keep enriching the offerings of custody services, upgrading service platforms and innovating service modes, and at the same time the Company will capture the opportunities brought by the introduction of the New Regulations on Asset Management and the overall opening-up of capital market so as to exploit market potential.

In respect of investment banking business: the Company will continuously improve the quality of IPO projects, vigorously push forward the effective implementation of existing projects. Meanwhile, it will make more efforts to develop high-quality medium and large corporate clients, unicorn enterprises and high-growth enterprises with focus on customer needs and industrial transformation and upgrading, with view to improving customer structure and consolidating customer base. The Company will keep a watchful eye on changes to the regulatory policies on OTC business, properly serve companies seeking listing on the NEEQ, as it strives to materialize the intent to provide services across through entire life cycle and full industrial chain for corporate clients.

In respect of investment and trading business: the Company will closely track changes to the regulatory policies on market innovation, and strive to obtain licenses for RMB foreign exchange business as soon as possible. It will enrich investment types, expand the investment scale, improve the expertise in capital application and management, ramp up researches on neutral investment strategies, and ultimately establish an investment profiting model that is cross-market, equipped with multiple strategies, diversified, and stable.

In respect of investment and management business: CMS Asset Management will actively develop active asset management, build up investment management capacity, introduce more key talents, strengthen product design expertise, and enhance the trend-riding insight, so as to achieve breakthroughs in both product scale and revenue-generation. CMS Zhiyuan will energetically improve its post-investment management platform, speed up the implementation of existing projects in the reserve, so as to achieve rapid expansion of its direct investment business.

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In 2018, the Company will also take the initiative to renew its strategic layout. For financial technology, it will uphold the strategic direction of “digitalized and intelligent” progress, further broaden the pool of high-level financial technology professionals, set up incubation platform for financial technology innovations, and boost equity investment in emerging technology companies. It will also facilitate strategic cooperation with internet giants to better apply new financial technology across the Company. In addition, the Company will actively grasp the strategic and cooperative opportunities arising from “Belt and Road” initiative, accelerate its international progress and actively deploy pan-finance and external strategic cooperation, for the purpose of nurturing new business growth points.

(II) Analysis of Financial Statements

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

Unit: RMB'000

Item	Current period	Previous period	Change
Total revenue and other income	19,258,886	18,551,718	3.81%
Total expenses	12,997,819	12,728,121	2.12%
Profit before income tax	7,106,556	6,452,920	10.13%
Profit of the year attributable to shareholders of the Company	5,785,956	5,403,451	7.08%
Net cash used in operating activities	-27,311,295	-2,448,925	
Net cash used in investing activities	-7,631,703	9,769,807	-178.12%
Net cash generated from financing activities	36,659,731	-6,281,751	
Net increase (decrease) in cash and cash equivalents	1,716,733	1,039,131	65.21%

In 2017, the Company recorded revenue and other income of RMB19.259 billion, profit before income tax of RMB7.107 billion, net profit attributable to the parent company of RMB5.786 billion, representing a year-on-year increase of 3.81%, 10.13% and 7.08%, respectively. Weighted average return on net assets was 8.39%, representing a year-on-year decrease of 2.19 percentage points.

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2. Income

Unit: RMB'000

Item	Current period		Previous period		Change	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Fee and commission income	9,750,400	50.63%	10,302,652	55.53%	-552,252	-5.36%
Interest income	6,718,349	34.88%	6,470,406	34.88%	247,943	3.83%
Net gain on investment	2,876,948	14.94%	1,394,933	7.52%	1,482,015	106.24%
Other income and gains	-86,811	-0.45%	383,727	2.07%	-470,538	-122.62%
Total revenue and other income	19,258,886	100%	18,551,718	100%	707,168	3.81%

In 2017, the recognized revenue and other income amounted to RMB19.259 billion, representing a year-on-year increase of RMB707 million, or 3.81%, among which:

Fee and commission income recorded a year-on-year decrease of 5.36%, mainly due to the decrease in trading volume in A Share market and the decrease in commission rate of the securities trading agency business of the Company along with the overall decline in the industry. The income of securities and futures brokerage business recorded a year-on-year decrease of 12.69%. The fee and commission income of underwriting and sponsorship business and asset management business also recorded a slight decrease of 0.29% and 0.07% respectively, which were basically the same as the previous year.

Interest income recorded a slight year-on-year increase of 3.83%. Due to the decline in the trading activities in the stock market, margin deposits from customers recorded a drop, and the interest income from deposits with Exchanges and financial institutions decreased by 10.63% year-on-year. The business size of margin financing and securities lending recorded a slight year-on-year increase. However, affected by the decreased rate of return, interest income from margin financing and securities lending recorded a year-on-year decrease of 0.69%, and the interest income from securities-backed lending and stock repurchases increased by 49.79% year-on-year due to the significant growth in the business size of securities-backed lending and stock repurchases.

Net investment gains recorded a substantial year-on-year increase of 106.24%, primarily due to a significant increase in the income from equity investments and the substantial increase in the income of the subsidiary Zhiyuan Capital's private equity investment during the year.

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3. Expenses

Unit: RMB'000

Item	Current period		Previous period		Change	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Depreciation and amortization	198,526	1.53%	161,690	1.27%	36,836	22.78%
Staff costs	4,392,001	33.79%	3,296,948	25.90%	1,095,053	33.21%
Fee and commission expenses	1,813,267	13.95%	1,829,189	14.37%	-15,922	-0.87%
Interest expenses	4,921,863	37.87%	5,575,103	43.80%	-653,240	-11.72%
Tax and surcharges	96,490	0.74%	412,338	3.24%	-315,848	-76.60%
Other operating expenses	1,535,019	11.81%	1,386,631	10.89%	148,388	10.70%
Impairment losses	40,653	0.31%	66,222	0.52%	-25,569	-38.61%
Total expenses	12,997,819	100.00%	12,728,121	100.00%	269,698	2.12%

In 2017, the total expenses of the Company amounted to RMB12.998 billion, representing a year-on-year increase of 2.12%, of which:

Fee and commission expenses amounted to RMB1.813 billion, representing a slight year-on-year decrease of 0.87%, primarily due to a year-on-year decrease of RMB103 million in fee and commission expenses of securities and futures brokerage business, as a result of decrease in agency trading of securities and the corresponding decrease in stock exchange fees and brokerage commissions paid. The decrease was partly offset by the year-on-year increase of RMB84 million of the underwriting and sponsorship business expenses due to the increase in the business scale of the underwriting business of the Company.

Interest expenses amounted to RMB4.922 billion, representing a year-on-year decrease of 11.72%, mainly due to a substantial decrease in interest expenses for financial assets sold under repurchase agreements and in bond interest expenses payable as a result of a decrease in the liabilities and financing and the average interest rate of the Company.

Staff costs amounted to RMB4.392 billion, representing a year-on-year increase of 33.21% primarily due to an increase in the performance bonus of employees.

Other expenses mainly included depreciation and amortization, tax and surcharges, other operating expenses and impairment losses. The significant year-on-year decrease in tax and surcharges was primarily due to the replacement of business tax by value-added tax since May 2016.

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4. Segment Revenues

4.1 Analysis of segment revenues and other incomes

Unit: RMB'000

Business segment	Current period		Previous period		Change		Change
	Amount	Percentage	Amount	Percentage	Amount	Percentage	
Brokerage and wealth management	12,290,808	63.82%	12,759,670	68.78%	-468,862	-3.67%	-4.96%
Investment banking	2,576,609	13.38%	2,459,479	13.26%	117,130	4.76%	0.12%
Investment management	1,750,112	9.09%	1,322,651	7.13%	427,461	32.32%	1.96%
Investment and trading	2,454,640	12.75%	1,286,558	6.93%	1,168,082	90.79%	5.81%
Others	840,469	4.36%	786,310	4.24%	54,159	6.89%	0.13%

In 2017, the revenue and other income of the Company amounted to RMB19.259 billion, of which:

Revenue from the brokerage and wealth management recorded a year-on-year decrease of 3.67% and its percentage of the total revenue and other income decreased by 4.96 percentage points. In 2017, the average daily trading volume of the SSE and the SZSE and the average net commission rate of the industry recorded a year-on-year decrease of 11.30% and 12.11% respectively. However, during the Reporting Period, as the Company continued to promote the transformation of retail brokerage business to wealth management and internet mobilization, the market share in terms of the transaction amount of stock and funds of the Company increased by 0.13 percentage point year-on-year, representing an increase of 3.35%. The average daily amount of margin financing and securities lending and securities-backed lending owned by the Company recorded a year-on-year increase of 5% and 95% respectively, and interest income from capital-based intermediary business recorded a year-on-year increase.

Revenue from the investment banking business recorded a year-on-year increase of 4.76% and its percentage of the total revenue and other income increased by 0.12 percentage point. This was mainly because the Company seized the market opportunity of accelerated IPO review and issuance which resulted in the significant increase of the IPO underwriting scale and in turn led to a substantial year-on-year increase in revenue. However, it was partly offset by financial deleveraging, the sharp drop in corporate bond underwriting income due to the dramatic drop in the issuance of corporate bonds and enterprise bonds caused by the rise in market interest rates.

Revenue from the investment management business recorded a year-on-year increase of 32.32% and its percentage of the total revenue and other income increased by 1.96 percentage points, mainly due to the significant year-on-year growth in the subsidiary CMS Zhiyuan's private equity investment management returns.

Revenue from the investment and trading business recorded a significant year-on-year increase of 90.79% and its percentage of the total revenue and other income increased by 5.81 percentage points, mainly due to a substantial increase in the Company's proprietary securities investment business income.

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4.2 Analysis of segment expenses

Unit: RMB'000

Business segment	Current period		Previous period		Change	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Brokerage and wealth management	8,893,220	68.42%	9,139,145	71.80%	-245,925	-2.69%
Investment banking	1,505,031	11.58%	1,126,736	8.85%	378,295	33.57%
Investment management	461,140	3.55%	505,540	3.97%	-44,400	-8.78%
Investment and trading	1,957,618	15.06%	955,441	7.51%	1,002,177	104.89%
Others	834,562	6.42%	1,064,209	8.36%	-229,647	-21.58%

Among changes in expenses of various business segments, the investment and trading business expenses recorded the greatest year-on-year increase of 104.89%, mainly due to an increase in interest expenses and performance bonus.

The expenses of investment banking business segment recorded a year-on-year increase of 33.57%, mainly due to the increase in underwriting scale, growth in related underwriting business expenses, and income growth driving the increase in performance bonus.

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5. Cash Flows

Unit: RMB'000

Item	Current period	Previous period	Change	Percentage change
Net cash used in operating activities	-27,311,295	-2,448,925	-24,862,370	—
Net cash used in investing activities	-7,631,703	9,769,807	-17,401,510	-178.12%
Net cash generated from financing activities	36,659,731	-6,281,751	42,941,482	—
Net increase(decrease) in cash and cash equivalents	1,716,733	1,039,131	677,602	65.21%

In 2017, the net increase in cash and cash equivalents of the Company was RMB1.717 billion. The net cash used in operating activities recorded a deficit of RMB27.311 billion. The net cash used in investing activities recorded a deficit of RMB7.632 billion. The net cash generated from financing activities amounted to RMB36.66 billion. The effect of foreign exchange rate changes recorded a deficit of RMB671 million.

- (1) Net cash used in operating activities recorded a deficit of RMB27.311 billion, representing a decrease of RMB24.862 billion as compared to 2016, primarily due to the increase in the scale of financial assets, advances to customers, and financial assets held under resale agreements.
- (2) Net cash used in investing activities recorded a deficit of RMB7.632 billion, representing an decrease of RMB17.402 billion as compared to 2016, primarily due to an increase in the net proceeds from the purchase of available-for-sale financial assets during the year.
- (3) Net cash generated from financing activities amounted to RMB36.66 billion, representing an increase of RMB42.941 billion as compared to 2016, primarily due to the issuance of perpetual subordinated bonds of the Company with an amount of RMB15 billion, a year-on-year increase of RMB71.854 billion in the proceeds from the issuance of bonds and short-term financial bills payable, and a year-on-year increase of RMB41.092 billion in the repayment of bonds and short-term debt instruments.

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6. Overview of consolidated statement of financial position

Unit: RMB'000

Item	December 31, 2017		December 31, 2016		Change	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Non-current assets						
Property and equipment	1,832,087	0.64%	1,779,170	0.73%	52,917	2.97%
Investment properties	—	0.00%	—	0.00%	—	
Goodwill	9,671	0.00%	9,671	0.00%	—	0.00%
Other intangible assets	21,579	0.01%	23,429	0.01%	-1,850	-7.90%
Investment in associates	7,489,497	2.62%	5,288,506	2.18%	2,200,991	41.62%
Available-for-sale financial assets	7,793,163	2.73%	8,809,469	3.62%	-1,016,306	-11.54%
Financial assets held under resale agreements	8,801,458	3.08%	6,462,211	2.66%	2,339,247	36.20%
Deferred tax assets	903,214	0.32%	1,207,996	0.50%	-304,782	-25.23%
Other non-current assets	197,917	0.07%	195,050	0.08%	2,867	1.47%
Total non-current assets	27,048,586	9.47%	23,775,502	9.78%	3,273,084	13.77%
Current assets						
Advances to customers	59,235,426	20.74%	53,351,538	21.95%	5,883,888	11.03%
Accounts receivable	4,081,875	1.43%	6,827,360	2.81%	-2,745,485	-40.21%
Current tax assets	429,403	0.15%	425,412	0.18%	3,991	0.94%
Other receivables and prepayment	—	0.00%	—	0.00%	—	
Available-for-sale financial assets	25,482,190	8.92%	15,912,717	6.55%	9,569,473	60.14%
Loan receivables	84,621	0.03%	64,725	0.03%	19,896	30.74%
Financial assets held under resale agreements	27,297,865	9.56%	12,490,932	5.14%	14,806,933	118.54%
Financial assets at fair value through profit or loss	73,070,285	25.58%	48,244,455	19.85%	24,825,830	51.46%
Derivative financial assets	1,021,640	0.36%	1,109,613	0.46%	-87,973	-7.93%
Deposits with Exchanges and non-bank financial institutions	1,224,478	0.43%	540,442	0.22%	684,036	126.57%
Clearing settlement funds	14,010,491	4.90%	19,043,469	7.83%	-5,032,978	-26.43%
Cash and bank balances	52,656,695	18.43%	61,272,263	25.21%	-8,615,568	-14.06%
Total current assets	258,594,969	90.53%	219,282,926	90.22%	39,312,043	17.93%
Total assets	285,643,555	100.00%	243,058,428	100.00%	42,585,127	17.52%

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At the end of 2017, the total assets of the Company was RMB285.644 billion, increased by RMB42.585 billion, or 17.52%, as compared with the end of 2016. The total current assets amounted to RMB258.595 billion and total non-current assets accounted to RMB27.049 billion. Excluding the accounts payable to brokerage clients, the total assets at the end of the year amounted to RMB234.548 billion, increased by RMB59.072 billion, or 33.66%, as compared with the end of 2016. The major changes included: financial assets of the Company at the end of the period increased by RMB33.291 billion as compared with the end of 2016; and the financial assets held under resale agreements and advances to customers of the Company at the end of the period increased by RMB17.146 billion and RMB5.884 billion, respectively, as compared with the end of 2016.

The Company has maintained satisfactory assets quality and liquidity as well as adequate provision for impairment loss. Net current assets at the end of 2017 amounted to RMB82.229 billion. At the end of 2017, the Company's cash and bank balances and clearing settlement funds, financial assets, advances to customers, financial assets held under resale agreements and long-term equity investment accounted for 23%, 38%, 21%, 13% and 3% of the total assets, respectively.

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As at December 31, 2017, the gearing ratio of the Company was 66.18%, representing an increase of 0.32 percentage point as compared with the end of 2016.

Unit: RMB'000

Item	December 31, 2017		December 31, 2016		Change	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Current liabilities						
Short-term borrowings	6,611,444	3.20%	3,251,970	1.78%	3,359,474	103.31%
Short-term debt instruments	47,045,670	22.80%	21,782,330	11.89%	25,263,340	115.98%
Placements from other financial institutions	1,470,000	0.71%	1,500,000	0.82%	-30,000	-2.00%
Accounts payable to brokerage clients	51,095,335	24.77%	67,581,720	36.90%	-16,486,385	-24.39%
Accrued staff costs	4,640,605	2.25%	4,707,662	2.57%	-67,057	-1.42%
Other payables and accrued charges	5,022,544	2.43%	6,719,125	3.67%	-1,696,581	-25.25%
Provision	0	0.00%	0	0.00%	0	—
Current tax liabilities	141,817	0.07%	72,739	0.04%	69,078	94.97%
Other liabilities	0	0.00%	0	0.00%	0	—
Financial liabilities at fair value through profit or loss	5,492,509	2.66%	4,439,956	2.42%	1,052,553	23.71%
Derivative financial liabilities	1,584,910	0.77%	1,842,803	1.01%	-257,893	-13.99%
Financial assets sold under repurchase agreements	33,382,970	16.18%	19,398,988	10.59%	13,983,982	72.09%
Long-term borrowings due within one year	378,134	0.18%	368,596	0.20%	9,538	2.59%
Bonds payable due within one year	19,499,911	9.45%	5,000,000	2.73%	14,499,911	290.00%
Total current liabilities	176,365,849	85.49%	136,665,889	74.62%	39,699,960	29.05%
Net current assets	82,229,120	—	82,617,037	—	-387,917	-0.47%
Total assets less current liabilities	109,277,706	—	106,392,539	—	2,885,167	2.71%
Non-current liabilities						
Financial assets sold under repurchase agreements	0	0.00%	0	0.00%	0	—
Accrued staff costs	787,540	0.38%	787,540	0.43%	0	—
Deferred tax liabilities	235,002	0.11%	98,754	0.05%	136,248	137.97%
Deferred income	126,000	0.06%	126,000	0.07%	0	—
Bonds payable	27,729,674	13.44%	45,465,206	24.82%	-17,735,532	-39.01%
Long-term borrowings	1,065,786	0.52%	0	0.00%	1,065,786	—
Total non-current liabilities	29,944,002	14.51%	46,477,500	25.38%	-16,533,498	-35.57%

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As at the end of 2017, the total liabilities of the Company was RMB206.31 billion, representing an increase of RMB23.166 billion, or 12.65%, as compared with the end of 2016. The current liabilities amounted to RMB176.366 billion and non-current liabilities amounted to RMB29.944 billion. Accounts payable to brokerage clients decreased by RMB16.486 billion as compared with the end of 2016. Excluding the accounts payable to brokerage clients, the total liabilities of the Company increased by RMB39.653 billion as compared with the end of 2016. The financial assets sold under repurchase agreements, short-term debt instruments and short-term borrowings at the end of the period increased by RMB13.984 billion, RMB25.263 billion, and RMB3.359 billion, respectively; and bonds payable at the end of the period decreased by RMB3.236 billion.

Unit: RMB'000

Item	December 31, 2017		December 31, 2016		Change	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Equity						
Share capital	6,699,409	8.44%	6,699,409	11.18%	0	—
Other equity instruments	15,000,000	18.91%	0	0.00%	15,000,000	—
Capital reserve	27,533,939	34.71%	27,533,939	45.95%	0	—
Investment revaluation reserve	327,404	0.41%	-315,695	-0.53%	643,099	-203.71%
Foreign currency translation reserve	-114,737	-0.14%	52,121	0.09%	-166,858	-320.14%
General reserves	12,790,340	16.12%	11,498,783	19.19%	1,291,557	11.23%
Retained profits	16,993,794	21.42%	14,357,780	23.96%	2,636,014	18.36%
Equity attributable to shareholders of the Company	79,230,149	99.87%	59,826,337	99.85%	19,403,812	32.43%
Non-controlling interests	103,555	0.13%	88,702	0.15%	14,853	16.74%
Total equity	79,333,704	100.00%	59,915,039	100.00%	19,418,665	32.41%

As at the end of 2017, the equity attributable to shareholders of the Company was RMB79.23 billion, representing an increase of 32.43% as compared with the end of 2016, mainly because the issuance of perpetual subordinated bonds of the Company amounted to RMB15 billion, the net profit attributable to the parent company amounted to RMB5.786 billion, dividends distributed to shareholders amounted to RMB1.266 billion and interest payable for perpetual subordinated bonds amounted to RMB592 million.

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(III) Analysis of investment

1. Analysis of total external equity investments

During the Reporting Period, the Company added RMB1.44 billion of new external equity investments, including the capital increase of RMB495 million by the Company in China Merchants Fund, and the investment of RMB945 million by CMS Investment, a subsidiary of the Company, to Qingdao Asset Management Co., Ltd.

(1) Significant equity investments

Unit: RMB10,000

Target	Initial investment	Shareholding as at the beginning of the period (%)	Shareholding as at the end of the period (%)	Closing balance	Gain or loss during the Reporting Period	Change in equity attributable to the owner during the Reporting Period	Accounting item	Source
Bosera Asset Management Co., Limited	369,319.04	49.00	49.00	446,710.64	45,998.25	-391.37	Long-term equity investment	Acquisition
China Merchants Fund Management Co., Ltd.	85,084.45	45.00	45.00	198,859.33	36,138.05	-98.57	Long-term equity investment	Promotion and acquisition
Total	454,403.49	—	—	645,569.97	82,136.30	-489.94	—	—

Notes:

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

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(2) Significant non-equity investment

Unit: RMB10,000

Item	Amount	Progress	Amount invested during the year	Total investment paid	Return
Construction project of the China Merchants Securities Building	145,000.00	78.10%	5,872.76	113,247.21	—
Total	145,000.00	—	5,872.76	113,247.21	—

(3) Financial assets measured at fair value

Unit: RMB10,000

Item	As of the end of 2017		2017	
	Initial investment cost/nominal amount	Fair value	Investment gains	Change in fair value
Financial assets at fair value through profit or loss	7,282,130.44	7,307,028.47	147,246.48	87,604.60
Available-for-sale financial assets	3,290,903.57	3,327,535.36	67,357.58	87,609.44
Derivative financial assets	6,680,087.27	102,164.04	-26,165.90	10,307.38
Derivative financial liabilities	6,680,087.27	158,491.02	-26,165.90	10,307.38
Financial liabilities at fair value through profit or loss	553,131.34	549,250.94	-1,741.61	3,086.25
Subtotal	—	—	186,696.55	188,607.67

(IV) Material acquisition and disposal of subsidiaries, associates and joint ventures

During the Reporting Period, the Group did not have any material acquisition and disposal of subsidiaries, associates and joint ventures.

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(V) Analysis of major subsidiaries and associated companies

1. Analysis of subsidiaries

(1) China Merchants Securities Asset Management Co., Ltd.

CMS Asset Management is a wholly-owned subsidiary of the Company with a registered capital of RMB1 billion. Its principal business is securities asset management.

Unit: RMB10,000

Item	For/as of the end of 2017	For/as of the end of 2016
Registered capital	100,000	100,000
Total revenue and other income	115,591	112,693
Net profit	71,837	62,702
Total assets	309,844	236,397
Net assets	276,113	207,743

(2) China Merchants Securities International Company Limited

CMS International is a wholly-owned subsidiary of the Company and has a paid-up capital of HK\$1.804 billion. CMS International is principally engaged in securities and futures contracts brokerage, custody services, listing sponsorship, financial advisory, corporate financing, investment management, asset management, market researches and other businesses permitted by local securities regulatory rules in the place of relevant subsidiary through its subsidiaries. The year-on-year increase in the profit of CMS International for 2017 was primarily due to the higher revenue from its securities brokerage business and a significant increase in the revenue from its proprietary securities trading business.

Unit: HK\$10,000

Item	For/as of the end of 2017	For/as of the end of 2016
Paid-up capital	180,363	180,363
Total revenue and other income	121,996	96,263
Net profit	29,952	8,940
Total assets	2,248,187	1,781,790
Net assets	318,438	287,539

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(3) China Merchants Futures Co., Limited

China Merchants Futures is a wholly-owned subsidiary of the Company with a registered capital of RMB630 million. As of December 31, 2017, China Merchants Futures had four branches in Beijing, Guangzhou, Shanghai and Hangzhou. Its principal businesses include commodity futures brokerage, financial futures brokerage, futures investment consultation and asset management.

Unit: RMB10,000

Item	For/as of the end of 2017	For/as of the end of 2016
Registered capital	63,000	63,000
Total revenue and other income	60,160	56,875
Net profit	16,858	15,238
Total assets	565,853	858,911
Net assets	130,037	113,178

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

CMS Zhiyuan is a wholly-owned subsidiary of the Company with a registered capital of RMB1.8 billion. Due to business model adjustment caused by changes to the regulatory policies, the Company convened the sixth meeting of the sixth session of the Board on December 26, 2017 which considered and approved the resolution on adjustment of the capital increase to CMS Zhiyuan. Pursuant to resolution, the capital increase was adjusted from RMB2.3 billion to RMB400 million, and the first instalment of RMB100 million for capital increase was transferred at the end of year. CMS Zhiyuan mainly engages in private equity investment funds and related consultancy and advisory services and other business as permitted by regulatory authorities.

Unit: RMB10,000

Item	For/as of the end of 2017	For/as of the end of 2016
Registered capital	180,000	170,000
Total revenue and other income	59,240	18,934
Net profit attributable to the parent company	30,809	2,521
Total assets	606,158	544,407
Net assets attributable to the parent company	229,801	205,848

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

As at December 31, 2017, China Merchants Securities Investment Co., Ltd., a wholly-owned subsidiary of the Company, had a registered capital of RMB1.2 billion, all of which had been paid up. Its business scope includes securities investment, financial product investment, commodities investment (except for those prohibited by laws, administrative regulations and orders of the State Council unless prior approval is granted), investment management, investment advisory, equity investment and venture investment.

Item	For/as of the end of 2017	For/as of the end of 2016
Registered capital	120,000	120,000
Operating revenue	2,831	261
Net profit	2,658	496
Total assets	126,758	123,167
Net assets	126,543	123,886

2. Analysis of associated companies

(1) Bosera Asset Management Co., Limited

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

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

Unit: RMB10,000

Item	For/as of the end of 2017	For/as of the end of 2016
Registered capital	25,000	25,000
Operating revenue	310,216	241,485
Operating profit	128,545	93,051
Net profit	93,874	70,163
Total assets	555,662	432,238
Net assets	349,129	286,054

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

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

During the Reporting Period, the Company and China Merchants Bank Co., Ltd. jointly increased the capital of China Merchants Fund Management Co., Ltd. by RMB1.1 billion according to their existing shareholdings on a pro rata basis, of which RMB495 million was contributed by the Company. The capital increase was completed in December.

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

Unit: RMB10,000

Item	For/as of the end of 2017	For/as of the end of 2016
Registered capital	131,000	21,000
Operating revenue	274,694	234,581
Operating profit	101,220	81,993
Net profit	80,307	62,821
Total assets	664,780	388,380
Net assets	397,566	190,368

(3) Guangdong Equity Exchange Co., Ltd.

The Company holds 32.5% equity interest in Guangdong Equity Exchange Co., Ltd. The equity exchange was established on October 29, 2013 with a registered capital of RMB100 million. Its business scope includes the provision of venues, facilities and supporting services for the listing, transfer, financing, registration, custody and settlement of equity, debts, equity products and related financial products of unlisted companies, entrusted asset management and other businesses approved by laws. As of the end of 2017, the total assets and net assets of the equity exchange amounted to RMB240.4006 million and RMB114.4856 million, respectively. For 2017, the net profit amounted to RMB0.3019 million.

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(VI) Structured entities controlled by the Company

As of December 31, 2017, the Group consolidated eight structured entities, including mainly collective asset management schemes, limited partnership and investment funds. If the Group is involved in a structured entity as manager and investor, the Group assesses whether its potential variable returns will be significantly affected by the returns attributable to its investment and the remuneration as a manager and whether the Group is a principal of the entity. As of December 31, 2017, the total assets of the consolidated structured entities amounted to RMB5.497 billion.

(VII) Financing

1. Financing channels

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

Major financing activities during the year: In 2017, the Company issued four tranches of perpetual subordinated bonds, raising a total of RMB15 billion. The Company publicly issued three tranches of corporate bonds to qualified investors, raising a total of RMB6.56 billion. The Company issued 13 tranches of short-term securities companies corporate bonds, raising a total of RMB38.05 billion. The Company issued one tranche of subordinated bonds, raising a total of RMB2.2 billion. The Company issued 216 tranches of structured notes, raising a total of RMB46.06 billion. The Company recorded RMB8.055 billion in the closing balance of bank borrowings, which attributable to the credit borrowed from China Merchants Bank for the construction of CMS Building and the newly added bank borrowings of CMS International and its subsidiaries.

2. Structure of liabilities

As of the end of 2017, the total liabilities of the Company amounted to RMB206.31 billion. Excluding the transaction settlement funds from customers, the liabilities amounted to RMB155.215 billion. Liabilities mainly included corporate bonds, subordinated bonds, short-term corporate bonds, structured notes, bank loans and financing of bond repurchase. As of the end of 2017, the balance of bonds payable amounted to RMB47.23 billion, accounting for 30.43% of the liabilities. Long-term borrowings amounted to RMB1.444 billion, accounting for 0.93% of the liabilities. The balance of short-term financings payable amounted to RMB47.046 billion, accounting for 30.31% of the liabilities. The balance of financial assets sold under repurchase agreements amounted to RMB33.383 billion, accounting for 21.51% of the liabilities. Short-term borrowings amounted to RMB6.611 billion, accounting for 4.26% of the liabilities. Interbank borrowings amounted to RMB1.47 billion, accounting for 0.95% of the liabilities. Currently, the Company has no debts overdue. The solvency of the Company is strong and the liquidity risk is controllable.

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3. *Liquidity management*

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

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

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

1. Business innovation during the Reporting Period

In 2017, by grasping opportunities of capital market innovation, the Company actively innovated its businesses and products in line with the requirements of serving the real economy and customer needs, took the initiative to tackle challenges posed by financial technology, and firmly carried out the innovative development strategies, thus achieving remarkable results.

In respect of retail brokerage, the Company further explored the application of AI tools in enhancing the accuracy and effectiveness of customer services, upgraded and optimized its internet wealth management platform, and launched an AI information platform, so as to enhance the experience of scenario-based wealth management services and propel the growth of wealth management business.

In respect of institutional client business, the Company was qualified as one of the first providers of outsourcing services for mutual funds in the industry and became the first actual outsourcer for mutual funds. It cooperated with the manager of the first WFOE (Wholly Foreign Owned Enterprise) private investment fund in China to provide it with integrated financial services and help it issue the first tranche of WFOE fund in the industry. With a view to constantly innovating and upgrading its custody and outsourcing services, the Company profoundly integrated and refined relevant performance appraisal system and manager support platform, by rolling out multiple new functions such as settlement forecast, Custodial Online Banking Platform, information disclosure and performance analysis reporting and launching an automatic valuation system. The Company continuously perfected its prime brokerage management system by setting up an institutional client management system and institutional client marketing platform.

In respect of investment banking, the Company underwrote the first tranche of convertible corporate bonds issued by a non-listed innovative start-up in the market and the first debt financing instrument relating to the coordinated development of Beijing, Tianjin and Hebei Provinces, and helped S.F. Holding, a leader in the courier and logistics services industry, consummate its restructuring and listing. It persistently sought innovation in asset securitization products. Specifically, it launched one of the first Public-Private-Partnership (PPP) asset securitization products in China, ingeniously created and issued a host of innovative asset securitization products in the industry, expanded assets underlying securitization to those from sectors such as construction and decoration and home appliance manufacturing. The Company also channeled in foreign investors for domestic asset-backed securities through the “Bond Connect (Northbound Trading)” in the inter-bank market for the first time.

In respect of FICC business, the Company obtained the qualification as core dealer of credit risk mitigation instruments in the inter-bank market, the qualifications to create credit risk mitigation certificates and credit-linked notes (CLN) and the qualifications for the market-making of soybean meal options in Dalian Commodity Exchange and then of sugar options in Zhengzhou Commodity Exchange. It also improved the model featuring multi-variety and multi-strategy portfolios for the proprietary trading of derivatives, and broadened the proprietary trading of derivatives to cover copper, aluminum, iron ore and rebar.

In respect of asset management, the Company seized opportunities available on the market to launch the first wealth management product linked to euro in the industry. It kept improving the MOM product system and the relevant platform, and offered a variety of innovative products including “Cross-Border Asset Allocation”, “Equity Long Position”, “Equity + Quantification”, “Fixed Income +” as well as “MOM Pro” customized for institutional clients.

In respect of futures business, the Company became one of the first companies being granted the membership of Shanghai International Energy Exchange.

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2. Risk control of the innovative businesses

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

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

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

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

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

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

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

In 2017, pursuant to the Approval for Establishment of 17 Branches by China Merchants Securities Co., Ltd. from CSRC Shenzhen Office (Shen Zheng Ju Xu Ke Zi [2017] No. 12) (《深圳證監局關於核准招商證券股份有限公司設立17家分支機構的批覆》(深證局許可字[2017]12號)), the Company established 17 securities branches in 14 cities, including Beijing. The Company completed the establishment of a total of 21 securities branches during this year, including the four securities branches approved last year yet completely constructed this year. All of the branches have commenced operation. The Company has a total of 243 securities branches in operation.

The 21 new branches established in 2017 recorded a loss of RMB19.43 million during the Reporting Period.

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III. DISCUSSION AND ANALYSIS OF FUTURE DEVELOPMENT OF THE COMPANY

(I) Landscape and future development of the industry

1. *Competition in the Securities Industry*

At present, China's securities industry undergoes fierce competition amid a general trend that the strong is to become stronger. Large-scale securities firms keep improving their market competitiveness and overall strength by leveraging on their diversified business structure, solid customer base and strong capital strength, while some securities firms achieve differentiated development through intense efforts to develop such areas as internet finance and asset management.

2. *Development Trends of the Securities Industry*

China has already started a new journey towards a modern economic system and a strong capital market. The securities industry is now in a period of strategic opportunities for development and also a period of landscape reshaping where only the fittest may survive and where reshuffling accelerates. First, market competition gradually shifts from "price war" to "value-added service war". The business structure and growth momentums of securities firms will experience profound adjustments, with some traditional businesses, especially channel-related businesses, facing imminent twinges of transition. Innovating business models and nurturing new profit growth areas have become common topics concerning all securities companies. Second, large-scale securities firms with core competitiveness and strong capital strength have greater advantages, whereas those lacking core competitiveness will be eliminated, as the "80/20 Rule" that the strong is to become stronger will become more pronounced. Third, new technologies represented by mobile internet, big data, cloud computing and artificial intelligence are reconstructing the ecosystem of the financial industry and reshaping the future of finance. The ability to apply new technologies is increasingly a vital weapon for securities companies to win the competition. Fourth, as the system of multi-level capital markets deepens and broadens, the economies of scale still remain the developmental theme of the securities industry.

(II) Development strategies of the Company

1. *Opportunities for the Company*

Looking ahead, China's securities industry will still be in the period of significant strategic opportunity. Firstly, the socialism with Chinese characteristics has entered a new era, providing fertile soil for the securities industry to maintain long-term, healthy and sustainable growth. Secondly, as the supply-side structural reform deepens, the economic transformation and update in China will progress at a faster pace as driven by new development concepts and new growth momentums, which is expected to bring strategic business development opportunities for securities companies. Thirdly, given swift accumulation in residents' wealth and growing demand for higher-quality financial consumption, investment and wealth management services, institutional investors will gradually become leading players in the market, and the wealth management market is expected to develop in a standardized manner and maintain a moderately rapid growth. Fourthly, amid expanding multi-level capital markets in both depth and breadth, more financial instruments will be available, improvement in operating systems and trading mechanisms will speed up and two-way opening-up will continue to deepen, all of which will contribute to a broad prospect of cross-market investments and transactions that are free from restriction of time and space. Fifth, with implementation of the top-level design on financial supervision, China starts the journey towards a strong capital market, and as a result, both the capital market and the securities industry are expected to be supported by focused and targeted reforms and innovations.

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2. *Challenges faced by the Company*

Firstly, the price war in traditional businesses continues. As leading overseas investment banks enter the Chinese market more quickly and internet giants infiltrate into the industry relentlessly, the competition in this industry will be fiercer. Secondly, the regulators are expected to roll out stricter rules on compliance and risk control in all aspects, raising more stringent requirements on the Company's organizational and operational management capabilities. Thirdly, the application of emerging technologies challenges the Company in its ability to deploy and manage technological resources. Fourthly, the economic and financial landscapes at home and abroad remain complex and grim. Uncertainties such as Gray Rhino and the Black Swan events may cause disruptions to the capital flow and capital market performance.

3. *Development strategies of the Company*

The Company's medium- and long-term strategic objective is to "become the best investment bank in China with international competitiveness". By adhering to the strategic objective, the Company strives to promote transformation, innovation and cross-border development, speed up the development of core individual client base, core enterprise client base and core institution client base. Efforts will also be made to accelerate the establishment of a business and profit model with a diversified business mix, well-developed business structure and synergies, with a view to establishing modern investment banks with full-service capabilities covering the entire value chain. In the three-year strategic period starting from 2018, the Company will implement a "reformative strategy" by energetically promoting the overall reform of business model, service system, operating system and management system in a prudent and orderly manner and persistently build up a "client-oriented" service system covering the entire value chain. With these efforts, the Company will elevate its core competitiveness persistently and diligently build up the development model featuring "steady growth in core and principal businesses, opening and sharing of clients and platforms and symbiosis among diversified operations".

4. *Proposed innovations in 2018*

In 2018, the Company will seize innovative opportunities in such areas as services for the real economy, capital market construction, cross-border services and refined customer services and actively explore various business and product innovations, striving for ever stronger ability to meet the diversified needs of corporate, institutional and individual clients. In respect of services for the real economy, the Company will promote innovative funds such as funds supporting mixed ownership reform of SOEs and funds based on special opportunities, with focus on opportunities arising from mixed ownership reform of SOEs, disposal of non-performing assets and financing for SMEs. In respect of capital market construction, the Company will grasp policy-related innovative opportunities by vigorously expanding cooperative opportunities with WFOE institutions and facilitating innovations in asset securitization, exchangeable bonds, bonds regarding mass entrepreneurship and innovation and other financial instruments. In respect of cross-border services, the Company will diligently seek licenses for RMB foreign exchange businesses and intensively tap into business and product innovations covering commodity, cross-border futures and foreign exchange. In respect of refined customer services, the Company will continue to actively explore applications of financial technology in areas such as customer service, wealth management, smart transaction and construction of the system offering businesses and services in its unremitting pursuit of more intelligent operations as well as accurate and effective customer services.

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(III) Business plans

Guided by the new three-year reformative strategy, the Company has adopted an operating guideline for 2018 as detailed below:

Facilitating reform: as required by the reformative strategy, the Company will intensify efforts of reform in such key areas as marketing service system, operating system and management system top-down and bottom-up, striving for new breakthroughs in comprehensively transforming and upgrading itself into a modern investment bank.

Stabilizing growth: the Company will enhance its capital strength and enlarge its capital in a forward-looking manner and through multiple channels to remove the bottleneck of limited scale during its development, strengthen the role of capital in driving development, scale up various services and business outlets and aggressively seek opportunities of exogenous growth and M&A in addition to endogenous growth, with a view to promoting the overall growth in its revenue and profit.

Renewing strategic layout: in the first year of the new strategic period, the Company will properly renew its strategic layout in multiple dimensions, including financial technology, internationalization, FICC and pan-finance, to foster new driving forces for the development of the Company in the next three years or even a longer period.

Preventing risks: the Company will staunchly defend the bottom line of operational compliance, conscientiously prevent and control risks by closely tracking and promptly responding to the changes of major risks, and constantly raise the level of risk management, so as to ensure the efficient performance of its internal control system and the steady operation of its businesses throughout the year.

In 2018, the Company will earnestly implement the above operating guideline, with an aim to outperform the market and its peers in terms of operating revenue and net profit.

(IV) Potential risks and corresponding measures

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

1. Risk Management

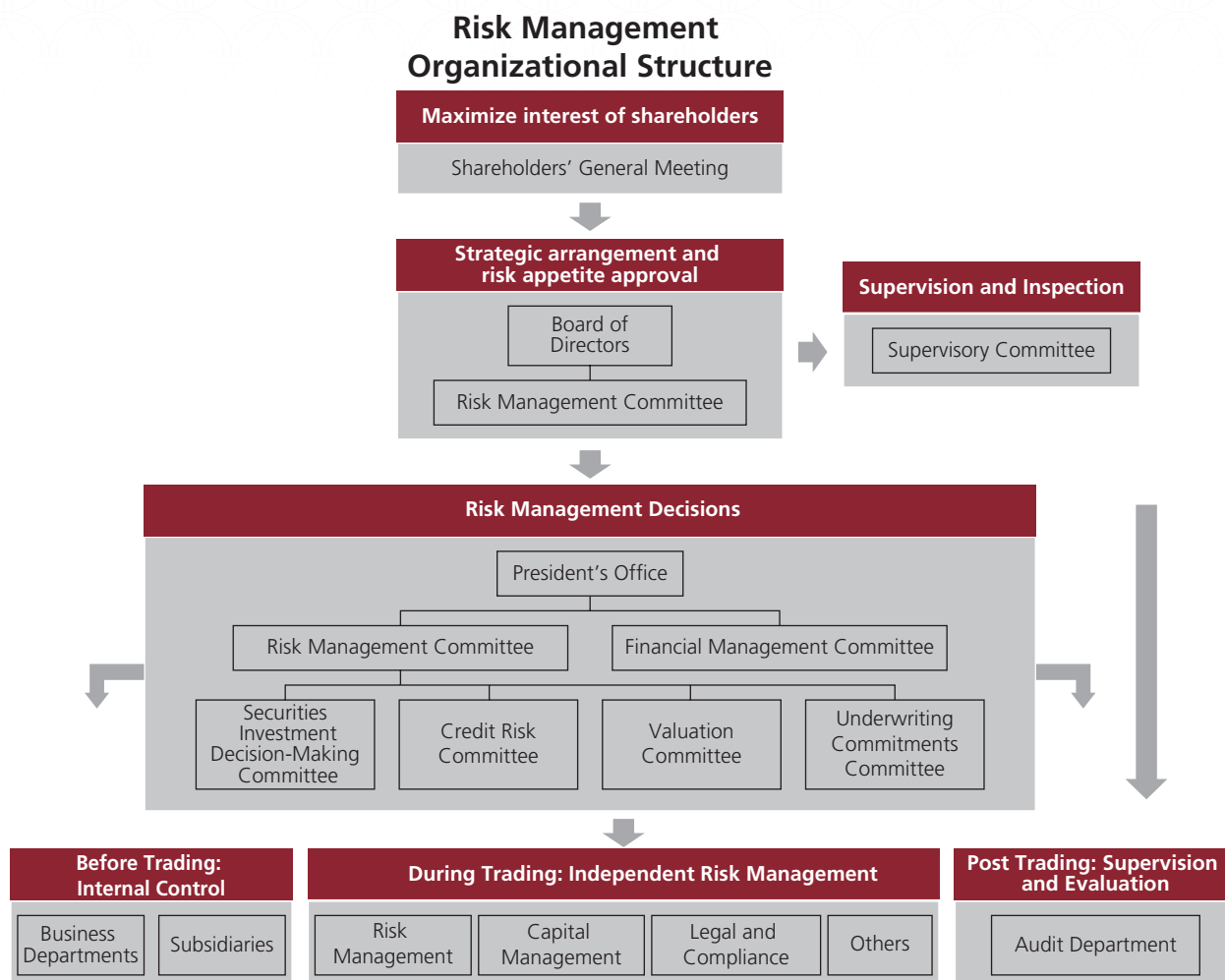
(1) Risk management structure

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

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

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The chart below sets out our risk management organizational structure:



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

- ① The Board and its Risk Management Committee are primarily responsible for reviewing and approving the risk management system, the risk appetite, risk tolerance and various risk limit indicators of the Company, considering and approving the allocation plan of economic capital of the Company, convening quarterly meetings to review quarterly risk reports and thoroughly assessing the risk management of the Company.
- ② The Supervisory Committee is responsible for supervising and examining the overall operation of the risk management system of the Company.
- ③ The senior management is responsible for the overall risk management in the Company's business operations. They regularly review risk assessment reports, formulate risk management measures and establish risk limit indicators. A Risk Management Committee and a Financial Management Committee are set up under the senior management. The Risk Management Committee serves as the highest risk management decision-maker at the operation level. The Company has also appointed a Chief Risk Officer to oversee the formation of the overall risk management system, monitor, evaluate and report the overall risk level, and provide risk management advice for business decision-making of the Company. In addition, a Securities Investment Decision-making Committee, Credit Risk Committee, Valuation Committee and Underwriting Commitments Committee were set up under the Risk Management Committee, which are responsible for making collective decisions based on experts' suggestions on issues relating to securities investment, credit risk, securities evaluation and underwriting risks within their respective scope of authorization. The risk management of subsidiaries is managed by the overall risk management system of the Company through vertical management approach. The person-in-charge of risk management of subsidiaries shall be nominated, appointed, removed and appraised by the Chief Risk Officer of the Company.

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- ④ As the department to coordinate market, credit and operating risks management of the Company, the Risk Management Department is responsible for managing the market risks and credit risks, as well as assisting and guiding other business departments in managing operational risks of the Company. As a department in charge of the liquidity risk management of the Company, the Capital Management Department is responsible for managing liquidity risks and the formation of the liquidity risk management system. The Legal and Compliance Department is responsible for managing the compliance and legal risks of the Company and assisting the Chief Compliance Officer in reviewing, supervising and examining the compliance of both the business operations of the Company and the employees' practices and behaviours. The President's Office is responsible for managing the reputation risks of the Company together with the Board Office, Risk Management Department and other relevant departments. The Audit Department is responsible for auditing and examining the effectiveness and execution of the risk management procedures of the Company as well as conducting an overall evaluation of the internal control system of the Company at least once a year.
- ⑤ Each of the business departments, branches and wholly-owned subsidiaries of the Company is directly responsible for risk management and supervision of their respective business and management field.

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

(2) Risk management system

In accordance with the Risk Management System (《全面風險管理制度》), the Rules of Procedures for Risk Management Committee Meeting (《風險管理委員會議事規則》), the Administrative Measures on Business Authorization (《業務授權管理辦法》) and the Rules on the Risk Management of Subsidiaries (《子公司風險管理辦法》), the Company has established a comprehensive risk management system which covers various risk exposures including market, credit, operational, liquidity and reputation risks and specifies the boundaries and general principles of each risk category.

(3) Quantitative risk management indicator system

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

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

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

(4) Risk management culture

With “effective risk control” integrated into its corporate culture, the Company aimed at efficient risk control, strict compliance with minimum requirements and appropriate risk bearing for reasonable returns. The Company adhered to the dynamic balance between business and risk control by maintaining risk exposure within the approved limits. The “advanced internal control management system and risk management ability” are considered important elements in the strategic planning of the Company and are the essence of its core competitiveness. A comprehensive internal control system covering all stages in advance of, during and after an event is incorporated in our operation to ensure the effective performance of functions of management and services in order to maintain the healthy and sustainable development of the businesses of the Company, prevent any material risks and safeguard its reputation. Operational risk manual is updated annually in accordance with the operation of the Company to foster the active risk management awareness of the employees. The Risk Management Department prepares annual training materials on various systems and provides employees with systematic risk management trainings. Every year, new employees are provided with risk control and compliance trainings by the Risk Management Department and the Legal and Compliance Department to promote the risk management culture.

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(5) Risk management IT system

The Company fully understands the importance of IT system in the modern risk management and has significant investment in the establishment of such systems, including advanced risk management IT systems either developed in collaboration with the IT Department of the Company or introduced from home and abroad. A relatively comprehensive market risk management IT system has been established covering the acquisition of daily real-time market information, monitoring of business risks, quantified risk analysis and measurement and risk reports from multiple dimensions, layers and perspectives. The system was continuously updated to include more data and business types and optimize the approach and content of monitoring. A unified credit risk management IT system has been established for credit businesses such as margin financing and securities lending as well as securities-backed lending. A net capital monitoring mechanism has been established according to the Administrative Measures for Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》) issued by the CSRC to effectively monitor various risk indicators for net capitals. Based on the mechanism, a monitoring system of consolidated risk control indicators has been developed to further strengthen the risk management of the Group. In 2017, the Company established a consolidated supervision and control system, an information system for centralized management of each customer, an operational risk control and self-examination system and an individual client module under the People's Bank of China-linked credit system. The Company successfully designed a comprehensive risk data model and completed the analysis of requirements for its implementation scenarios, which contributed further IT progress to the risk management. In addition, the People's Bank of China-linked credit system of the Company has been launched and passed the acceptance test by the credit center of Shenzhen branch of the People's Bank of China while the corporate client and individual client modules thereunder have also been completed, which has further enhanced the credit risk control capability of the Company.

2. Market Risk and Corresponding Measures

(1) Profile

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

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

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(2) Market risk management approaches

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

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

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

(3) Responsibilities of market risk management

The Company collectively allocates the economic capital in accordance with the risk preference and risk tolerance indicators set by the Board. By considering the risk and return associated with each type of investment and for the purpose of relevance and diversification, the Company diversifies the overall risk limitation to different business departments and business lines and formulates corresponding business authorization. Directly confronted with the market risk, the front-office business departments are responsible for market risk management as the first line of defense. The person in charge and the investment manager conduct trades and the front-line risk management within the scope of authorization by virtue of their extensive experience and in-depth knowledge in the relevant markets and products. They dynamically control the market risk exposures to the securities held by the Company and actively take risk management measures to reduce or hedge against such risks. The Risk Management Department, which is independent from the business departments and is headed by the Chief Risk Officer, uses professional risk management tools and methods for controlling, evaluating and managing different levels of market risk from investment strategies, business departments and business lines and the Company. Different risk reports and analyses and assessment reports are delivered on a daily, monthly and quarterly basis to the responsible officers of the business departments and business lines of the Company. When a risk indicator is approaching or exceeds the threshold values, the Risk Management Department will warn the operation management as well as the responsible officers of the relevant business departments and business lines in advance. Based on the review opinions from leaders of the Company and committee, the business departments will be urged to take corresponding measures. The Risk Management Department will continuously communicate with the respective business departments and business lines with regard to the latest market conditions, the current risk exposures, and possible losses in extreme situations.

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(4) Measurement of market risk

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

① VaR

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

With an ongoing expansion of the businesses, the Company continues to refine the VaR model, including adding risk factors in the new market and optimizing the computation. In addition, the Company examines the accuracy of the VaR computation through methods such as a backtesting.

For certain particular investment portfolio of the Company, such as equity investment of the Company including equity direct investment, equity funds investment and structured equity investment, VaR may not be considered as the most effective measures for risk calculation due to the lack of liquidity and other reasons. Accordingly, the Company has followed the industry practice to forecast the potential effect by assuming that the value of assets invested drops for a certain percentage.

② Stress test

Stress test is an integral and complementary instrument in the VaR risk measurement. Potential losses on the portfolio position under extreme circumstances were evaluated through stress test. Potential losses from a single risk factor or specific stressful circumstance were also assessed. Through analysis of risks and return, the Company examined the compliance of various key regulatory indicators as well as the bearing on the Company. For non-linear futures portfolios, the Company established a stress test matrix based on the subject and the fluctuation ratio and conducted daily stress test so as to control significant tail risks.

③ Sensitivity analysis

The Company has conducted sensitivity analysis on certain risk factors, including exchange rate and interest rate, to analyse their potential effects by measuring the possible changes in the assets and liabilities portfolio when the specific risk factor is assumed to have changed by a certain rate while all other factors remain constant.

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(5) Market risk limit management system

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

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

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

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

3. *Credit risks and corresponding measures*

(1) Profile

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

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

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(2) Management of credit risk

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

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

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

① Credit risk limit

The Company has adopted a classified credit risk limit system to control risk exposure. In accordance with the risk appetite and risk tolerance set by the Board of the Company, the Risk Management Department has monitored, reported and issued warning on the implementation of each limit indicator, including business scale limit, low-risk bonds investment ratio, the value of margin financing granted to a single customer and the market value of a single collateral to total market value ratio, which were formulated based on credit features and subject to relevant adjustments based on market condition, business development needs and risk profile of the Company.

② Internal credit rating

The Company has developed several internal credit rating models and comprehensive internal credit rating systems based on the characteristics of different industries and target customers, to rate the credit standings of borrowers or bond issuers and their debts. Internal credit rating results are gradually employed in business authorization, limit forecast, limit approval, risk monitoring, asset quality management, and etc. The internal credit rating has become an important instrument for credit business decisions and risk management.

③ Quantitative management of collaterals

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

④ Credit risk measurement model

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

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(3) Responsibility for managing credit risk

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

(4) Credit risk management on principal businesses

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

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

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

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

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

Unit: RMB10,000

	December 31, 2017	December 31, 2016
Issuers in Mainland China		
PRC sovereign bonds	1,674,593	874,822
AAA	1,329,852	648,991
AA+	641,757	452,927
AA	169,169	186,125
AA-	—	—
Below AA-	—	—
A-1	54,783	—
Non-rated	1,924,222	698,373
Sub-total	5,794,376	2,861,238
Issuer in Hong Kong and other regions		
A	17,928	8,267
B	175,465	153,538
C	—	43,470
D	—	—
NR	32,345	31,013
Sub-total	225,738	236,288
Total	6,020,114	3,097,526

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

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

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

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4. *Operational Risk Management and Corresponding Measures*

(1) Overview

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

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

(2) Operational Risk Management

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

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

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

5. *Liquidity Risks and corresponding measures*

(1) Overview

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

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

(2) Duties of liquidity risk management

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

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(3) Management measures for liquidity risk

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

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

(V) Major customers and suppliers

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

In 2017, revenue attributable to the five largest customers of the Company accounted for less than 30% of its total revenue.

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

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

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(VI) Important laws and regulations

The Company has always persisted in maintaining lawful operation. Its operation has complied with all the laws and regulations as well as the rules and administrative documents issued by the regulatory authorities. The Company formulated and revised a number of internal management systems to improve internal control and management and enhance the compliance management system in accordance with the regulatory requirements and the business management needs of the Company. The Company has also formulated and improved business management system and procedures so as to incorporate the requirements of the regulatory authorities and self-regulatory organization into our operation. The Company continues to increase its publicity and training of laws and compliance practices, and strengthens employees' awareness of actively preventing incompliance in the course of conducting various businesses. The compliance of our operation is satisfactory in general. The compliance and risk management system is effective and no material systematic compliance risks are found.

(VII) Environmental policy and performance

Please refer to the Environment, Social and Governance Report and the 2017 Social Responsibility Report of China Merchants Securities Co., Ltd. (《招商證券股份有限公司2017年度社會責任報告》) as otherwise disclosed.

(VIII) Material litigation or arbitration

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

(IX) Corporate bonds

For further details on the corporate bonds, please refer to the section headed "Corporate Bonds" in this report.

(X) Donation

During the Reporting Period, the Group's total charitable and other donations amounted to approximately RMB10 million.

Chapter 4: Report of the Board of Directors

(XI) Contingent liabilities and charge on assets

As at the end of the Reporting Period, the Group did not have any significant contingent liabilities or asset charges.

(XII) Miscellaneous

Particulars of the Directors, major businesses, permitted indemnity provision, details of material events occurred after the end of 2017 which have effects on the Group, share issuance, bond issuance, profit distribution proposal, and interests of Directors and Supervisors in significant transactions, arrangement or contracts are set out in "Chapter 3 – Summary of Operation", "Chapter 5 – Major Events", "Chapter 6 – Changes in Ordinary Shares and Shareholders", "Chapter 7 – Directors, Supervisors, Senior Management and Employees" and "Chapter 9 – Corporate Bonds". These sections form a part of this Report of the Board of Directors.

On March 31, 2017, the Ministry of Finance revised and issued three accounting standards related to financial instruments, namely the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments (《企業會計準則第22號— 金融工具確認和計量》), the Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets (《企業會計準則第23號— 金融資產轉移》) and the Accounting Standards for Business Enterprises No. 24 – Hedging (《企業會計準則第24號— 套期會計》) (hereinafter referred to as "New Standards on Financial Instruments"). The New Standards on Financial Instruments took effect from January 1, 2018 on companies that are listed both domestically and overseas and companies that are listed overseas and adopt International Financial Reporting Standards or Accounting Standards for Business Enterprises to prepare their financial reports, and will also go to effect on other domestically listed companies from January 1, 2019 and on non-listed companies subject to the Accounting Standards for Business Enterprises from January 1, 2021. Besides, companies are encouraged to adopt the New Standards on Financial Instruments ahead of schedule. The Group, as a company listed both domestically and overseas, has adopted the above standards since January 1, 2018.

Changes made by the New Standards on Financial Instruments have exerted impact on the opening balances of the Group's financial statements for 2018. The main impacts are as follows: a. non-material impact on the total assets, total liabilities and total equity attributable to the owner, with total assets increasing by RMB65,200, total liabilities decreasing by RMB821,200 and total equity attributable to the owner increasing by RMB886,400; b. changes to the composition of assets due to reclassification of financial assets, with the carrying amount of available-for-sale financial assets decreasing by RMB4.463 billion and the carrying amounts of financial assets held-for-trading, investment held-to-maturity and interest receivables increasing by RMB2.640 billion, RMB1.793 billion and RMB32 million, respectively; and c. changes to the composition of equity attributable to the owner, with other comprehensive income increasing by RMB71.57 million and retained profits decreasing by RMB70.68 million.



Chapter 5: Major Events

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

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

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

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

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

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

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

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

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

The 2016 annual profit distribution plan of the Company was implemented on July 21, 2017.

Chapter 5: Major Events

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

Unit: RMB Currency: RMB

Year	Bonus share for every 10 shares (share)	Dividend for every 10 shares (RMB) (tax inclusive)	Conversion into share capital for every 10 shares (share)	Cash dividends (tax inclusive)	Net consolidated profit attributable to holders of ordinary shares of the Company for the year as stated in the consolidated financial statements	Percentage of net consolidated profit attributable to holders of ordinary shares of the Company as stated in the consolidated financial statements (%)
2017	—	3.46	—	2,317,995,627.83	5,785,955,137.26	40.06
2016	—	1.89	—	1,266,188,363.18	5,403,450,595.57	23.43
2015	—	2.47	—	1,434,609,475.66	10,908,748,759.12	13.15
2016 interim	—	1.54	—	894,452,871.47	2,241,825,030.22	39.90
2015 interim	—	5.04	—	2,927,300,306.62	7,314,665,463.76	40.02

Note:

1. The 2016 annual and interim cash dividend of the Company amounted to RMB2,160,641,234.65 in aggregate, representing 39.99% of the net consolidated profit attributable to the owners of the parent company for 2016;
2. The 2015 annual and interim cash dividend of the Company amounted to RMB4,361,909,782.28 in aggregate, representing 39.99% of the net consolidated profit attributable to the owners of the parent company for 2015.

Chapter 5: Major Events

(III) Tax reduction

1. A Shareholders

Pursuant to the Notice on Issues Regarding Differentiated Individual Income Tax Policy for Dividends and Bonuses of Listed Company (Cai Shui [2015] No. 101) (《關於上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2015]101號)) and the Notice on Issues Regarding the Implementation of Differentiated Individual Income Tax Policy for Dividends and Bonuses of Listed Company (Cai Shui [2012] No. 85) (《關於實施上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2012]85號)) jointly issued by the Ministry of Finance, the State Administration of Taxation and the CSRC, for individual shareholders, if the term of shareholding (a period from the date of acquisition of the listed shares on public offering and transferring markets by the individual to the date one day before the shares are transferred and settled) is within one month (inclusive), all the dividend and bonus incomes thereof are counted as taxable income at the effective tax rate of 20%. If the term of shareholding is between one month and one year (inclusive), temporarily, 50% of the dividend and bonus incomes are counted as taxable income at the effective tax rate of 10%. If the term of shareholding is over one year, temporarily, the dividend and bonus incomes are exempted from individual income taxes. When dividends and bonuses are distributed by a listed company, such company, temporarily, shall not withhold or pay any individual income taxes on behalf of the individuals whose term of shareholding is within one year (inclusive), instead, the taxable incomes shall be calculated by the securities registration and settlement company based on the term of shareholding when the individual transfers those shares and the company shall withhold and pay the taxes through the securities registration and settlement company. For dividend and bonus incomes obtained by securities investment funds from listed companies, the individual income taxes thereof are calculated and levied pursuant to the provisions in the document of Cai Shui [2012] No. 85 (財稅[2012]85號文).

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

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

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

2. H Shareholders

Pursuant to the Notice of the State Administration of Taxation on Matters Concerning the Levy and Administration of Individual Income Tax after the Repeal of Guo Shui Fa [1993] No.045 (Guo Shui Han [2011] No.348) (《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)), dividend and bonus income received by overseas resident individual shareholders who hold shares issued by domestic non-foreign invested enterprises in Hong Kong is subject to the payment of individual income tax according to the items of “interests, dividend and bonus income”, which shall be withheld and paid by the withholding agents according to relevant laws. The overseas resident individual shareholders who hold shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries where they reside and China and the tax arrangements between Mainland and Hong Kong (Macau). The tax rate for dividends under the relevant tax agreements and tax arrangements is generally 10%, and for the purpose of simplifying tax administration, domestic non-foreign invested enterprises issuing shares in Hong Kong may, when distributing dividends and bonus, generally withhold individual income tax at the rate of 10%, and are not required to file an application. If the tax rate for dividends is not equal to 10%, the following provisions shall apply: (1) for citizens from countries which have entered into tax agreements stipulating a tax rate of lower than 10%, the withholding agents can file applications on their behalf to claim the relevant agreed preferential treatments, and upon approval by the governing tax authorities, the excess tax amounts withheld will be refunded; (2) for citizens from countries which have entered into tax agreements stipulating a tax rate of higher than 10% but lower than 20%, the withholding agents will withhold the individual income tax at the agreed-upon effective tax rate when distributing dividends and bonus, and are not required to file an application; (3) for citizens from countries without tax agreements or under other situations, the withholding agents will withhold the individual income tax at 20% when distributing dividends and bonus.

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

Pursuant to the Notice on Tax Policy Regarding Shanghai-Hong Kong Stock Connect Pilot Programs (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) issued by the Ministry of Finance, the State Administration of Taxation and the CSRC, for dividend and bonus incomes obtained by mainland individual investors from investing in H Shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect, the individual income taxes thereof are withheld and paid by the H Share company at the rate of 20%; and for dividend and bonus incomes obtained by mainland securities investment funds from investing in H Shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect, the individual income taxes are accrued and levied according to the same provision stated above; and for dividend and bonus incomes obtained by mainland corporate investors from investing in H Shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect, the income taxes thereof shall be reported and paid by the investing enterprise on its own instead of being withheld and paid by the H Share company, provided that where such dividend and bonus incomes are obtained by the mainland resident enterprise after holding relevant H shares for 12 consecutive months, the enterprise income taxes thereof shall be exempted pursuant to law.

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

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

Chapter 5: Major Events

II. PERFORMANCE OF UNDERTAKINGS

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

Background	Type	Party(ies)	Details	Effective time and validity period	Whether the undertakings have a performance deadline	Whether the undertakings have been strictly performed in a timely manner	Reason for not performed in a timely manner	Follow-up actions, in case of undertakings not performed in a timely manner
Undertaking related to the initial public offering	Prevention of competition	Jisheng Investment	Pursuant to the Non-competition Undertaking Letter in favour of the Company, Jisheng Investment has undertaken that it will not engage in any business which competes directly with the existing principal businesses of the Company and its subsidiaries (whether wholly-owned or not) in accordance with laws and administrative regulations.	Upon the public offering and listing of the A Shares of the Company, and as long as Jisheng Investment is a shareholder of the Company.	Yes	Yes	—	—
Undertaking related to the initial public offering	Prevention of competition	China Merchants Group	Pursuant to the Non-competition Undertaking Letter in favour of the Company, China Merchants Group has undertaken that it and the legal entities beneficially controlled by it will not establish new securities companies or control other securities companies through acquisition in the PRC. For businesses of the same or similar nature to securities companies engaged by the non-securities companies controlled by China Merchants Group, it will make sufficient disclosure in accordance with laws upon the public offering of the shares of the Company. China Merchants Group shall not harm the interests of the Company and other shareholders by virtue of its role of de facto controller of the Company.	Upon the public offering and listing of the A shares of the Company, and as long as China Merchants Group is the de facto controller of the Company.	Yes	Yes	—	—

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Background	Type	Party(ies)	Details	Effective time and validity period	Whether the undertakings have a performance deadline	Whether the undertakings have been strictly performed in a timely manner	Reason for not performed in a timely manner	Follow-up actions, in case of undertakings not performed in a timely manner
Undertakings related to initial public offering	Lock-up of shares	China Merchants Group	H Shares subscribed under the Global Offering shall be locked up for three years commencing from the listing date of H Shares of the Company.	Three years from the listing date of H Shares of the Company	Yes	Yes	—	—
Undertaking related to initial public offering	Lock-up of shares	Cornerstone investors of H Shares of the Company (note)	The cornerstone investors of H Shares of the Company have undertaken that they will not sell, directly or indirectly, any H Shares purchased under the relevant cornerstone investment agreement and any resulting shares or other securities of the Company within the six months upon listing of the H Shares of the Company on October 7, 2016 without the prior and written consent of the Company and China Merchants Securities (HK) Co., Limited.	Six months	Yes	Yes	—	—
Undertakings related to re-financing	Lock-up of shares	CM Finance Investment	No transfer of A Shares subscribed in the non-public offering is allowed within 60 months from the date of completion of the non-public offering of A Shares in May 2014.	60 months	Yes	Yes	—	—
Undertakings related to re-financing	Lock-up of shares	China Ocean Shipping and Hebei Port Group Co., Ltd.	No transfer of A Shares subscribed in the non-public offering is allowed within 36 months from the date of completion of the non-public offering of A Shares in May 2014.	36 months	Yes	Yes	—	—
Other undertakings to minority shareholders	Others	China Merchants Group and China Ocean Shipping	When there is unusual price movement in the shares of the Company, they will not reduce their shareholdings in the Company and will increase their shareholdings in accordance with laws when appropriate.	When there is unusual price movement in the shares of the Company	Yes	Yes	—	—

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

(II) Explanation of whether the Company fulfilled its profits forecast in relation to assets or projects, if any profits forecast in relation to the Company's assets or projects, and the reporting period is within the profits forecast period

Fulfilled Not Fulfilled Not applicable

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III. APPROPRIATION AND RECOVERY OF FUNDS DURING THE REPORTING PERIOD

Applicable Not applicable

IV. EXPLANATION ON THE “QUALIFIED AUDIT REPORT” OF THE ACCOUNTING FIRM

Applicable Not applicable

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

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

1. Changes in significant accounting policies

(1) Non-current assets held for sale, disposal groups and discontinued operations

On April 28, 2017, the Ministry of Finance formulated and issued the Accounting Standards for Business Enterprises No. 42 – Non-current Assets Held for Sale, Disposal Groups and Discontinued Operation with effect from May 28, 2017. The change did not exert any significant impact on the 2017 financial statements of the Group.

(2) Government grants

On May 10, 2017, the Ministry of Finance revised and issued the Accounting Standards for Business Enterprises No. 16 – Government Grants with effect from June 12, 2017. The standard regulated the recognition, measurement and presentation of government grants and made certain adjustments according to relevant regulations. Pursuant to the standard, government grants related to the daily activities of an enterprise shall be included in other income or charged against relevant costs and expenses according to the nature of the business activities, while government grants not related to the daily activities of an enterprise shall be included in non-operating revenue or expenses. Enterprises shall represent “other income” separately above the item of “operating profit” set out in the “income statement” to reflect the government grants recognized as other income.

The Group adopts a prospective approach to the government grants existing as at January 1, 2017. Meanwhile, the Group adjusts the government grants newly added during the period from January 1, 2017 to the date of the implementation of the revised standard on government grants pursuant to such standard, but without any retrospective adjustment to the financial statements for the comparable accounting period. Such changes and adjustments to the accounting policies only affect items presented in the financial statements and do not affect the net profit or loss of the Group. The specific impact of the above changes on the 2017 financial statements is as follows:

Unit: RMB

Items	Before change	After change
Non-operating revenue	25,464,470.67	16,030,508.41
Other income	—	9,433,962.26

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2. *Changes in significant accounting estimates: Nil*

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

Applicable Not applicable

(III) Communication with previous accounting firm

Applicable Not applicable

(IV) Other explanations

Applicable Not applicable

VI. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRMS

Unit: RMB10,000 Currency: RMB

	Appointment
Name of domestic accounting firm	ShineWing Certified Public Accountants LLP
Remuneration	213
Term of appointment	6 years
Name of international accounting firm	SHINEWING (HK) CPA Limited
Remuneration	100
Term of appointment	2 years

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

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Explanations for appointment and removal of accounting firms

The Company has reappointed ShineWing Certified Public Accountants LLP as the auditor of the Company for 2017. ShineWing Certified Public Accountants LLP has been providing annual auditing service to the Company for six consecutive years since 2012.

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

VII. RISKS OF SUSPENSION OF LISTING

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

VIII. TERMINATION OF LISTING AND REASONS

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

IX. BANKRUPTCY AND RESTRUCTURING

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

X. MATERIAL LITIGATION OR ARBITRATION

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

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

- (I) On March 16, 2017, the National Equities Exchange and Quotations Co., Ltd. (hereinafter referred to as the "NEEQ") issued to the Company the Decision on Taking Self-regulatory Measures against China Merchants Securities Co., Ltd. (Gu Zhuan Xi Tong Fa [2017] No. 94) (《關於對招商證券股份有限公司采取自律監管措施的決定》(股轉系統發[2017]94號)) and held self-regulatory interviews with the Company. The NEEQ noted that, the Company failed to make announcement within prescribed time limit due to negligence when it quitted the market-making quotation for Highbroad High-tech Materials (Hefei) Co., Ltd. (翰博高新材料(合肥)股份有限公司) on December 29, 2016, which violated relevant provisions of information disclosure. The Company has taken multiple measures to improve its internal control process and avoid same mistakes in information disclosure, including strict implementation of the double verification mechanism in respect of key procedures and publication of significant operational flows and procedures.
- (II) On March 17, 2017, the NEEQ issued to the Company the Decision on Taking Self-regulatory Measures against China Merchants Securities Co., Ltd. (Gu Zhuan Xi Tong Fa [2017] No. 112) (《關於對招商證券股份有限公司采取自律監管措施的決定》(股轉系統發[2017]112號)), stating that, in sponsoring the listing of Anhui Xuanran Natural Gas Co., Ltd., (安徽宣燃天然氣股份有限公司), the Company failed to verify the completeness of the public offering prospectus, which constitutes a violation involving incomplete information disclosure. As requested by NEEQ, the Company has submitted a written undertaking to the NEEQ where it made representations relating to the nature and acknowledgement of the violation, correct interpretation of relevant rules as well as rectifications and actions. Accordingly, the Company has made rectifications to the weak control links reflected in the incident, and has took actions to sort out and refine the management system, enhance personnel training and accountability and improve the awareness of compliance.
- (III) On April 27, 2017, the CSRC Shenzhen Office issued to the Company the Decision of the CSRC Shenzhen Office on Ordering China Merchants Securities Co., Ltd. to Make Rectifications and Suspend the Opening of PB System Account for Three Months ([2017] No. 16) (《深圳證監局關於對招商證券股份有限公司采取責令改正並暫停新開立PB系統賬戶3個月措施的決定》([2017]16號)) (hereinafter referred to as the "Decision"). The Decision states that, the Company breached the paragraph 1 of Article 27 and the paragraph 1 of Article 28 under the Regulations on Supervision and Administration of Securities Companies (《證券公司監督管理條例》), which indicates that there are defects in the Company's internal control, and therefore, the CSRC Shenzhen Office decided to impose the administrative regulatory measure of ordering the Company to make rectifications and suspend the opening of PB system account for three months. The Company was required to perform thorough self-inspection on the businesses related to the PB system and submit a self-inspection and rectification report to the CSRC Shenzhen Office within 30 days upon receipt of the "Decision". To tackle the above issue, the Company had installed a rectification and compliance team for the PB system business that was headed by the President and co-headed by the Vice Presidents of each relevant business segment and Chief Compliance Officer, and that engaged all departments. The Company had removed the restrictions on account access mentioned in the "Decision" and besides conducted self-inspection and rectifications in respect of all existing accounts. The Company had amended and improved the management system and operational flow for the PB system business in various aspects, including client-related due diligence and suitability management, system control, authorization, role setting and follow-up review. The Company had also held trainings and exams for the entire staff, and reinforced supervision and implementation. With these efforts, the Company completed the rectifications within the prescribed time limit.



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- (IV) On August 7, 2017, the Qingdao Office of the China Securities Regulatory Commission (hereinafter referred to as the “CSRC Qingdao Office”) issued to the Qingdao Branch of the Company the Decision on Sending Warning Letter to the Qingdao Branch of China Merchants Securities Co., Ltd. (《關於對招商證券股份有限公司青島分公司採取出具警示函措施的決定》), which contains the decision to impose the administrative regulatory measure of sending a warning letter to the Qingdao Branch of the Company. The main cause for the punishment is: according to the self-inspection by the Company and the confirmation of the CSRC Qingdao Office from April to July 2015, some employees from Qingdao Branch of the Company were selling financial products not being issued by or under the agency sale of the Company from May to June 2015, which breached Article 6 of the Rules on the Management of Financial Products Sold by Securities Companies as Agency (《證券公司代銷金融產品管理規定》). After spotting relevant risk case through self-inspection, the Company immediately set up a task force to actively coordinate and solve the repayment of financial products held by relevant investors, which to some extent curbed the spread of the risk. As for the issues reflected by the risk case, the Company organized thorough self-inspection and rectifications across its branches from March to April 2017 with focus on preventing such irregularities as unauthorized agency sale of financial products, and took further measures to improve the control mechanism in the branches. In June 2017, the Company took tough measures against those accountable. By the end of June 2017, the Company submitted a report on the accountability of those involved in the case as well as internal control norms and facts of self-inspection and rectifications relating to agency sale of financial products.
- (V) On August 9, 2017, the Company received the Decision on Taking Self-regulatory Measures against China Merchants Securities Co., Ltd.” ([2017] No. 35) (《關於對招商證券股份有限公司採取自律懲戒措施的決定》([2017]35號)) issued by the Securities Association of China. In 2016, the Corporate Bonds Supervision Department of CSRC organized CSRC offices to conduct special on-site inspection on corporate bond issuers within each CSRC office’s jurisdiction. During the inspection, the department found issues in fund raising and information disclosure in respect of the entrusted projects of the Company. The Company, as a trustee, failed to monitor the receipt, deposit and transfer of the raised funds as well as the repayment of principal and interest in a timely manner, publish extraordinary trust report on excessive proportion of new loans, and fulfil the duties as a trustee, in violation of the Code of Practice for Corporate Bonds Custodians(《公司債券受托管理人執業行為準則》). Therefore, the self-regulatory measure of warning was imposed on the Company pursuant to relevant regulations. Relevant departments of the Company will attach more importance to and further clarify persons responsible for the management of entrusted projects, and manage entrusted projects in strict compliance with laws and regulations such as the Code of Practice for Corporate Bonds Custodians (《公司債券受托管理人執業行為準則》).

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

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

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

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

XIV CONNECTED TRANSACTIONS

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

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

Chapter 5: Major Events

A. Securities and financial products and transactions

Reasons for the transactions

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

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

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

Historical figures

As at December 31, 2017, the Group had securities and financial products transactions with China Merchants Group and/or its associates. China Merchants Group and/or its associates had a total cash inflow of RMB0 and a total cash outflow of RMB0 from purchase of products managed by the Company, while the Group had a total cash inflow of RMB2.41 billion and a total cash outflow of RMB1.43 billion from purchase of products managed by China Merchants Group and/or its associates.

As at December 31, 2017			
Inflow/outflow	Bonds transactions and sale and repurchase of debt securities	Funds and asset management products of connected parties	Total
	RMB million		
Inflow	200	2,410.49	2,610.49
Outflow	0	1,429.80	1,429.80

Chapter 5: Major Events

B. Financial services

Reasons for the transactions

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

	RMB million		
	2016	2017	2018
Financial services			
Revenues generated by us	1,025	1,535	2,300
Fees paid by us	440	660	890

Historical figures

As at December 31, 2017, the Group provided securities and financial services to China Merchants Group and/or its associates and generated revenues of RMB29.6762 million, which was below the annual cap of 2017. The Group received securities and financial services from China Merchants Group and/or its associates and paid fee of RMB0, which was below the annual cap of 2017. The figures are set out in the table below:

As at December 31, 2017	
	RMB million
Revenues generated by us (total)	54.30
Underwriting and sponsoring services	2.68
Financial and insurance products agency sale services	1.33
Other investment banking services	26.83
Leasing of trading seats	23.46
Fees paid by us	0

Details of the above connected transactions are set out in note 61 to the consolidated financial statements in this report.

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Confirmation of independent non-executive Directors

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

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

Confirmation of independent auditor

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

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

Save as disclosed above, there is no related party transaction or continuing related party transaction set out in note 61 to the consolidated financial statements that falls into the connected transactions or continuing connected transactions that need to be disclosed under the Hong Kong Listing Rules. Save as disclosed in this report, during the Reporting Period, the Company has no connected transactions which are required to be disclosed under Chapter 14A of the Hong Kong Listing Rules.

For details of other related party transactions subject to listing rules for A Shares, please refer to the Announcement on the Contemplated Ordinary Related Party Transactions of the Company for 2018 posted on the SSE website, China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily.

XV. MATERIAL CONTRACTS AND THEIR PERFORMANCE

(I) Custody, contracting and leasing

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

Chapter 5: Major Events

(II) Guarantees

Unit: RMB Currency: RMB

Guarantees provided by the Company (excluding guarantees for subsidiaries)													
Guarantor	Relationship between the guarantor and the listed company	Guarantee	Amount of guarantee	Date of guarantee (date of agreement)	Effective date of guarantee	Expiry date of guarantee	Types of guarantee	Completion of guarantee	Guarantee overdue	Outstanding amount of guarantee overdue	Counter-guarantee	Guarantee for related parties	Relationship
—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total guarantees provided during the Reporting Period (excluding guarantees for subsidiaries)													0
Balance of guarantees as at the end of the Reporting Period (A) (excluding guarantees for subsidiaries)													0
Guarantees for subsidiaries by the Company and its subsidiaries													
Total guarantees provided for subsidiaries during the Reporting Period													2,728,696,993.06
Balance of guarantees for subsidiaries as at the end of the Reporting Period (B)													8,063,136,983.14
Total guarantees (including guarantees for subsidiaries)													
Total guarantees (A+B)													8,063,136,983.14
% of net assets of the Company													10.18
Including:													
Guarantees for shareholders, de factor controller and their related parties (C)													0
Debt guarantee provided directly or indirectly for companies with gearing ratio over 70% (D)													0
Amount of guarantees in excess of 50% of the net assets (E)													0
Total amount of the above three items of guarantees (C+D+E)													0
Outstanding guarantees subject to joint and several liabilities													—
Details of guarantees							<p>As at the end of the Reporting Period:</p> <p>1. On February 13, 2015, the Resolution regarding the Provision of Guarantee or Counter Guarantee in favour of China Merchants Securities International Company Limited and its Wholly-Owned Subsidiaries was passed at the first extraordinary shareholders' meeting of 2015, which approved the provision of guarantee or counter guarantee of up to HK\$5 billion (or its USD equivalent) in aggregate in favour of CMS International and its subsidiaries for loans or application of credit lines from overseas banks for a term of five years, with the letters of guarantee or counter guarantee (or other document with equivalent force) to be issued in tranches.</p> <p>Pursuant to the above resolution, the Company provided counter-guarantees of RMB1.5 billion and US\$50 million (equivalent to RMB1.827 billion in aggregate) to the Bank of China and Industrial and Commercial Bank of China for the benefit of CMS International and CMS UK, both being wholly-owned subsidiaries of the Company, respectively, to secure a foreign bank credit for the CMS International;</p> <p>2. The provision of guarantees in an amount of US\$35 million and HK\$3 billion (for a total of RMB2.736 billion) for bank loans of China Merchants Securities (HK) Co., Limited and China Merchants Securities (UK) Limited, respectively, both of which are wholly-owned subsidiaries of the Company, were approved by the board of directors of CMS International between January 2013 to October 2017;</p> <p>3. The provision of guarantees in favour of the transaction counterparties under the respective ISDA Agreement, CSA Agreement and other purchase and sales agreements entered into by China Merchants Securities Investment Management (HK) Co., Limited and China Merchants Securities (UK) Limited, wholly-owned subsidiaries of the Company, were approved by the board of directors of CMS International between October 2013 to July 2016;</p> <p>4. The provision of guarantees for China Merchants Futures (HK) and China Merchants Securities (UK) Limited, wholly-owned subsidiaries of the CMS International, under the Master Clearing Agreement were approved by the board of directors of CMS International between September 2013 to April 2015;</p> <p>5. On January 20, 2014, the Resolution regarding the Provision of Net Assets Guarantee for an Asset Management Subsidiary to be Established by the Company was approved at the first extraordinary meeting of the fourth session of the Board in 2014, which allowed the Company to provide net assets guarantee of up to RMB500 million for an asset management subsidiary, CMS Asset Management.</p> <p>On September 27, 2016, the Resolution regarding the Increase in Commitment for Net Assets Guarantee in favour of the Asset Management Subsidiary by the Company was approved at the 42th meeting of the fifth session of the Board, which allowed the Company to increase the net assets guarantee in favour of CMS Asset Management by no more than RMB3 billion in stages (together with the original guarantee of RMB500 million, the maximum amount shall be no more than RMB3.5 billion), and authorized the management of the Company to perform in stages, or terminate, such net assets guarantee within the above limit based on the actual operating condition of CMS Asset Management.</p> <p>In 2017, the Company provided an additional of RMB1 billion of net assets guarantee for CMS Asset Management, a wholly-owned subsidiary, and the balance of net assets guarantee provided for CMS Asset Management as at the end of 2017 amounted to RMB3.5 billion.</p>						

Chapter 5: Major Events

(III) Other material contracts

During the Reporting Period, the Company did not have any other material contracts except for the above guarantees.

XVI. OTHER MAJOR EVENTS

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

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

(II) Changes in Directors and senior management

For details, please see “Changes in Directors, Supervisors and Senior Management” under Chapter 7 in this report and the announcement of the Company on the SSE website and Hong Kong Stock Exchange website.

(III) Account management

According to the statistics of the internal data centre of the Company, as at December 31, 2017, there were 6,164 unqualified capital accounts, 6,295 unqualified securities accounts, 1,079,144 dormant capital accounts, 1,691,080 dormant securities accounts, 53 securities accounts under freezing order, 1,258 securities accounts under freezing order, 570 risk disposal capital accounts (including dormant accounts of companies to be disposed of), 2,761 risk disposal securities accounts (including dormant accounts of companies to be disposed of) and 69,818 capital accounts under the A share capital accounts and securities accounts of the Company.

(IV) Important matters after the Balance Sheet Date

For details, please see the “Events after the Reporting Period” in the annual report of the Company for 2017.

XVII. FULFILLMENT OF SOCIAL RESPONSIBILITIES

(I) Poverty alleviation

1. Targeted poverty alleviation

In 2017, the China Merchants Securities continued to implement the “Decision of the PRC State Council on Poverty Alleviation” (Zhong Fa [2015] No. 34) (《中共中央國務院關於打贏脫貧攻堅戰的決定》(中發[2015] 34號)) and the objectives of the working conference of the central committee on poverty alleviation through development pursuant to the general working plan formulated by the Party committee of the CSRC. In active response to the appeal of the government and the CSRC, the Company has made full use of the characteristics of the securities industry and carried out targeted poverty alleviation.

Basic strategy: institutionalizing poverty alleviation to create the impoverished counties’ own growth momentum and strengths rather than give external relieves.

General target: focusing on the two counties under our paired-up poverty alleviation program to help impoverished countries rebuild their own growth momentum and strengths.

Main tasks: adhering to the principle that “a man shall be taught how to fish instead of being given fish”, the Company fully utilizes its professional advantages in financial services and social resources to help impoverished areas establish long-term poverty alleviation mechanism and mode that are specific to the realities of each region, through major assistance measures in the development of industry, finance, consumption and education.

Supporting measures:

- (1) With earnest will of poverty alleviation, the Party committee of the Company has set up a leading group thereof headed by WANG Yan, the President and Chief Executive Officer of the Company. The President’s Office organizes targeted poverty alleviation and establishes project teams targeting each impoverished counties with members from various departments to coordinate resources from relevant departments in effective response to the needs of poverty alleviation.
- (2) The Company has formulated the Special Scheme on Evaluating the Fulfilment of Social Responsibilities Such as Poverty Alleviation by China Merchants Securities (《招商證券脫貧攻堅等社會責任履行情況專項評估方案》), whereby the Company coordinates and guides all departments to actively implement specific poverty alleviation works so as to ensure the effective performance of these works.

2. Summary of poverty alleviation works of the year

In 2017, the Company has been and is carrying out the poverty alleviation works in following areas:

(1) Industry

The Company provided investment and financing services with a total amount of RMB7.175 billion in 2017 for impoverished areas through equity financing on the NEEQ, IPO sponsoring, engagement in or establishment of industrial funds for impoverished areas, issuance of exchangeable corporate bonds and offering of green financial debts.

Chapter 5: Major Events

(2) Finance

The Company established a securities branch in Neixiang County of Henan Province to provide a full range of investment and financing services including offering underwriting, acquisition and merger, asset restructuring, financial consultancy and investment advice.

The Company collaborated with experts from the Financial Institute of Chinese Academy of Social Sciences to assist the Neixiang government in developing the three-year strategic plan for financial development with the aim of building a county with strong financing.

(3) Welfare

- The Company donated RMB1.2 million to start the “Self-motivation School (扶志學堂)” which provided a six-day training course for county-level leaders and cadres and county entrepreneurs from the two paired-up assistance counties that was held in Shenzhen with the theme of “Understanding the capital market and developing county economy”. A total of four sessions were held, training 120 cadres.
- On May 18, 2017, the business team of Anhui Branch participated in the financial work conference organized by Shitai County of Chizhou City and provided participants with relevant training on OTC investment banking.
- On June 13, 2017, the Company’s OTC Business Department participated in the Prefectural Training Seminar on Bond Financing and Listing on the NEEQ organized by the Financial Office of the People’s Government of Garzê Tibetan Autonomous Prefecture. The training seminar provided know-how related to listing on the NEEQ and bond financing to trainees. The training brought new ideas and thoughts to the direct financing work of Garzê Prefecture, representing a positive attempt of the local government to resolve the financing problems for enterprises and serve the local economy through innovatively setting up financing platform, which generated excellent results.
- The Company constructed and put in use 14 classrooms in Shitai County and Neixiang County.
- The Company continued to promote the tourism resources of Shitai County and Neixiang County on the internal publications of China Merchants Securities.

(4) Consumption

In 2017, the Company conducted the poverty alleviation consumption with investment of more than RMB1.9 million in total, by purchasing Hami melon, red date and other specialties from Makit County of Xinjiang, mountain delicacies gift boxes from Neixiang County and selenium-enriched rice from Shitai County and mineral water from Luocheng Mulam Autonomous Region of Guangxi Province, and by helping the promotion of planting of Yulu pear (玉露香梨) in Xi County of Shanxi.

The Company also collected and sorted the agricultural products from the two paired-up assistance counties and posted them on the SAC anti-poverty consumption platform for consumers to purchase, thus expanding the sales and marketing channels for such products.

Chapter 5: Major Events

3. Poverty alleviation effect

Unit: RMB10,000 Currency: RMB

Indicators	Amounts and details
I. Total	—
Including: 1. Fund	368.7
II. By category	—
1. Industrial development	—
Including: 1.1 Project types	<input checked="" type="checkbox"/> Agriculture and forestry <input type="checkbox"/> Tourism <input type="checkbox"/> E-commerce <input type="checkbox"/> Asset income promotion <input type="checkbox"/> Technology <input checked="" type="checkbox"/> Others
1.2 Number of projects	10
1.3 Investment	50
2. Education	—
Including: 2.1 Subsidies to students in need	7.8
2.2 Number of students subsidized	30
3. Social programs	—
Including: 3.1 Contributions to east-west poverty alleviation collaboration	28.5
3.2 Contributions to fixed-point poverty alleviation	282.4
III. Honours (details and level)	—
In March 2017, the Company was awarded the "Poverty Alleviation Ambassador in China (中國扶貧大使獎)" and "2016 Outstanding Contribution Award (2016年做出杰出貢獻獎)" by China Foundation for Poverty Alleviation.	

4. Subsequent plans on targeted poverty alleviation

The plan for targeted poverty alleviation in 2018 is as follows:

(1) Industry

The Company will keep aiding Shitai County that is under our paired-up poverty alleviation program to develop featured tourism by integrating various resources and building it into a featured tourist town.

Chapter 5: Major Events

(2) Finance

The Company will help Neixiang County of Henan complete its three-year action plan on financial poverty alleviation and development, reconstruct rural commercial banks in the county towards a better financial system, and conduct researches on and provide guidance to the enterprises in the county to accelerate their listing plans.

(3) Consumption

The Company will continue to market, publicize and promote specialties such as agricultural products from the impoverished counties through various channels.

(4) Welfare

The Company will carry out a variety of trainings relating to capital market and investor education events in the impoverished areas.

(II) Performance of social responsibilities

Please refer to the 2017 Corporate Social Responsibility Report of China Merchants Securities Co., Ltd. (《招商證券股份有限公司2017年度社會責任報告》) and Environmental, Social and Governance Report published by the Company on the same date of this report on the SSE website and on the Hong Kong Stock Exchange website, respectively.

(III) Environmental protection

1. *Environmental protection of companies and subsidiaries categorized as key pollutant discharging units announced by environmental protection authorities*

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

2. *Companies other than key pollutant discharging units*

Please refer to the 2017 Corporate Social Responsibility Report of China Merchants Securities Co., Ltd. (《招商證券股份有限公司2017年度社會責任報告》) and Environmental, Social and Governance Report published by the Company on the same date of this report on the SSE website and on the Hong Kong Stock Exchange website, respectively.

XVIII. CONVERTIBLE CORPORATE BONDS

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

XIX. OTHER DISCLOSURES

(I) Sufficiency of public float of H Shares

As of the latest practicable date prior to the printing of this report, based on the information publicly available and to the best knowledge of the Directors, the Directors believe that the public float of the Company complied with Rule 8.08 of the Hong Kong Listing Rules and satisfied the minimum public float requirement prescribed by the Hong Kong Stock Exchange.

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

As of the latest practicable date prior to the printing of this report, none of the Directors or Supervisors held any equity interests in another business which is likely to compete, either directly or indirectly, with the business of the Company.

(III) Directors' and Supervisors' service contracts

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

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

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

(V) Permitted indemnity provision

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

Chapter 5: Major Events

(VI) Pre-emptive share option arrangement

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

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

The Board shall assume ultimate responsibility of the risk management, internal control and compliance management of the Group, and shall be responsible for assessing the effectiveness of such systems. Given that the objectives of such risk management and internal control systems are to manage, rather than eliminate, the risk of failure to achieve the business objectives, the Board may only provide reasonable instead of absolute assurance that such systems and internal control can prevent any material misstatement or loss.

(VIII) Remunerations to Directors, Supervisors and five highest-paid individuals

Details of remunerations to the Directors, Supervisors and five highest-paid individuals of the Company are set out in note 60 of the consolidated financial statements.

For the year ended December 31, 2017, no Director or Supervisor has given up or agreed to give up any remuneration.

(IX) Purchase, sale or redemption of securities of the Company

During the Reporting Period, the Company did not redeem the listed securities of the Company. During the year, neither the Company nor any of its subsidiaries have purchased or sold the listed securities of the Company.

Chapter 6: Changes in Ordinary Shares and Shareholders

I. Changes in Ordinary Share Capital

(I) Table of changes in ordinary shares

1. Table of changes in ordinary shares

Unit: share

	Before		Changes (+,-)					After	
	Number of shares	Percentage (%)	New issue	Bonus shares	Shares transfer from reserve	Others	Subtotal	Number of shares	Percentage (%)
I. Restricted shares	1,005,035,700	15.00	—	—	—	-189,727,058	-189,727,058	815,308,642	12.17
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned legal person shares	1,005,035,700	15.00	—	—	—	-189,727,058	-189,727,058	815,308,642	12.17
3. Other domestic shares	—	—	—	—	—	—	—	—	—
Including: Domestic non-state-owned legal person shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	—	—	—	—	—	—	—	—	—
4. Foreign shares	—	—	—	—	—	—	—	—	—
Including: Overseas legal person shares	—	—	—	—	—	—	—	—	—
Overseas natural person shares	—	—	—	—	—	—	—	—	—
II. Tradable unrestricted shares	5,694,386,611	85.00	—	—	—	189,714,076	189,714,076	5,884,100,687	87.83
1. Ordinary shares denominated in RMB	4,713,985,431	70.37	—	—	—	189,714,076	189,714,076	4,903,699,507	73.20
2. Domestic listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas listed foreign shares	980,401,180	14.63	—	—	—	—	—	980,401,180	14.63
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of ordinary shares	6,699,422,311	100.00	—	—	—	-12,982	-12,982	6,699,409,329	100.00

Chapter 6: Changes in Ordinary Shares and Shareholders

2. Notes on changes in ordinary shares

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

On May 31, 2017, the 189,727,058 private offering restricted shares subscribed by China Ocean Shipping and Hebei Port Group Co., Ltd. were tradable in the market.

For details, please see the related announcements published by the Company on March 24, 2017 and May 18, 2017.

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

Applicable Not applicable

4. Other content that the Company deems necessary or required by the securities regulatory authority for disclosure

Applicable Not applicable

(II) Changes in restricted shares

Unit: share

Name of Shareholder	Restricted shares at the beginning of the year	Unlocked restricted shares during the year	Increased restricted shares during the year	Restricted shares at the end of the year	Reason for restriction	Date of unlocking
China Merchants Finance Investment Holdings Co., Ltd.	815,308,642	—	—	815,308,642	Private offering	May 27, 2019
China Ocean Shipping (Group) Company (中國遠洋運輸(集團)總公司, renamed as 中國遠洋運輸有限公司)	124,453,374	124,453,374	—	—	Private offering	May 31, 2017
Hebei Port Group Co., Ltd.	65,273,684	65,273,684	—	—	Private offering	May 31, 2017
Total	1,005,035,700	189,727,058	—	815,308,642	—	—

Chapter 6: Changes in Ordinary Shares and Shareholders

II. Issue and Listing of Securities

(I) Issuance of securities completed during the Reporting Period

Unit: share Currency: RMB

Class of shares and their derivative securities	Trading code	Security abbreviation	Date of issue completion	Offer price (or interest rate (%))	Issuance amount (RMB 100 million)	Date of listing	Number permitted for listing (RMB 100 million)	Trading place	Date of closing
Ordinary shares									
Convertible corporate bonds, bonds with warrants and corporate bonds									
The 2017 corporate bonds (first tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors	143327	17 China Merchants G1 (17招商G1)	October 13, 2017	4.78	45.00	October 24, 2017	45.00	SSE	October 13, 2019
The 2017 corporate bonds (second tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors	143342	17 China Merchants G2 (17招商G2)	October 23, 2017	4.78	10.60	November 3, 2017	10.60	SSE	October 23, 2020
The 2017 corporate bonds (third tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors	143369	17 China Merchants G3 (17招商G3)	October 31, 2017	4.85	10.00	November 9, 2017	10.00	SSE	October 31, 2020
The 2017 securities companies short-term corporate bonds (first tranche) of China Merchants Securities Co., Ltd.	117552	China Merchants 1701 (招商1701)	January 12, 2017	3.98	38.00	February 22, 2017	38.00	SZSE	May 12, 2017
The 2017 securities companies short-term corporate bonds (second tranche) of China Merchants Securities Co., Ltd.	117554	China Merchants 1702 (招商1702)	February 22, 2017	4.48	30.00	April 13, 2017	30.00	SZSE	June 2, 2017

Chapter 6: Changes in Ordinary Shares and Shareholders

Class of shares and their derivative securities	Trading code	Security abbreviation	Date of issue completion	Offer price (or interest rate (%))	Issuance amount (RMB 100 million)	Date of listing	Number permitted for listing (RMB 100 million)	Trading place	Date of closing
The 2017 securities companies short-term corporate bonds (third tranche) of China Merchants Securities Co., Ltd.	117555	China Merchants 1703 (招商1703)	March 9, 2017	4.60	20.00	April 13, 2017	20.00	SZSE	August 9, 2017
The 2017 securities companies short-term corporate bonds (fourth tranche) of China Merchants Securities Co., Ltd. (Type One)	117557	China Merchants 1704 (招商1704)	March 29, 2017	4.80	32.20	April 28, 2017	32.20	SZSE	June 27, 2017
The 2017 securities companies short-term corporate bonds (fifth tranche) of China Merchants Securities Co., Ltd.	117568	China Merchants 1706 (招商1706)	July 13, 2017	4.50	30.00	August 10, 2017	30.00	SZSE	November 10, 2017
The 2017 securities companies short-term corporate bonds (sixth tranche) of China Merchants Securities Co., Ltd.	117570	China Merchants 1707 (招商1707)	August 9, 2017	4.60	32.40	September 18, 2017	32.40	SZSE	May 16, 2018
The 2017 securities companies short-term corporate bonds (seventh tranche) of China Merchants Securities Co., Ltd.	117571	China Merchants 1708 (招商1708)	August 25, 2017	4.90	11.00	September 27, 2017	11.00	SZSE	August 25, 2018
The 2017 securities companies short-term corporate bonds (eighth tranche) of China Merchants Securities Co., Ltd.	117572	China Merchants 1709 (招商1709)	September 6, 2017	4.95	30.00	October 10, 2017	30.00	SZSE	June 13, 2018
The 2017 securities companies short-term corporate bonds (ninth tranche) of China Merchants Securities Co., Ltd.	145810	17 China Merchants D9 (17招商D9)	September 20, 2017	4.85	22.00	September 29, 2017	22.00	SSE	September 20, 2018
The 2017 securities companies short-term corporate bonds (tenth tranche) of China Merchants Securities Co., Ltd.	145827	17 Zhao D10 (17招D10)	October 12, 2017	4.95	29.30	October 24, 2017	29.30	SSE	July 9, 2018
The 2017 securities companies short-term corporate bonds (eleventh tranche) of China Merchants Securities Co., Ltd.	145879	17 Zhao D11 (17招D11)	October 24, 2017	4.90	46.80	November 3, 2017	46.80	SSE	October 19, 2018
The 2017 securities companies short-term corporate bonds (twelfth tranche) of China Merchants Securities Co., Ltd.	145891	17 Zhao D12 (17招D12)	October 30, 2017	5.00	36.00	November 8, 2017	36.00	SSE	October 30, 2018

Chapter 6: Changes in Ordinary Shares and Shareholders

Class of shares and their derivative securities	Trading code	Security abbreviation	Date of issue completion	Offer price (or interest rate (%))	Issuance amount (RMB 100 million)	Date of listing	Number permitted for listing (RMB 100 million)	Trading place	Date of closing
The 2017 securities companies short-term corporate bonds (thirteenth tranche) of China Merchants Securities Co., Ltd.	145703	17 Zhao D13 (17招D13)	November 15, 2017	5.10	22.80	November 27, 2017	22.80	SSE	August 12, 2018
The 2017 subordinated bonds (first tranche) of China Merchants Securities Co., Ltd.	145899	17 China Merchants C1 (17招商C1)	November 27, 2017	5.45	22.00	December 4, 2017	22.00	SSE	November 27, 2019
Other derivative securities									
The 2017 perpetual subordinated bonds (first tranche) of China Merchants Securities Co., Ltd.	145340	17 China Merchants Y1 (17招商Y1)	February 17, 2017	5.18	40.00	March 7, 2017	40.00	SSE	February 17, 2022
The 2017 perpetual subordinated bonds (second tranche) of China Merchants Securities Co., Ltd.	145371	17 China Merchants Y2 (17招商Y2)	March 3, 2017	5.15	50.00	March 21, 2017	50.00	SSE	March 3, 2022
The 2017 perpetual subordinated bonds (third tranche) of China Merchants Securities Co., Ltd.	145545	17 China Merchants Y3 (17招商Y3)	May 22, 2017	5.65	37.00	June 1, 2017	37.00	SSE	May 22, 2022
The 2017 perpetual subordinated bonds (fourth tranche) of China Merchants Securities Co., Ltd.	145579	17 China Merchants Y4 (17招商Y4)	June 19, 2017	5.58	23.00	June 28, 2017	23.00	SSE	June 19, 2022

Note: Perpetual subordinated bonds are attached with the issuer's discretionary renewal right subject to a repricing cycle for every five interest accrual years. Upon expiry of each repricing cycle, the issuer may opt to extend the maturity of relevant bonds by another repricing cycle (being five years) or redeem the bonds due for the current period in full.

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

1. Issuance of perpetual subordinated bonds

On July 15, 2015, the Securities and Fund Institution Supervision Department of the CSRC issued the No Objection Letter for the Pilot Issuance of Perpetual Subordinated Bonds of China Merchants Securities Co., Ltd. (Ji Gou Bu [2015] No. 2150) (《關於招商證券股份有限公司試點發行永續次級債券的無異議函》(機構部[2015]2150號)), stating that the department has no objection to the pilot private issuance of perpetual subordinated bonds by the Company. During the Reporting Period, the Company issued a total of four tranches of perpetual subordinated bonds.

Chapter 6: Changes in Ordinary Shares and Shareholders

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

In December 2016, the Company received the No Objection Letter for Securities Companies Short-term Corporate Bonds in 2016 of China Merchants Securities Co., Ltd. Meeting Transfer Conditions of SZSE (Shen Zheng Han [2016] No. 836) (《關於招商證券股份有限公司2016年證券公司短期公司債券符合深交所轉讓條件的無異議函》(深證函[2016]836號)) issued by the Shenzhen Stock Exchange, pursuant to which the Shenzhen Stock Exchange has no objection to the application by the Company for the confirmation that its issuance of securities companies short-term corporate bonds of no more than 60% of its net capital is in compliance with the transfer conditions of the SZSE. During the Reporting Period, the Company issued a total of eight tranches of securities companies short-term corporate bonds on the Shenzhen Stock Exchange.

In January 2017, the Company received the No Objection Letter for the Offer for Sale of Short-term Corporate Bonds Privately Issued by China Merchants Securities Co., Ltd. ((Shang Zheng Han [2017] No. 44) 《關於對招商證券股份有限公司非公開發行短期公司債券掛牌轉讓無異議的函》(上證函[2017]44號)) from the Shanghai Stock Exchange, pursuant to which the Shanghai Stock Exchange has no objection to the offer for sale of short-term corporate bonds privately issued by the Company to qualified investors in the amount of no more than RMB26.5 billion. During the Reporting Period, the Company issued a total of five tranches of securities companies short-term corporate bonds on the Shanghai Stock Exchange.

3. Issuance of subordinated bonds of securities companies

In January 2017, the Company received the No Objection Letter for the Offer for Sale of Subordinated Bonds Privately Issued by China Merchants Securities Co., Ltd. (Shang Zheng Han [2017] No. 100) 《關於對招商證券股份有限公司非公開發行次級債券掛牌轉讓無異議的函》(上證函[2017]100號) issued by the Shanghai Stock Exchange, pursuant to which the Shanghai Stock Exchange has no objection to the offer for sale of the subordinated bonds privately issued by the Company in an amount of RMB10.0 billion in the SSE. During the Reporting Period, the Company issued a total of one tranche of securities companies subordinated bonds.

4. Public issuance of corporate bonds to qualified investors

In September 2017, the Company received the Approval on the Public Offering of Corporate Bonds by China Merchants Securities Co., Ltd. to Qualified Investors (Zheng Jian Xu Ke [2017] No. 1669) (《關於核准招商證券股份有限公司向合格投資者公開發行公司債券的批覆》(證監許可[2017]1669號)) from the CSRC, pursuant to which the CSRC approved the Company's public offering of corporate bonds with total face value of no more than RMB8.5 billion to qualified investors. During the Reporting Period, the Company publicly offered a total of three tranches of corporate bonds to qualified investors.

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

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

For details of the changes in the assets and liabilities of the Company, see "Chapter 4 Report of the Board of Directors – Structure of liabilities" of this report.

Chapter 6: Changes in Ordinary Shares and Shareholders

(III) Shares held by employees

The Company does not have any shares held by employees.

III. Shareholders and De Facto Controller

(I) Number of Shareholders

Number of holders of the ordinary shares as of the end of the Reporting Period	108,249
Number of holders of the ordinary shares as of the end of the month preceding the disclosure of the annual report	104,634

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

Unit: share

Top ten shareholders							
Name of shareholder (in full)	Changes during the Reporting Period	Number of shares	Percentage (%)	Number of restricted shares	Pledged or locked-up		Nature of shareholders
					Status	Number	
China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	—	1,402,114,293	20.93	815,308,642	Nil	—	State-owned legal person
Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)	—	1,310,719,131	19.56	—	Nil	—	State-owned legal person
HKSCC Nominees Limited (香港中央結算(代理人)有限公司)	37,200	980,004,780	14.63	—	Nil	—	Overseas legal person
China Ocean Shipping (Group) Company (中國遠洋運輸(集團)總公司, renamed as 中國遠洋運輸有限公司)	—	418,948,014	6.25	—	Nil	—	State-owned legal person
Hebei Port Group Co., Ltd. (河北港口集團有限公司)	—	264,063,640	3.94	—	Nil	—	State-owned legal person
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	82,635,008	225,825,747	3.37	—	Nil	—	State-owned legal person
China Communications Construction Company Ltd. (中國交通建設股份有限公司)	—	209,399,508	3.13	—	Nil	—	State-owned legal person
China Merchants Steam Navigation Co., Ltd. (招商局輪船股份有限公司, renamed as 招商局輪船有限公司)	—	173,193,797	2.59	—	Nil	—	State-owned legal person
COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運(廣州)有限公司)	—	83,999,922	1.25	—	Nil	—	State-owned legal person
Central Huijin Asset Management Ltd. (中央匯金資產管理有限責任公司)	—	77,251,600	1.15	—	Nil	—	State-owned legal person

Chapter 6: Changes in Ordinary Shares and Shareholders

Top ten holders of unrestricted shares			
Name of shareholder	Number of tradable unrestricted shares held	Class and number of shares	
		Class	Number
Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)	1,310,719,131	RMB ordinary shares	1,310,719,131
HKSCC Nominees Limited (香港中央結算(代理人)有限公司)	980,004,780	Overseas listed foreign shares	980,004,780
China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	586,805,651	RMB ordinary shares	586,805,651
China Ocean Shipping (Group) Company (中國遠洋運輸(集團)總公司, renamed as 中國遠洋運輸有限公司)	418,948,014	RMB ordinary shares	418,948,014
Hebei Port Group Co., Ltd. (河北港口集團有限公司)	264,063,640	RMB ordinary shares	264,063,640
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	225,825,747	RMB ordinary shares	225,825,747
China Communications Construction Company Ltd. (中國交通建設股份有限公司)	209,399,508	RMB ordinary shares	209,399,508
China Merchants Steam Navigation Co., Ltd. (招商局輪船股份有限公司, renamed as 招商局輪船有限公司)	173,193,797	RMB ordinary shares	173,193,797
COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運(廣州)有限公司)	83,999,922	RMB ordinary shares	83,999,922
Central Huijin Asset Management Ltd. (中央匯金資產管理有限責任公司)	77,251,600	RMB ordinary shares	77,251,600
Statement on the related relationship or concerted actions among the aforesaid shareholders	<p>Among the above top ten shareholders,</p> <ol style="list-style-type: none"> 1. CM Finance Investment, Jisheng Investment, CM Steam Navigation are all subsidiaries of China Merchants Group, the de facto controller of the Company; 2. China Ocean Shipping and COSCO Shipping (Guangzhou) Co., Ltd. are all subsidiaries of China COSCO Shipping Corporation Limited. 		

Note 1: HKSCC Nominees Limited (香港中央結算(代理人)有限公司) is the nominee holder for the shares of the non-registered H Shareholders of the Company;

Note 2: The A Shareholders are the holders of registered accounts at the Shanghai Branch of China Securities Depository and Clearing Corporation Limited;

Note 3: Given the fact that the shares of the Company are margin financing and securities lending targeted securities, the number of shares held by the shareholders will be calculated based on the aggregate number of shares and equities in their ordinary securities accounts and credit securities accounts.

Chapter 6: Changes in Ordinary Shares and Shareholders

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

Unit: share

Number	Name of shareholder	Number of restricted shares held	Listing and trading of restricted shares		Restriction
			Date of being released for listing and trading	Number of additional shares to be listed and traded	
1	China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	815,308,642	May 27, 2019	—	Lock-up period of 60 months after the closing of private offering of shares of the Company in 2014.
Statement on the related relationship or concerted actions among the aforesaid shareholders		Nil			

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

Applicable Not applicable

(IV) Disclosure of interests

Interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations of the directors, supervisors and chief executives

As at December 31, 2017, based on the information available to the Company and to the best knowledge of the Directors, the following Directors, Supervisors and chief executives had interest and/or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would be required (a) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of Part XV of the SFO, to be entered in the register required to be kept by the Company; or (c) pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange:

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

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

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

Chapter 6: Changes in Ordinary Shares and Shareholders

Save as disclosed above, as at December 31, 2017, the Company is not aware of other Directors, Supervisors and chief executives having any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations which would be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they were taken or deemed to have under such provisions of the SFO), or pursuant to section 352 of the SFO, to be entered in the register required to be kept by the company, or pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

Interests and short positions in the shares and underlying shares of substantial shareholders and other persons

As at December 31, 2017, based on the information available to the Company and to the best knowledge of the Directors, the following persons (other than Directors, Supervisors and the chief executives) had interests or short positions in the shares or underlying shares which would be required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Number	Name of de facto controller and substantial shareholders	Class of shares	Nature of interest	Number of shares held (shares)	Percentage of total number of issued shares of the Company (%)	Percentage of total number of issued A Shares/H Shares of the Company (%)	Long positions ⁷ / short positions ⁸ / shares available for lending
1	China Merchants Group	A Shares	Interest held by controlled corporations ¹	2,886,027,221	43.08	50.46	Long position
		H Shares	Beneficial owner or other interest ²	67,706,400	1.01	6.91	Long position
2	China Merchants Steam Navigation Co., Ltd. (招商局輪船股份有限公司, renamed as 招商局輪船有限公司)	A Shares	Beneficial owners and interest of corporation controlled by substantial shareholders ³	2,886,027,221	43.08	50.46	Long position
3	China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	A Shares	Beneficial owners and interest of corporation controlled by substantial shareholders ⁴	2,712,833,424	40.49	47.44	Long position
4	Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)	A Shares	Beneficial owner	1,310,719,131	19.56	22.92	Long position
5	China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司)	A Shares	Interest held by controlled corporations ⁵	502,947,936	7.51	8.79	Long position
		H Shares	Interest held by controlled corporations ⁶	78,896,000	1.17	8.05	Long position

Chapter 6: Changes in Ordinary Shares and Shareholders

Number	Name of de facto controller and substantial shareholders	Class of shares	Nature of interest	Number of shares held (shares)	Percentage of total number of issued shares of the Company (%)	Percentage of total number of issued A Shares/H Shares of the Company (%)	Long positions ⁷ / short positions ⁸ / shares available for lending
6	China Ocean Shipping (Group) Company (中國遠洋運輸(集團)總公司, renamed as 中國遠洋運輸有限公司)	A Shares	Beneficial owner	418,948,014	6.25	7.33	Long position
7	PICC Life Insurance Company Limited	H Shares	Beneficial owner	333,300,000	4.98	34.00	Long position

- China Merchants Group holds 100% of the equity interest in CM Finance Investment, Jisheng Investment and CM Steam Navigation, and is therefore deemed to be interested in the same number of A shares that CM Finance Investment, Jisheng Investment and CM Steam Navigation are interested in under the SFO, representing 20.93%, 19.56% and 2.59% of the total share capital of the Company, respectively.
- China Merchants Group holds 100% of the equity interest in Best Winner Investment Limited, and is therefore deemed to be interested in the same number of H Shares that Best Winner Investment Limited is interested in under the SFO, representing 1.01% of the total share capital of the Company.
- CM Steam Navigation holds 100% of the equity interests in CM Finance Investment and Jisheng Investment, and is therefore deemed to be interested in the same number of A Shares that CM Finance Investment and Jisheng Investment are interested in under the SFO, representing 20.93% and 19.56% of the total share capital of the Company, respectively.
- China Merchants Finance Investment Holdings Co., Ltd. holds 20.93% of the equity interest in the Company, and holds 50% of the equity interest in Shenzhen Jisheng Investment Development Co., Ltd., and is therefore deemed to be interested in the same number of A Shares that Shenzhen Jisheng Investment Development Co., Ltd. is interested in under the SFO, representing 19.56% of the total share capital of the Company. Thus, China Merchants Finance Investment Holdings Co., Ltd. holds, directly and indirectly, an aggregate of 40.49% of the equity interests in the Company.
- China COSCO Shipping Corporation Limited holds 100% of the equity interest in China Ocean Shipping and China Shipping (Group) Company (中國海運(集團)總公司), and is therefore deemed to be interested in the same number of A Shares that China Ocean Shipping and COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運(廣州)有限公司), a wholly-owned subsidiary of China Shipping (Group) Company, are interested in under the SFO, representing 6.25% and 1.25% of the total share capital of the Company, respectively.
- According to the SFO, China COSCO Shipping Corporation Limited is deemed to be interested in the same number of H Shares which COSCO SHIPPING Financial Holdings Co., Limited, a wholly-owned subsidiary of China Shipping (Group) Company (中國海運(集團)總公司), is interested in, which represents 1.17% of the total share capital of the Company.
- A shareholder has a “long position” if it has an interest in shares, including interests through holding, selling or issuing financial instruments (including derivatives) under which such shareholder has the following obligations and liabilities: (i) it has a right to buy the underlying shares; (ii) it is under an obligation to buy the underlying shares; (iii) it has a right to receive money if the price of the underlying shares increases; or (iv) it has a right to avoid or reduce a loss if the price of the underlying shares increases; and
- A shareholder has a “short position” if it borrows shares under a securities borrowing and lending agreement, or if it holds, sells or issues financial instruments (including derivatives) under which such shareholder has the following obligations and liabilities: (i) it has a right to require another person to buy the underlying shares; (ii) it is under an obligation to deliver the underlying shares; (iii) it has a right to receive money if the price of the underlying shares decreases; or (iv) it has a right to avoid or reduce a loss if the price of the underlying shares decreases.

Chapter 6: Changes in Ordinary Shares and Shareholders

IV. Details of Controlling Shareholders

1 China Merchants Group Limited

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

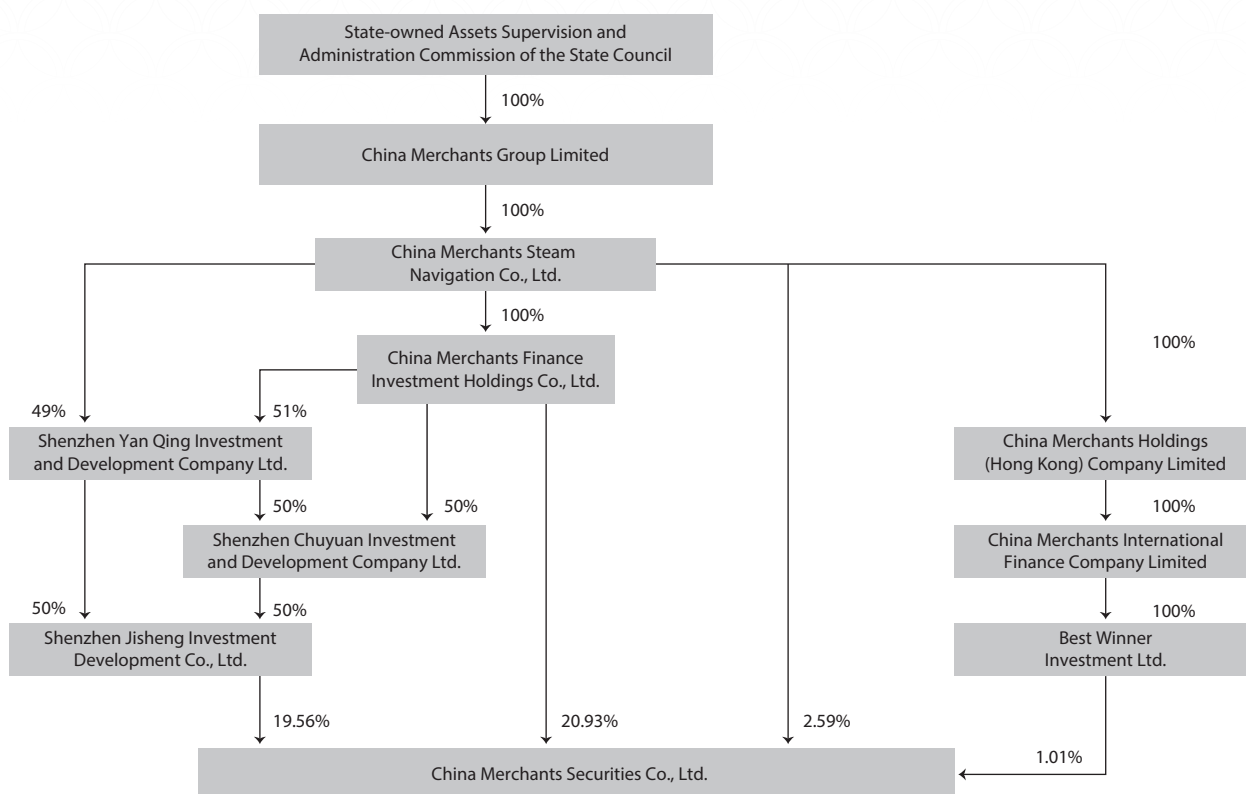
Chapter 6: Changes in Ordinary Shares and Shareholders

List of the major listed companies in which China Merchants Group is interested as at the end of 2017

Number	Name of the company	Shareholding ratio
1	China Merchants Land Limited	74.35%
2	China Merchants Shekou Industrial Zone Holdings Co., Ltd	72.36%
3	Sinotrans Shipping Ltd.	68.75%
4	China Merchants Expressway Network & Technology Holdings Co., Ltd	68.72%
5	Sinotrans Limited	66.31%
6	Sinotrans Air Transportation Development Co., Ltd.	60.95%
7	China Merchants Energy Shipping Co., Ltd.	47.66%
8	China Merchants Securities Co., Ltd.	44.09%
9	Shenzhen Chiwan Wharf Holdings Limited	33.58%
10	China Merchants Bank Co., Ltd.	29.97%
11	Anhui Expressway Company Limited	29.94%
12	China Merchants Port Holdings Company Limited	29.00%
13	China Merchants China Direct Investments Limited	27.59%
14	Shanghai International Port (Group) Co., Ltd.	26.45%
15	China International Marine Containers (Group) Co., Ltd.	24.53%
16	Sichuan Expressway Company Limited	23.15%
17	Dalian Port (PDA) Company Limited	21.05%
18	Fujian Expressway Development Co., Ltd. (福建發展高速公路股份有限公司)	17.75%
19	Heilongjiang Transport Development Co., Ltd.	16.52%
20	Shandong Hi-Speed Company Limited	16.02%
21	Jilin Expressway Co., Ltd.	15.63%
22	Henan Zhongyuan Expressway Co., Ltd.	15.43%
23	Hubei Chutian Expressway Co., Ltd	15.19%
24	Guangxi Wuzhou Communications Co., Ltd.	13.86%
25	Jiangsu Expressway Company Limited	11.69%
26	Modern Investment Co., Ltd. (現代投資股份有限公司)	7.04%
27	Shenzhen Expressway Company Limited	4.00%
28	Ningbo Zhoushan Port Co., Ltd. (寧波舟山港股份有限公司)	3.09%
29	Qingdao Port International Co., Ltd.	2.54%

Chapter 6: Changes in Ordinary Shares and Shareholders

Diagram of ownership and relationship between the Company and the de facto shareholder



On August 2, 2017, the Company received a notice from CM Steam Navigation, the shareholder of the Company, which states that, according to the approval of Market Supervision Bureau of Shenzhen Municipality (深圳市市場監督管理局), the industrial and commercial registration procedures have been completed for the transfer by China Merchants Group of 90% equity interests in CM Finance Investment and 49% equity interests in Shenzhen Yan Qing Investment and Development Company Limited to the CM Steam Navigation at nil consideration.

Upon the completion of such registration procedure, 173,193,797 shares of China Merchants Securities will be directly held by CM Steam Navigation, representing approximately 2.59% of the total share capital of China Merchants Securities. A total of 2,780,539,824 shares of China Merchants Securities will be indirectly held by CM Steam Navigation through CM Finance Investment, Jisheng Investment and Best Winner Investment Ltd., which are controlled by CM Steam Navigation, representing approximately 41.50% of the total share capital of China Merchants Securities. Hence, a total of 2,953,733,621 shares of China Merchants Securities will be directly and indirectly held by CM Steam Navigation, representing approximately 44.09% of the total share capital of China Merchants Securities. The China Merchants Group remains the de facto controller of the Company.

In addition, according to the notice from the CM Steam Navigation, its Chinese company name has been changed from “招商局輪船股份有限公司” to “招商局輪船有限公司”, and the relevant industrial and commercial registration have been completed.

Chapter 6: Changes in Ordinary Shares and Shareholders

V. Other Corporate Shareholders Interested in 10% or More of the Shares of the Company

Unit: RMB10,000 Currency: RMB

Name of corporate shareholder	Person in charge or legal representative	General manager	Date of incorporation	Organization code	Registered capital	Principal business or operation
China Merchants Finance Investment Holdings Co., Ltd.	HONG Xiaoyuan (洪小源)	SU Min (蘇敏)	May 28, 1997	27934371-2	60,000	Investment (projects are separately reported); domestic business, commodity supply and sales (excluding licensed, exclusive or franchised commodities).
Shenzhen Jisheng Investment Development Co., Ltd.	XU Xin (徐鑫)	WANG Zhangwei (王章為)	December 11, 2001	73414637-5	60,000	Investment (projects are separately reported); domestic business, commodity supply and sales (excluding licensed, exclusive or franchised commodities); economic information consultancy (excluding restricted items).
Statement	Among the above shareholders, CM Finance Investment and Jisheng Investment are subsidiaries of China Merchants Group, the controlling shareholder of the Company.					

VI. Restrictions on the Reduction of Shares

Applicable Not applicable

Chapter 7: Directors, Supervisors, Senior Management and Employees

I. CHANGE IN SHAREHOLDINGS AND REMUNERATION

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

Unit: Share

Name	Position (Notes)	Gender	Age	Term commencement date	Term expiration date	No. of shares held at the beginning of the Year	No. of shares held at the end of the Year	Changes (+/-) in shareholdings during the Year	Reason for changes	Total remuneration from the Company during the Reporting Period (RMB10,000) (before tax)	Remuneration from related parties
HUO Da (霍達)	Chairman of the Board, Executive Director	Male	49	May 2017	May 2020	—	—	—	—	324.88	No
SU Min (蘇敏)	Non-executive Director	Female	49	June 2016	May 2020	—	—	—	—	—	Yes
XIONG Xianliang (熊賢良)	Non-executive Director	Male	50	December 2014	May 2020	—	—	—	—	—	Yes
SU Jian (粟健)	Non-executive Director	Male	45	June 2017	May 2020	—	—	—	—	—	Yes
WANG Yan (王岩)	Executive Director President and Chief Executive Officer	Male	52	December 2011 January 2012	May 2020 May 2020	—	—	—	—	510.98	No
PENG Lei (彭磊)	Non-executive Director	Female	45	August 2007	May 2020	—	—	—	—	—	Yes
XIONG Jiantao (熊劍濤)	Executive Director Chief Operating Officer Vice President	Male	49	May 2017 May 2017 December 2005	May 2020 May 2020 May 2020	—	—	—	—	394.99	No
HUANG Jian (黃堅)	Non-executive Director	Male	48	August 2012	May 2020	—	—	—	—	—	Yes
WANG Daxiong (王大雄)	Non-executive Director	Male	57	September 2016	May 2020	—	—	—	—	—	Yes
CHEN Zhigang (陳志剛)	Non-executive Director	Male	45	June 2017	May 2020	—	—	—	—	—	Yes
XIANG Hua (向華)	Independent Non-executive Director	Male	46	July 2017	May 2020	—	—	—	—	10	Yes
XIAO Houfa (肖厚發)	Independent Non-executive Director	Male	50	July 2017	May 2020	—	—	—	—	10	Yes
XIONG Wei (熊偉)	Independent Non-executive Director	Male	42	August 2017	May 2020	—	—	—	—	10	No
HU Honggao (胡鴻高)	Independent Non-executive Director	Male	63	July 2017	May 2020	—	—	—	—	10	No
YANG Jun (楊鈞)	Independent Non-executive Director (Note 1)	Male	60	June 2011	January 2018	11,800	11,800	—	—	20	Yes
ZHOU Linda Lei (周語蕊)	Chairman of the Supervisory Committee	Female	49	July 2014	May 2020	—	—	—	—	411.64	No
LI Xiaofei (李曉霏)	Shareholder Representative Supervisor	Male	47	July 2014	May 2020	—	—	—	—	—	Yes
WANG Zhangwei (王章偉)	Shareholder Representative Supervisor	Male	45	June 2017	May 2020	—	—	—	—	—	Yes
MA Yunchun (馬鐘春)	Shareholder Representative Supervisor	Male	49	June 2017	May 2020	—	—	—	—	—	Yes

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Position (Notes)	Gender	Age	Term commencement date	Term expiration date	No. of shares held at the beginning of the Year	No. of shares held at the end of the Year	Changes (+/-) in shareholdings during the Year	Reason for changes	Total remuneration from the Company during the Reporting Period (RMB10,000) (before tax)	Remuneration from related parties
FANG Xiaobing (房小兵)	Shareholder Representative Supervisor	Male	47	July 2011	May 2020	—	—	—	—	—	No
ZHANG Zehong (張澤宏)	Shareholder Representative Supervisor	Male	45	July 2011	May 2020	—	—	—	—	—	Yes
YI Hongyan (尹虹艷)	Employee Representative Supervisor	Female	46	August 2007	May 2020	—	—	—	—	105.33	No
HE Min (何敏)	Employee Representative Supervisor	Female	42	July 2009	May 2020	—	—	—	—	88.77	No
XIONG Zhigang (熊志鋼)	Employee Representative Supervisor	Male	40	May 2017	May 2020	—	—	—	—	60.45	No
DENG Xiaoli (鄧曉力)	Vice President Chief Risk Officer	Female	50	November 2005 August 2014	May 2020 May 2020	—	—	—	—	370.92	No
SUN Yizheng (孫議政)	Vice President	Male	49	November 2009	May 2020	—	—	—	—	371.78	No
LI Zongjun (李宗軍)	Vice President	Male	52	July 2015	May 2020	—	—	—	—	371.99	No
WU Hui Feng (吳慧峰)	Secretary to the Board	Male	43	December 2014	May 2020	—	—	—	—	321.65	No
ZHAO Bin (趙斌)	Chief Compliance Officer	Male	48	January 2016	May 2020	—	—	—	—	321.44	No
GONG Shaolin (宮少林)	Chairman of the Board, Executive Director (ceased to hold office)	Male	62	November 2001	May 2017	—	—	—	—	212.15	No
HUA Li (華立)	Non-executive Director (ceased to hold office)	Male	46	July 2014	May 2017	—	—	—	—	—	Yes
GUO Jian (郭健)	Non-executive Director (ceased to hold office)	Male	53	May 2014	May 2017	—	—	—	—	—	Yes
CAO Dong (曹棟)	Non-executive Director (ceased to hold office)	Male	48	May 2014	May 2017	—	—	—	—	—	No
YI Xiqun (衣錫群)	Independent Non-executive Director (ceased to hold office)	Male	70	August 2013	August 2017	—	—	—	—	10	Yes
LIU Jialing (劉嘉凌)	Independent Non-executive Director (ceased to hold office)	Male	54	August 2011	July 2017	—	—	—	—	10	Yes
DING Huiping (丁慧平)	Independent Non-executive Director (ceased to hold office)	Male	61	July 2014	July 2017	—	—	—	—	10	Yes
ZHU Haiwu (朱海武)	Independent Non-executive Director (ceased to hold office)	Male	51	July 2016	July 2017	—	—	—	—	10	Yes
LIU Chong (劉沖)	Supervisor (ceased to hold office)	Male	47	May 2014	May 2017	—	—	—	—	—	Yes
ZHU Haibin (朱海彬)	Supervisor (ceased to hold office)	Male	54	July 2007	May 2017	—	—	—	—	—	Yes
ZHAN Guifeng (詹桂峰)	Employee Representative Supervisor (ceased to hold office)	Male	47	July 2011	May 2017	—	—	—	—	46.74	No
DING Edward An Hua (丁安華)	Vice President (ceased to hold office)	Male	53	October 2011	April 2017	—	—	—	—	117.33	Yes
Total	—	—	—	—	—	11,800	11,800	—	—	4,131.04	—

Chapter 7: Directors, Supervisors, Senior Management and Employees

Notes:

1. In January 2018, the qualifications of Mr. WONG Ti as an independent director in a securities firm were approved by the CSRC Shenzhen Office. He shall officially serve as an independent non-executive Director of the Company with his term of office ending on the expiry date of the current session of the Board. Mr. YANG Jun ceased to act as the independent non-executive Director of the Company.
2. No share incentive scheme was implemented during the Reporting Period.
3. Payment of 40% of the annual performance-based bonus payable to the Directors, chairman of the Supervisory Committee and senior management who worked full time for the Company shall be deferred for a term of 3 years. The deferred payment of remuneration shall be divided equally.
4. The total remuneration before tax of Directors, chairman of the Supervisory Committee and senior management who worked full time for the Company has not been confirmed yet. Further information will be disclosed upon confirmation.
5. The Directors, chairman of the Supervisory Committee and senior management who worked full time for the Company did not receive any non-cash remuneration.

Name	Major working experience
HUO Da (霍達)	<p>Mr. HUO has served as our Chairman of the Board since May 2017. Mr. HUO has extensive experience in various fields including economic and financial research, development and management of multi-layer capital market as well as monitoring and analysis of capital market statistics. Specifically, he has been a part-time member of the 17th Public Offering Review Committee of the CSRC since September 2017. Mr. HUO was director of the Market Supervision Department of the CSRC from March 2015 to May 2017, and successively served as the director of the Research Center of the CSRC, head of Beijing Institute of Securities and Futures and head of China Institute of Finance and Capital Markets concurrently. Mr. HUO acted as director of the Corporate Bonds Supervision Department of the CSRC from February 2014 to March 2015; deputy director of the Market Supervision Department of the CSRC from December 2010 to February 2014; deputy counsel of the Market Supervision Department of the CSRC from November 2009 to December 2010; and member of the Party committee and assistant to the head of the Shenzhen office of the CSRC from December 2007 to November 2009. Mr. HUO started his service at the CSRC from April 1997 as principal staff member, deputy division head and division head in succession.</p> <p>Mr. HUO obtained a bachelor's degree in engineering from Huazhong University of Science and Technology, a master's degree in economics from Huazhong University of Science and Technology and a doctoral degree in economics from Chinese Academy of Fiscal Sciences (formerly known as the Research Institute for Fiscal Science of the Ministry of Finance) in July 1989, April 1994 and January 2008, respectively.</p>

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
SU Min (蘇敏)	<p>Ms. SU has served as our non-executive Director since June 2016. Ms. SU has experience in managing finance-related and listed companies. Specifically, she has been general manager and director of China Merchants Finance Holdings Co., Ltd. since September 2015 and December 2015, respectively; supervisor of China Merchants Capital Investments Co., Ltd. since January 2016; director of China Merchants Venture Capital Management Co., Ltd. (招商局創新投資管理有限公司) since November 2015; and director of China Merchants Bank (listed on the SSE, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) since September 2014. Ms. SU served as chairman of the board of directors of Shenzhen China Merchants Qihang Internet Investment Management Co., Ltd. (深圳招商啟航互聯網投資管理有限公司) from November 2015 to April 2017; director of COSCO SHIPPING Energy Transportation Co., Ltd. (listed on the SSE, stock code: 600026; listed on the Hong Kong Stock Exchange, stock code: 1138) from May 2013 to August 2015; director of COSCO SHIPPING Development Co., Ltd. (listed on the SSE, stock code: 601866; listed on the Hong Kong Stock Exchange, stock code: 2866) from June 2013 to December 2015; director of Huishang Bank Corporation Limited (listed on the Hong Kong Stock Exchange, stock code: 3698) from December 2009 to May 2011; and director of Anhui Province Wenergy Company Limited (listed on the SZSE, stock code: 000543) from March 2008 to September 2011. Ms. SU also has management experience relating to accounting and other affairs via serving as chief accountant of China Shipping (Group) Company from March 2011 to August 2015; and chief accountant and deputy general manager of Anhui Province Energy Group Co., Ltd. from May 2007 to November 2011 and from November 2010 to April 2011, respectively.</p> <p>Ms. SU obtained a bachelor's degree in finance from Shanghai University of Finance and Economics and a master's degree in business administration from the University of Science and Technology of China in July 1990 and December 2002, respectively. She was granted the qualifications of Certified Public Accountant, Certified Public Valuer and senior accountant by the Chinese Institute of Certified Public Accounts, the China Appraisal Society and the Department of Human Resources and Social Security of Anhui Province in June 1998, June 1999 and June 2008, respectively.</p>

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
XIONG Xianliang (熊賢良)	<p>Mr. XIONG has served as our non-executive Director since December 2014. Mr. XIONG has experience in strategic management and research. Specifically, he has been head of the strategic development department of China Merchants Group since March 2015; and head of the security and supervision department of China Merchants Group since February 2017. Mr. XIONG served as head of information management department and research department from March 2015 to September 2017; general manager (head) of the strategic research department of China Merchants Group from October 2011 to February 2015; and non-executive director of China Merchants Bank (listed on the SSE, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from July 2012 to June 2014. Mr. XIONG worked at the Research Office of the State Council from December 2004 to October 2011; at the general group of the steering committee office of the Western Region Development of the State Council (國務院西部開發領導小組辦公室綜合組) from July 2003 to December 2003; at the Chongqing Development and Planning Commission from December 2000 to December 2004; and at the Development Research Center of the State Council from March 1994 to December 2000.</p> <p>Mr. XIONG obtained a master's degree and a doctoral degree in global economics from Nankai University in June 1991 and December 1993, respectively. Mr. XIONG was granted the title of Researcher by the Development Research Center of the State Council in September 2000.</p>
SU Jian (粟健)	<p>Mr. SU has served as our non-executive Director since June 2017. Mr. SU has experience in financial affairs and relevant management. Specifically, he has been head of the finance department (property rights department) of China Merchants Group since July 2017; and deputy head (as the person in charge at the grade of head) of the finance department (property rights department) of China Merchants Group from January 2017 to July 2017. Mr. SU served as deputy general manager of China Merchants Industry Holdings Co., Ltd. from May 2016 to January 2017; deputy head of the human resources department of China Merchants Group Limited from February 2014 to May 2016; senior manager, assistant to the head and then deputy head of the finance department of China Merchants Group Limited from September 2009 to February 2014; senior manager of the finance department of China Merchants Shekou Industrial Zone Company Limited from August 2008 to August 2009; head and senior manager of the finance department of China Merchants Group from August 2002 to August 2008; and clerk, head and then financial manager of China Merchants International Travel Service Co. Ltd. from July 1993 to August 2002.</p> <p>Mr. SU obtained a bachelor's degree in economics from Shanghai University of Finance and Economics in 1993. Mr. SU obtained the qualifications as a non-practising member of the Chinese Institute of Certified Public Accountants and an Intermediate Accountant in 2000 and 2002, respectively.</p>

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
<p>WANG Yan (王岩)</p>	<p>Mr. WANG has served as our executive Director since December 2011. Mr. WANG has experience in management of securities and financial companies via serving in management or administrative positions of various securities companies and banks. Specifically, he has been our President and Chief Executive Officer since January 2012; chairman of the board of directors of CMS International since September 2015; and director of CMS International and China Merchants Securities (HK) Co., Limited in succession since October 2011. Mr. WANG has served as executive director of CMS Investment since December 2017; vice president and member of standing committee of the Securities Association of China since May 2012; chairman of international cooperation committee of Securities Association of China since February 2018; and council member of the SZSE since February 2012. Mr. WANG has served as chairman of the Appeal Review Committee and vice chairman of the Self-Disciplinary Management Committee under the council of the SZSE since June 2017; supervisor of the supervisory board and vice chairman of Strategic Development Committee under the council of the SSE since September 2016; and economic and technical consultant of the People's Government of Jilin Province since July 2012. Mr. WANG was director of China Merchants Securities Investment Management (HK) Co., Limited, CMS Capital (HK) Co., Limited and China Merchants Nominees (HK) Co., Limited from October 2011 to May 2014; executive president and concurrent chief operating officer, acting chief executive officer, and then executive president and chief executive officer of BOC International Holdings Limited from March 2005 to September 2011; deputy general manager of the Hong Kong branch of Industrial and Commercial Bank of China Limited (listed on the SSE, stock code: 601398; listed on the Hong Kong Stock Exchange, stock code: 1398) from April 2000 to January 2005 (during such period he also served as deputy general manager of Industrial and Commercial Bank of China (Asia) Limited from July 2001 to December 2004); representative and then chief representative of the New York branch of ICBC from February 1997 to April 2000; and deputy division head of the general planning division of the international business department of ICBC from August 1991 to February 1997.</p> <p>Mr. WANG obtained a bachelor's degree and a master's degree in law majoring in international law, and a doctoral degree in economics majoring in national economics, all from Peking University, in July 1986, July 1989 and January 2005, respectively. Mr. WANG was granted the title of senior economist by ICBC in August 1999.</p>

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Name	Major working experience
PENG Lei (彭磊)	<p>Ms. PENG has served as our non-executive Director since August 2007. Ms. PENG has relevant management and working experience via serving at management and administrative positions of various securities and finance-related companies. Specifically, she has been deputy general manager of China Merchants Finance Holdings Co., Ltd. since April 2016; director of Bosera Funds since November 2017; director of Morgan Stanley Huaxin Fund Management Co., Ltd. since March 2015; and director of China Great Wall Securities Co., Ltd. since June 2011. Ms. PENG successively served as deputy general manager of the general management department, general manager of the audit department, general manager of the China business department, general manager of the securities department and assistant to the general manager of China Merchants Finance Holdings Co., Ltd. from October 2003 to April 2016. Ms. PENG was executive director of Union Asset Management Company from May 2002 to October 2003.</p> <p>Ms. PENG obtained a bachelor's degree in economics majoring in business management from Southwestern University of Finance and Economics and a master's degree in economics majoring in finance from Peking University in July 1994 and July 2010, respectively.</p>
XIONG Jiantao (熊劍濤)	<p>Mr. XIONG has served as our executive Director since May 2017. Mr. XIONG has experience in operation of securities companies and IT-based management. Specifically, he has been our Chief Operating Officer since May 2017; our Vice President since December 2005; chairman of the board of directors of China Merchants Futures since March 2008; chairman of the board of directors of CMS Asset Management since March 2015; and director of CMS International since September 2015. Mr. XIONG served as director of Bosera Funds from November 2014 to November 2017; and successively acted as manager of our computer department, general manager of our computer center, general manager of our IT center and our technical director from June 1995 to December 2005 (during such period he had been temporarily seconded by the CSRC to be a member of the administrative take-over group of China Southern Securities). Mr. XIONG was deputy manager of the information center in China Merchants Bank (listed on the SSE, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from April 1993 to June 1995; and staff member of Shenzhen Shanxing Electronics Co., Ltd. (深圳山星電子有限公司) from May 1992 to April 1993.</p> <p>Mr. XIONG obtained a bachelor's degree in engineering majoring in telecommunications engineering from Nanjing University of Posts and Telecommunications (formerly Nanjing Institute of Posts and Telecommunications), a master's degree in engineering majoring in automatic instrumentation and installation from Huazhong University of Science and Technology and a degree for executive master of business management ("EMBA") from Fudan University in July 1989, June 1992 and June 2014, respectively.</p>

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Name	Major working experience
HUANG Jian (黃堅)	<p>Mr. HUANG has served as our non-executive Director since August 2012. Mr. HUANG has finance-related management experience via serving in financial departments and at administrative positions of various companies. Specifically, he has been general manager of the capital operation department of China COSCO Shipping Corporation Limited since September 2016; director of COSCO SHIPPING Technology Co., Ltd. (listed on the SZSE, stock code: 002401) since December 2017; director of COSCO SHIPPING Captive Insurance Co., Ltd. since August 2017; director of Lanhai Medical Investment Co., Ltd. (listed on the SSE, stock code: 600896) since May 2017; and non-executive director of COSCO SHIPPING Development Co., Ltd. (listed on the SSE, stock code: 601866; listed on the Hong Kong Stock Exchange, stock code: 2866) since June 2016. Mr. HUANG served as deputy general manager (person-in-charge) of the capital operation department of China COSCO Shipping Corporation Limited from February to August 2016; deputy general manager of the finance department of COSCO from February 2012 to February 2016; chief financial officer and general manager of the finance department of COSCO Americas Inc. from November 2006 to February 2012; and vice president and general manager of the finance department of COSCO Logistics (Americas), Inc. (中遠物流(美洲)有限公司) (formerly known as Intermodal Bridge Services Inc. (中遠美國內陸運輸公司)) from September 2004 to November 2006. Mr. HUANG worked at COSCO from July 1996 to September 2004, and the last position he held was head of the capital management department of finance and capital division. Mr. HUANG was staff member at the finance department of Shenzhen Ocean Shipping Co., Ltd. from July 1993 to July 1996.</p> <p>Mr. HUANG obtained a bachelor's degree in economics majoring in auditing from Capital University of Economics and Business (formerly known as Beijing Institute of Finance and Trade) and a master's degree in business management from Beijing Institute of Technology in July 1992 and March 2002, respectively. Mr. HUANG obtained the qualifications of accountant and senior accountant from the Ministry of Finance in May 1997 and December 2015, respectively.</p>

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

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Name	Major working experience
CHEN Zhigang (陳志剛)	<p>Mr. CHEN has served as our non-executive Director since June 2017. Mr. CHEN has working experience in various financial and insurance enterprises. Specifically, he has been secretary to the board of PICC Life Insurance Company Limited since February 2018; executive director of PICC Life Insurance Company Limited since January 2018; vice president of PICC Life Insurance Company Limited since January 2017; and vice president of PICC Health Insurance Company Limited since April 2011. Mr. CHEN served as assistant to the president of PICC Health Insurance Company Limited from September 2009 to April 2011; and successively held position in the People's Bank of China, the Financial Committee of the CPC Central Committee (中央金融工委) and the China Banking Regulatory Commission from July 1993 to August 2009, including the position of deputy director (assistant director grade) of the training center of the China Banking Regulatory Commission.</p> <p>Mr. CHEN obtained a bachelor's degree in economics from Hangzhou University (now known as Zhejiang University), a master's degree in economics from the Chinese Academy of Social Sciences and a doctoral degree from Renmin University of China in July 1993, July 1999 and July 2005, respectively. He was granted the qualification of senior economist in November 2003.</p>
XIANG Hua (向華)	<p>Mr. XIANG has served as our independent non-executive Director since July 2017. Mr. XIANG has experience in foreign exchange practices and capital market management. Specifically, he has been chief executive officer of Turui Investment Management Co., Ltd. (圖瑞投資管理有限公司) since January 2018. Mr. XIANG served as director of LuoJia Holdings Co., Ltd. (羅伽控股有限公司) from March 2017 to January 2018; chief executive officer and chief operating officer of Deepwater Capital Limited from October 2014 to November 2017; general manager of SAFE Investment Company Limited from July 2009 to February 2014; and head of the Central Foreign Exchange Business Center of the State Administration of Foreign Exchange from March 2004 to July 2009. Mr. XIANG successively acted as officer and deputy head of the Balance of Payments Department and General Affairs Department of the State Administration of Foreign Exchange from August 1994 to March 2004.</p> <p>Mr. XIANG obtained a bachelor's degree in economics from Beijing Normal University and a master's degree in economics from Renmin University of China in July 1994 and January 2001, respectively.</p>
XIAO Houfa (肖厚發)	<p>Mr. XIAO has served as our independent non-executive Director since July 2017. Mr. XIAO has experience in the practices and management of accounting firms. Specifically, he has been principal partner of HuaPu TianJian Certified Public Accountants LLP since January 2014. Mr. XIAO served as chief accountant of HuaPu TianJian Certified Public Accountants (Beijing) Co., Ltd. (華普天健會計師事務所北京有限公司) from December 2008 to December 2013; chief accountant of Anhui HuaPu Certified Public Accountants (安徽華普會計師事務所) from September 1999 to December 2008; founder and deputy chief accountant of Anhui HuaPu Certified Public Accountants (安徽華普會計師事務所) from January 1999 to August 1999; and staff member in Anhui Certified Public Accountants (安徽會計師事務所) from July 1988 to December 1998.</p> <p>Mr. XIAO obtained a bachelor's degree in accounting from Shanghai University of Finance and Economics in July 1988. Mr. XIAO has received the title of senior accountant and is a certified public accountant.</p>

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Name	Major working experience
<p>XIONG Wei (熊偉)</p>	<p>Mr. XIONG has served as our independent non-executive Director since August 2017. Mr. XIONG has experience in conducting researches on economics and finance via teaching at Princeton University since July 2000 where he has become professor of economics in July 2007 and Trumbull-Adams Professor of Finance in July 2014; and via serving as academic dean of the School of Economics and Management at The Chinese University of Hong Kong, Shenzhen (“CUHK(SZ)”) since June 2015, director of Shenzhen Finance Institute, CUHK(SZ) since January 2016 and academic advisor at Hong Kong Institute for Monetary Research since July 2012.</p> <p>Mr. XIONG obtained a bachelor’s degree in physics from the University of Science and Technology of China, a master’s degree in physics from Columbia University in the United States and a doctoral degree in finance from Duke University in the United States in July 1993, May 1995 and May 2001, respectively.</p>
<p>HU Honggao (胡鴻高)</p>	<p>Mr. HU has served as our independent non-executive Director since July 2017. Mr. HU has experience in conducting researches on and practising law. Specifically, Mr. HU has been professor of law and doctoral advisor at Fudan University since January 2008, while concurrently serving as independent director of Shanghai Tofflon Science and Technology Co., Ltd. (上海東富龍科技股份有限公司) (listed on the SZSE, stock code: 300171) and independent director of Shanghai Amarsoft Information & Technology Co., Ltd. (上海安碩信息技術股份有限公司) (listed on the SZSE, stock code: 300380) since March 2014 and March 2017, respectively. Mr. HU was vice dean, professor of law and doctoral advisor of Fudan Law School at Fudan University from January 2001 to December 2007; head, professor of law and doctoral advisor of faculty of law at Fudan University from December 1996 to December 2000.</p> <p>Mr. HU obtained a bachelor’s degree in law from Peking University in 1983.</p>
<p>YANG Jun (楊鈞)</p>	<p>Mr. YANG has served as our independent non-executive Director since June 2011. Mr. YANG has experience in financial and property transaction management. Specifically, he has held various positions at Shanghai United Assets and Equity Exchange (“SUAEE”) since July 2005, including assistant to the president, general manager of the Beijing headquarters, head of financial property transaction center, chief operating officer of equity trading and general manager of the equity trading department, and has been independent director of Shanghai Zhenhua Heavy Industries Company Limited (listed on the SSE, stock code: 600320) since April 2015. Mr. YANG also has experience of serving at people’s courts, including holding different positions at the various levels of people’s courts in Shanghai. He was approved by the Supreme People’s Court of the People’s Republic of China as grade four senior judge in November 1998.</p> <p>Mr. YANG obtained a bachelor’s degree in laws from the East China University of Political Science and Law (formerly the East China College of Political Science and Law) and a master’s degree in civil laws from Peking University in August 1983 and July 1991, respectively.</p>

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Name	Major working experience
ZHOU Linda Lei (周語茵)	<p>Ms. ZHOU has served as our Chairman of the Supervisory Committee since July 2014. Ms. ZHOU was executive director of China Merchants China Direct Investments Limited (listed on the Hong Kong Stock Exchange, stock code: 0133) from March 2008 to September 2014 and from March 2002 to September 2005; managing director of China Merchants China Investment Management Limited from February 2008 to May 2014 and from February 2002 to July 2005; and independent director of China Merchants Fund from September 2007 to November 2013. Ms. ZHOU served as independent director of Jiangxi Selon Industrial Co., Ltd. (listed on the SZSE, stock code: 002748) from May 2008 to May 2014; and supervisor of Industrial Bank Co., Ltd. (listed on the SSE, stock code: 601166) from April 2008 to October 2013.</p> <p>Ms. ZHOU obtained a bachelor's degree in economics majoring in finance and accounting from Renmin University of China and a master's degree in business administration from Sonoma State University of the California State University in July 1989 and January 1993, respectively.</p>
LI Xiaofei (李曉霏)	<p>Mr. LI has served as our Supervisor since July 2014. Mr. LI has been deputy general manager of China Merchants Finance Holdings Co., Ltd. since November 2017; and supervisor of China Great Wall Securities Co., Ltd. and Shenzhen China Merchants Qihang Internet Investment Management Co., Ltd. (深圳招商啟航互聯網投資管理有限公司) since July 2015 and July 2016, respectively. Mr. LI served as assistant to the general manager of China Merchants Finance Holdings Co., Ltd. from November 2014 to November 2017; general manager of the human resources department of China Merchants Finance Holdings Co., Ltd. from May 2010 to September 2016; senior manager of the human resources department of China Merchants Group from October 2006 to May 2010; and manager of the administration and human resources department and secretary to the board of directors of Grand Auto Park Company Limited (深圳市平方汽車園區有限公司) from October 2003 to October 2006. Mr. LI joined Shenzhen Nanyou (Holdings) Ltd. since July 1993, and has held such positions as secretary (division head grade) of the general manager office, deputy manager of the planning and development department and deputy manager of the leasing department.</p> <p>Mr. LI obtained a master's degree in economics majoring in labour economics from Renmin University of China in January 2004.</p>

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Name	Major working experience
WANG Zhangwei (王章為)	<p>Mr. WANG has served as our Supervisor since June 2017. Mr. WANG has been assistant to the general manager and concurrent general manager of the supervision department, head of the discipline inspection commission office and general manager of the audit department of China Merchants Finance Holdings Co., Ltd. since May 2016; general manager and director of Shenzhen Yan Qing Investment and Development Co. Ltd., Shenzhen Chu Yuan Investment and Development Co., Ltd. and Shenzhen Jisheng Investment Development Co., Ltd. since November 2014; and supervisor of China Merchants Finance Investment Holdings Co. Ltd. since September 2011. Mr. WANG was general manager of the finance department and supervision office and head of the discipline inspection commission office of China Merchants Finance Holdings Co., Ltd. from June 2014 to May 2016; general manager of finance department of China Merchants Finance Holdings Co., Ltd. from June 2008 to June 2014; senior manager of the audit department of China Merchants Group Limited from August 2002 to June 2008; manager of the finance department of China Merchants Technology Holdings Co., Ltd. from May 2001 to August 2002; manager of the audit department of China Merchants Shekou Holdings Co., Ltd. from April 2000 to May 2001; project manager of Shenzhen Chinese Accountants Firm (深圳中華會計師事務所) from October 1996 to April 2000; and accountant of Shenzhen Sanjiu Group (深圳三九集團) from July 1995 to October 1996.</p> <p>Mr. WANG obtained a bachelor's degree from Dongbei University of Finance and Economics and an MBA degree from University of South Australia in July 1995 and April 2008, respectively. He is a certified public accountant in the PRC and an international certified internal auditor.</p>
MA Yunchun (馬蘊春)	<p>Mr. MA has served as our Supervisor since June 2017. Mr. MA has been general manager of Hebei Port Group Investment Management Co., Ltd. (河北港口集團投資管理有限公司), and chairman of the board of directors and general manager of Hebei Port Group Shanghai Investment Management Company (河北港口集團上海投資公司) since January 2016. Mr. MA served as manager of First Company of Qinghuangdao Port Co., Ltd. (秦皇島港口有限公司一公司) from June 2014 to January 2016; manager of First Company of Qinghuangdao Port Co., Ltd. (秦皇島港口有限公司一公司) from March 2008 to June 2014; manager of Logistics Company of Qinghuangdao Port Co., Ltd. (秦皇島港口有限公司物流公司) from September 2003 to March 2008; deputy manager of Sixth Company of Qinghuangdao Port Co., Ltd. (秦皇島港口有限公司六公司) from April 2003 to September 2003; fleet captain of Sixth Company of Qinghuangdao Port Co., Ltd. (秦皇島港口有限公司六公司) from April 2001 to April 2003; vice fleet captain of Sixth Company of Qinghuangdao Port Co., Ltd. (秦皇島港口有限公司六公司) from May 1998 to April 2001; and cadre of the electromechanical division of Sixth Company of Qinghuangdao Port Co., Ltd. (秦皇島港口有限公司六公司) from April 1994 to May 1998. Mr. MA worked in Shanhaiguan Bridge Works from July 1989 to September 1991.</p> <p>Mr. MA obtained a bachelor's degree and a master's degree in welding from Tianjin University in July 1989 and April 1994, respectively.</p>

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Name	Major working experience
FANG Xiaobing (房小兵)	<p>Mr. FANG has served as our Supervisor since July 2011. Mr. FANG has been general manager of the financial management department of China Communications Construction Company Ltd. (listed on the SSE, stock code: 601800; listed on the Hong Kong Stock Exchange, stock code: 1800) since August 2014; director of CCCC Fund Management Co., Ltd. (中交投資基金管理(北京)有限公司) since August 2016; director of CCCC Finance Company Limited (中交財務有限公司) since March 2016; supervisor of Jiang Tai Insurance Brokers Co., Ltd. since October 2015; director of CCCC Shanghai Equipment Engineering Co., Ltd. since December 2007; and director of Beijing United Development Co., Ltd. (北京聯合置業有限公司) since July 2006. Mr. FANG once held the following positions at China Communication Construction Company Limited: executive general manager and chief financial officer of the overseas business department from July 2013 to August 2014; and chief accountant of the overseas business department from December 2011 to July 2013. Mr. FANG served as general manager of the financial funding department of China Communications Construction Group (Limited) from April 2011 to June 2012. Mr. FANG worked at China Harbor Construction (Group) Company (中國港灣建設(集團)總公司) between November 1994 and September 2005, and the highest position he held was deputy general manager of the finance department.</p> <p>Mr. FANG obtained a bachelor's degree in engineering majoring in finance from Changsha University of Science & Technology (formerly known as Changsha College of Transportation), a master's degree in business administration from Fordham University in the U.S. and a doctoral degree in administration from Beijing Jiaotong University in June 1993, February 2006 and June 2016, respectively. Mr. FANG was granted the title of Senior Accountant (Professor) in December 2015 by China Communications Construction Company Limited.</p>
ZHANG Zehong (張澤宏)	<p>Mr. ZHANG has served as our Supervisor since July 2011. Mr. ZHANG has been vice president of Shenzhen Huaqiang Holdings Limited since August 2014; director of Shenzhen Huaqiang Industry Co., Ltd. (listed on the SZSE, stock code: 000062) since June 2012; and director of Shenzhen Huaqiang Electronic Commerce Co., Ltd. since July 2015. Mr. ZHANG served as general manager of Huaqiang Industry from June 2012 to August 2014; vice president of Huaqiang Holdings from November 2011 to June 2012; assistant to the president of Huaqiang Holdings from January 2007 to November 2011; managing director of Shenzhen Huaqiang Dingxin Investment Co., Ltd. from December 2008 to June 2012; and head of the auditing department, finance department, and settlement center of Huaqiang Holdings from October 2003 to October 2008.</p> <p>Mr. ZHANG obtained a bachelor's degree in economics majoring in accounting from Xi'an Shiyou University (formerly known as Xi'an Shiyou College) and a master's degree in economics majoring in accounting from Shaanxi Institute of Finance and Economics (now merged into Xi'an Jiaotong University) in June 1994 and July 1997, respectively. Mr. ZHANG was granted the title of Intermediate Accountant by the Ministry of Finance in May 1999.</p>

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Name	Major working experience
YIN Hongyan (尹虹艷)	<p>Ms. YIN has served as our employee representative Supervisor since August 2007. Ms. YIN has been general manager of our Department of Retail Brokerage and Department of Operations and Administration since August 2017. Ms. YIN served as deputy general manager and then general manager of our Department of Operations and Administration from April 2009 to August 2017; manager of our Shenzhen Fumin Road securities branch from April 2007 to April 2009; assistant to the general manager of our Private Customer Service Department from January 2006 to April 2007; deputy manager of our Shenzhen Fumin Road securities branch from January 2005 to January 2006; and assistant to manager and head of the customer service department of our Shenzhen Zhenhua Road securities branch from July 2000 to February 2005.</p> <p>Ms. YIN obtained a doctoral degree in law majoring in sociology from Nankai University in June 2006.</p>
HE Min (何敏)	<p>Ms. HE has served as our employee representative Supervisor since July 2009. Ms. HE has been deputy general manager of our Finance Department since April 2009. Ms. HE served as assistant to the general manager of our Finance Department from April 2006 to April 2009. Ms. HE started her service at our Finance Department from July 1999.</p> <p>Ms. HE obtained a bachelor's degree in economics majoring in accounting and a master's degree in management majoring in accounting, both from Zhongnan University of Economics and Law (formerly Zhongnan University of Finance and Economics), in July 1996 and June 1999, respectively. Ms. HE was granted the qualification of Certified Public Accountant in October 1999 by the Chinese Institute of Certified Public Accountants.</p>
XIONG Zhigang (熊志鋼)	<p>Mr. XIONG has served as our employee representative Supervisor since May 2017 and general manager of our Audit Department since December 2017. Mr. XIONG has served as the Supervisor of CMS Investment since December 2017. Mr. XIONG was chief compliance officer, chief risk officer and secretary to the board of directors of China Merchants Securities Asset Management Co., Ltd. from May 2015 to December 2017. He worked for the preparatory panel of China Merchants Securities Asset Management Co., Ltd. from October 2014 to April 2015. Mr. XIONG served as officer and deputy head of the CSRC Shenzhen Office from September 2003 to August 2014; and financial manager of the financial management department of Huawei Technologies Co., Ltd. from July 2000 to August 2003.</p> <p>Mr. XIONG obtained a bachelor's degree in economics majoring in auditing from Nankai University and a master's degree in finance from Beijing University in June 2000 and July 2007, respectively. Mr. XIONG was granted the qualifications of Certified Public Accountant, Internal Auditor and International Internal Auditor (IIA) by the Chinese Institute of Certified Public Accounts, the China Institute of Internal Audit, The Institute of Internal Auditors as well as the title of Intermediate Accountant by the Ministry of Finance of the PRC in December 2004, November 2001, November 2001 and May 2004, respectively.</p>

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Name	Major working experience
DENG Xiaoli (鄧曉力)	<p>Ms. DENG has served as our Vice President since November 2005 and concurrently our Chief Risk Officer since August 2014. Ms. DENG has been vice chairman of Risk Control Committee of Securities Association of China since January 2018; director of China Merchants Fund since November 2006; vice chairman of the board of directors of China Merchants Fund since November 2013; and director of CMS International since January 2006. She also concurrently served as secretary to the Board from August 2014 to December 2014; and deputy general manager and then general manager of our Risk Management Department from March 2002 to March 2006 (during such period she had been seconded by the CSRC to be a member of the administrative take-over group of China Southern Securities). Ms. DENG was senior analyst in the risk management department of Citigroup Inc. from August 1998 to October 2001; and senior risk analyst of Providian Financial Corporation from June 1997 to August 1998.</p> <p>Ms. DENG obtained a bachelor's degree in science majoring in management science from Shandong University, a master's degree and a doctoral degree in economics from the State University of New York in July 1989, December 1993 and December 1996, respectively. Ms. DENG was granted the title of Senior Economist (Finance) by the Shenzhen Human Resources and Social Security Bureau (深圳市人力資源和社會保障局) in December 2013.</p>
SUN Yizheng (孫議政)	<p>Mr. SUN has served as our Vice President since November 2009. Mr. SUN has been a director of ECT since January 2015; vice chairman of Investment Bank Committee under Securities Association of China since November 2014. Mr. SUN has been director and chairman of the board of directors of Guangdong Equity Exchange Co., Ltd. since September 2013 and since April 2017, respectively. Mr. SUN served as managing director of our Investment Banking Department and assistant to the President from October 2007 to December 2009. Mr. SUN worked in the Listed Companies Department and the Listed Companies Supervision Department of the CSRC from February 1998 to April 2001.</p> <p>Mr. SUN obtained a master's degree in engineering majoring in management engineering from Xi'an Jiaotong University and a doctoral degree in management majoring in technical economics and management from Tsinghua University in June 1992 and January 2002, respectively.</p>

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Name	Major working experience
LI Zongjun (李宗軍)	<p>Mr. LI has served as our Vice President since July 2015. Mr. LI has been chairman of the board of directors of China Merchants Zhiyuan Capital Investment Co., Ltd. since January 2015; director of Ganzhou China Merchants Zhiyuan No. 1 Equity Investment Management Co., Ltd. (贛州招商致遠壹號股權投資管理有限公司) since June 2013; and chairman of the board of directors of Anhui Jiaokong China Merchants Fund Management Co., Ltd. (安徽交控招商基金管理有限公司) since April 2017. Mr. LI served as assistant to the President from December 2014 to July 2015; deputy general manager of China Merchants Capital Investments Co., Ltd. from April 2013 to January 2014; deputy general manager of the corporate planning department of China Merchants Group from February 2006 to April 2013; assistant to the general manager of China Merchants Port Holdings Company Limited (listed on the Hong Kong Stock Exchange, stock code: 0144) from March 2003 to February 2006; deputy manager of the overseas listing department of COSCO's asset management center from September 1997 to April 1999; and assistant to the general manager of COSCO Finance Co., Ltd. (formerly COSCO Group Finance Co., Ltd.) and general manager of its Beijing securities department from March 1994 to October 1997.</p> <p>Mr. LI obtained a bachelor's degree in economics and a master's degree in economics, both from Nankai University, in June 1987 and April 1990, respectively. Mr. LI was granted the qualification of senior economist by the Ministry of Transport in October 1998.</p>
WU Huifeng (吳慧峰)	<p>Mr. WU has served as our Secretary to the Board since December 2014 and our chairman of the Labour Union since February 2017. Mr. WU served as assistant to the President from May 2014 to March 2015; co-general manager of the Board office from June 2014 to June 2015; our Supervisor from July 2007 to May 2014; and our Director from May 2004 to July 2007. Mr. WU held the following positions in China Merchants Finance Holdings Co., Ltd.: deputy general manager from September 2013 to May 2014; assistant to the general manager from July 2008 to September 2013; general manager of the human resources department from June 2008 to May 2010; and general manager of the finance and audit department from June 1999 to June 2008. Mr. WU served as deputy manager of the finance department of Shanghai Nanshan Real Estate Development Co., Ltd. (上海南山房地產開發有限公司) (formerly Shanghai Chengnan Real Estate Development Company (上海誠南房地產開發公司)) from August 1998 to June 1999; and employee and head of the settlement center of China Nanshan Development (Group) Co., Ltd. from June 1996 to August 1998.</p> <p>Mr. WU obtained a bachelor's degree in economics majoring in accounting from the Shanghai University of Finance and Economics and a master's degree in economics majoring in finance from Peking University in June 1996 and January 2012, respectively. Mr. WU was granted the qualification of accountant in May 1998 by the Ministry of Finance of the PRC.</p>

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
ZHAO Bin (趙斌)	<p>Mr. ZHAO has served as our Chief Compliance Officer since January 2016. Mr. ZHAO has been director of China Merchants Futures since July 2008; director of CMS Asset Management since July 2015; chairman of the supervisory committee of China Merchants Fund since September 2017; and chief compliance officer of CMS Asset Management since January 2018. Mr. ZHAO served as general manager of our Department of Retail Brokerage from April 2008 to January 2016, and during such period, he also served as general manager of our Channel Management Department from April 2013 to January 2014. Mr. ZHAO was our employee representative Supervisor from July 2007 to May 2011; general manager of our Private Customer Service Department from January 2006 to April 2009; manager of our Shenzhen Nanshan Nanyou Road securities branch from August 2001 to January 2006; deputy manager (person-in-charge) of our Shenzhen Longgang securities branch from August 1999 to August 2001; and assistant to the general manager of our Brokerage Business Department from January 1999 to August 1999. Mr. ZHAO had held the following positions in the securities department of China Merchants Bank: assistant to the manager and manager of Haikou branch from March 1996 to December 1998; head of Futian branch from May 1995 to March 1996; and staff member of the securities department from July 1992 to May 1995.</p> <p>Mr. ZHAO obtained a bachelor's degree in economics majoring in international finance from Shenzhen University and a master's degree in science majoring in project management from the University of Greenwich in June 1992 and February 2011 respectively.</p>
GONG Shaolin (宮少林)	<p>Mr. GONG has served as our senior advisor since May 2017. Mr. GONG served as Chairman of the Board and our executive Director from November 2001 to May 2017. Mr. GONG has experience in the securities and financial industry via serving as chairman of the board of directors of CMS International from January 2006 to September 2015; vice president of China Merchants Bank (listed on the SSE, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from July 1997 to July 2001; secretary of the general office of the People's Bank of China, division head of the fund planning department (計劃資金司處長) of the People's Bank of China, vice president of the Shenzhen branch of the People's Bank of China, and deputy administrator (副局長) of the Shenzhen branch of the SAFE from December 1986 to June 1997.</p> <p>Mr. GONG obtained a Ph.D. degree in economics from Southwestern University of Finance and Economics in June 1999. Mr. GONG was granted the title of Senior Economist by the People's Bank of China in July 1993.</p>

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Name	Major working experience
HUA Li (華立)	<p>Mr. HUA served as our Director from July 2014 to May 2017. Mr. HUA was head of the finance department (property rights department) at China Merchants Group (招商局集團財務部 (產權部)) from January 2012 to July 2017; director of China Merchants Finance Holdings Co., Ltd. from December 2015 to September 2017; director of China Merchants Energy Shipping Co., Ltd. (listed on the SSE, stock code: 601872) from April 2014 to May 2017; director of China Merchants Expressway Network & Technology Holdings Co., Ltd. from August 2016 to July 2017; and director of China Merchants Industry Holdings Co., Ltd., China Merchants Logistics Holding Co., Ltd. and China Merchants Chongqing Transportation Research and Design Company Limited (招商局重慶交通科研設計院有限公司) respectively from May 2012 to September 2017. Mr. HUA once worked as chairman of the supervisory committee of China Merchants Property Development Co., Ltd. (formerly listed on the SZSE, A-share stock code: 000024, and B-share stock code: 200024; formerly listed on the Stock Exchange of Singapore, S-share stock code: C03; which had merged with China Merchants Shekou Industrial Zone Holdings Co., Ltd.), and served as non-executive director of China Merchants Property Development Co., Ltd. from April 2004 to November 2013. From July 1993 to December 2011, Mr. HUA held the following positions at China Merchants Group: chief financial officer of China Merchants Shekou Industrial Zone Holdings Co., Ltd. (listed on the SZSE, stock code: 001979); deputy general manager and general manager of the finance department of China Merchants Group; manager of the finance department of China Merchants Transportation Co., Ltd.; deputy head and head of the finance department of China Merchants Group; deputy manager of the finance department of China Merchants Port Holdings Company Limited (formerly known as China Merchants Holdings (International) Co., Ltd.) (listed on the Hong Kong Stock Exchange, stock code: 0144); and staff member at the finance department of China Merchants Group and the Shanghai office of China Merchants Group.</p> <p>Mr. HUA obtained a bachelor's degree in arts majoring in accounting from Shanghai Maritime University (formerly Shanghai Maritime Institute) and a master's degree in accounting from The Chinese University of Hong Kong in July 1993 and December 2005, respectively. Mr. HUA also obtained the qualification as a Certified Public Accountant (non-practising) from the Chinese Institute of Certified Public Accountant in March 2011.</p>

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Name	Major working experience
GUO Jian (郭健)	<p>Mr. GUO served as our non-executive Director from May 2014 to May 2017. Mr. GUO has experience in equity and capital investment as well as management of securities companies and capital investment-related companies. Mr. GUO has served as deputy general manager of China Merchants Capital Investments Co., Ltd. since May 2014; and general manager of China Merchants Kunlun Capital Co., Ltd. and Zhongxinjian Merchant Equity Investment Co., Ltd. since April 2014. Mr. GUO was director of CECEP Solar Energy Technology Co., Ltd. (listed on the SZSE, stock code: 000591) from May 2014 to March 2016. He has also acted as chairman of the board of directors of Shenzhen China Merchants Sanxin Capital Management Co., Ltd. (深圳市招商三新資本管理有限責任公司) since April 2015; vice chairman of the board of directors of Shenzhen China Merchants Hongda Capital Management Co., Ltd. (深圳市招商洪大資本管理有限責任公司) since August 2015; chairman of the board of directors of Shenzhen Xinzha Zhongan Capital Management Co., Ltd. (深圳市新招中安資本管理有限責任公司) since December 2015; and director and general manager of Shenzhen China Merchants Guoxie No. 1 Equity Investment Fund Management Co., Ltd. (深圳市招商國協壹號股權投資基金管理有限責任公司) and director of Shenzhen China Merchants Yinhe Equity Investment Fund Management Co., Ltd. (深圳市招商銀和股權投資基金管理有限責任公司) since October 2016. Mr. GUO held the following positions with us between July 2004 and May 2014: general manager and executive director of our International Business Department, managing Director of our Investment Banking Department, assistant to the President, Secretary to the Board and Vice President. Mr. GUO served as chairman of the board of directors of CMS Zhiyuan from March 2012 to January 2015; director of CMS International from January 2006 to April 2014; and director of China Merchants Securities (HK) Co., Limited from May 2005 to April 2014.</p> <p>Mr. GUO obtained a bachelor's degree in economics majoring in maritime financial accounting from Shanghai Maritime University (formerly Shanghai Maritime Institute) and an EMBA degree from Hong Kong University of Science and Technology in July 1985 and June 2014, respectively.</p>

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Name	Major working experience
CAO Dong (曹棟)	<p>Mr. CAO served as our non-executive Director from May 2014 to May 2017. Mr. CAO has audit-related experience via serving in audit departments of various companies. Mr. CAO served as our Supervisor from August 2013 to May 2014. Mr. CAO has been deputy head and head of the audit department of Qinquangdao Port Co., Ltd. (listed on the Hong Kong Stock Exchange, stock code: 3369) since April 2009; and was deputy head and head of the audit department of Hebei Port Group Co., Ltd. from October 2009 to January 2017. Mr. CAO acted as deputy manager of the general department of Caofeidian Construction and Development Command from December 2003 to April 2009; and deputy head of the investment center of Qinquangdao Port Group Co., Ltd. from April 2003 to December 2003. Mr. CAO obtained a bachelor's degree in economics majoring in finance from Hebei University and a master's degree in engineering majoring in software engineering from the University of Electronic Science and Technology of China in July 1991 and December 2011, respectively.</p> <p>Mr. CAO obtained the qualification of senior accountant from the Title Reform Leadership Group of Hebei Province in December 2001, and the qualification of certified public accountant (non-practising member) from the Chinese Institute of Certified Public Accountants in August 2010.</p>
YI Xiqun (衣錫群)	<p>Mr. YI served as our independent non-executive Director from August 2013 to August 2017. Mr. YI has relevant experience via serving as independent directors of various listed finance-related companies. Mr. YI has been executive vice president of the China Association of Private Equity since October 2010. Mr. YI was independent non-executive director of ZZ Capital International Limited (listed on the Hong Kong Stock Exchange, stock code: 8295) from June 2010 to April 2016; independent non-executive director of ICBC (listed on the SSE, stock code: 601398; listed on the Hong Kong Stock Exchange, stock code: 1398) from December 2013 to April 2016; independent non-executive director of China Merchants Bank (listed on the SSE, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from January 2008 to March 2014; independent non-executive director of SOHO China Limited (listed on the Hong Kong Stock Exchange, stock code: 0410) from September 2007 to May 2015; and deputy chairman and chairman of the board of directors of Beijing Enterprises Holdings Limited (listed on the Hong Kong Stock Exchange, stock code: 0392) from September 1999 to August 2009.</p> <p>Mr. YI graduated from Beijing University of Chemical Technology (formerly Beijing Institute of Chemical Technology) majoring in polymer chemistry in December 1975 and completed the enterprise management and research courses from Tsinghua University in July 1982.</p>
LIU Jialing (劉嘉凌)	<p>Mr. LIU served as our independent non-executive Director from August 2011 to July 2017. Mr. LIU has working experience in the financial industry via serving as managing director of Cinda International Asset Management Limited since February 2011, and independent non-executive director of Far East Horizon Ltd. (listed on the Hong Kong Stock Exchange, stock code: 3360) since March 2011. He held various positions with Morgan Stanley from February 1992 to December 2007, and the position he last held was managing director of the Hong Kong fixed income division of Morgan Stanley Asia Limited.</p> <p>Mr. LIU obtained a bachelor's degree in science majoring in physics from Peking University and a master's degree in science majoring in physics from Massachusetts Institute of Technology in July 1982 and June 1989, respectively.</p>

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Name	Major working experience
<p>DING Huiping (丁慧平)</p>	<p>Mr. DING served as our independent Director from July 2014 to July 2017. Mr. DING has worked at Beijing Jiaotong University (formerly Northern Jiaotong University) since December 1993, where he now serves as professor, Ph.D. tutor and head of the Center for Enterprise Competitiveness Research. Mr. DING has relevant experience via serving as independent director or external supervisor of various listed companies. Specifically, he has been independent non-executive director of Shandong International Trust Co., Ltd. (listed on the Hong Kong Stock Exchange, stock code: 1697) since December 2017; and external supervisor of China Merchants Bank Co., Ltd. (listed on the SSE, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) since June 2016. Mr. DING has acted as and was independent non-executive director of Huadian Power International Corporation Limited (listed on the SSE, stock code: 600027; listed on the Hong Kong Stock Exchange, stock code: 1071) since May 2014 and from October 2003 to June 2009; and has been independent director of Metro Land Corporation Ltd. (listed on the SSE, stock code: 600683) since April 2015. Mr. DING was independent non-executive director of China International Marine Containers (Group) Co., Ltd. (listed on the SZSE, stock code: 000039; listed on the Hong Kong Stock Exchange, stock code: 2039) from May 2010 to July 2013; independent director of Road and Bridge International Co., Ltd. (formerly China Road and Bridge International Construction Co., Ltd.) (formerly listed on the SSE, stock code: 600263, delisted in March 2012 due to merger by absorption) from February 2009 to February 2012; independent director of Shangdong Xinneng Taishan Power Generation Co., Ltd. (listed on the SZSE, stock code: 000720) from June 2003 to May 2009; and independent non-executive director of China Merchants Bank from June 2003 to May 2006.</p> <p>Mr. DING obtained an associate doctoral degree and a doctoral degree in production economics from Linkoping Institute of Technology, Sweden in December 1991 and March 1993, respectively. Mr. DING was appointed as Honorary Professor by the A.J. Palumbo School of Business Administration of Duquesne University in July 1996.</p>
<p>ZHU Haiwu (朱海武)</p>	<p>Mr. ZHU served as our independent non-executive Director from July 2016 to July 2017. Mr. ZHU has experience in management of listed companies and accountant-related work. Specifically, he has been partner of Ruihua Certified Public Accountants since January 2000; independent director of Shanxi Securities Co., Ltd. (listed on the SZSE, stock code: 002500) since May 2015; and independent director of Huayuan Property Co., Ltd. (listed on the SSE, stock code: 600743) since November 2014. Mr. ZHU was independent director of Sinosteel Engineering & Technology Co., Ltd. (listed on the SZSE, stock code: 000928) from September 2014 to December 2017; member of the first and second session of the Listing Review Committee of Growth Enterprise Board of the CSRC from August 2009 to August 2011. He successively served as project manager, manager and deputy general manager of Zhonghua Accounting Firm from September 1993 to December 1999.</p> <p>Mr. ZHU obtained a bachelor's degree in economics, majoring in accounting, from Shanghai University of Finance and Economics and a master's degree in professional accounting from Deakin University, Australia, in July 1985 and August 2002, respectively. Mr. ZHU obtained the qualification of Certified Public Accountant from the Chinese Institute of Certified Public Accountants, the title of senior accountant from the Ministry of Finance and the status of fellow of Certified Practising Accountant Australia in September 1994, November 1998 and September 2002, respectively.</p>

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Name	Major working experience
LIU Chong (劉沖)	<p>Mr. LIU served as our Supervisor from May 2014 to May 2017. Mr. LIU was Director of the Company from July 2008 to May 2014. He has served as general manager of China Shipping Investment Co., Ltd. since October 2012; general manager of China Shipping (Group) Leasing Co., Ltd. since August 2014; and general manager and executive director of COSCO SHIPPING Development Co., Ltd. (listed on the SSE, stock code: 601866; listed on the Hong Kong Stock Exchange, stock code: 2866) since March 2016 and since May 2016, respectively. Mr. LIU has been non-executive director of China International Marine Containers (Group) Co., Ltd. (Listed on the Hong Kong Stock Exchange, stock code: 2039; Listed on the SZSE, stock code: 000039) in May 2016. Mr. LIU acted as chief accountant of China Shipping Container Lines Co., Ltd. from October 2011 to April 2013; head of the capital management department of China Shipping (Group) Company from December 2010 to November 2011; chief accountant of China Shipping Haisheng Co., Ltd. (listed on the SSE, stock code: 600896) from January 2008 to November 2010; chief financial officer and deputy general manager of China Shipping Logistics Co., Ltd. from May 2002 to January 2008; deputy general manager of China Shipping Investment from June 1998 to May 2002; and deputy head of the settlement center (Guangzhou division) of China Shipping Group from December 1997 to June 1998. Mr. LIU worked for Guangzhou Maritime Transport (Group) Co., Ltd. from January 1995 to December 1997, and the last position he held was internal banking vice president.</p> <p>Mr. LIU obtained a bachelor's degree in economics from Sun Yat-sen University in July 1990. Mr. LIU obtained the qualification of Certified Public Accountant (non-practicing) by the Hainan Institute of Certified Public Accountants in February 2010 and was granted the title of Senior Accountant by China Harbour Engineering Co., Ltd (中國港灣建設 (集團) 總公司) in November 2000.</p>
ZHU Haibin (朱海彬)	<p>Mr. ZHU served as our Supervisor from July 2007 to May 2017. Mr. ZHU was our Director from March 2000 to July 2007. Mr. ZHU has worked at COFCO Property (Group) Co., Ltd. (listed on the SZSE, stock code: 000031) as deputy general manager since February 2006, and as its director from February 2006 to March 2007. Mr. ZHU held various positions at Shenzhen Baoheng (Group) Co., Ltd. from September 1993 to February 2006, including its position of director and general manager.</p> <p>Mr. ZHU obtained a master's degree in engineering from Zhejiang University in September 1995. He was granted the title of Senior Economist by COFCO in December 2012.</p>

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
ZHAN Guifeng (詹桂峰)	<p>Mr. ZHAN served as our employee representative Supervisor from July 2011 to May 2017. Mr. ZHAN has been managing director of our Investment Banking Department since July 2016; deputy general manager and general manager of our Audit and Supervision Department from April 2009 to June 2016; and supervisor of CMS Asset Management since July 2015. He served at various positions in the Company from October 1999 to April 2009, including finance head of the Shanghai Branch and the Investment Banking Department, assistant to the general manager of our Audit and Supervision department, and deputy general manager of our Finance Department. Mr. ZHAN was also Chief Financial Officer of China Merchants Securities (HK) Co., Limited from July 2007 to April 2009.</p> <p>Mr. ZHAN obtained a bachelor's degree in engineering majoring in finance from Changsha University of Science & Technology (formerly Changsha College of Transportation) and a master's degree in business administration from Fudan University in June 1993 and June 2004, respectively. Mr. ZHAN was granted the qualification of Certified Public Accountant in December 1994 by the Ministry of Finance of the PRC.</p>
DING Edward An Hua (丁安華)	<p>Mr. DING served as our vice president from October 2011 to April 2017. Mr. DING was our Chief Economist from May 2009 to April 2017, and was a director of CMS International from December 2009 to April 2017; chairman of supervisory committee of China Merchants Fund from November 2016 to April 2017; consultant of the management committee of our research center from May 2009 to December 2009; and our Director from August 2007 to April 2011. Mr. DING also acted as director of China Merchants Bank (listed on the SSE, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from June 2007 to June 2010; and director of China Merchants Energy Shipping Co., Ltd. (Listed on SSE, stock code: 601872) from December 2004 to April 2010. Mr. DING held various positions at China Merchants Group from March 2001 to April 2009 and from October 1992 to December 1994, including the following: deputy general manager of the business development department, deputy general manager of the corporate planning department, general manager of the strategic research department, and chief researcher of the research department.</p> <p>Mr. DING obtained a bachelor's degree in engineering majoring in automobile application engineering from Changsha University of Science & Technology (formerly Changsha College of Transportation) and a master's degree in engineering majoring in industrial management engineering from South China University of Technology in October 1984 and December 1989, respectively.</p>

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

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

Chapter 7: Directors, Supervisors, Senior Management and Employees

II. Positions of Incumbent Directors, Supervisors and Senior Management and Those Resigned during the Reporting Period

(I). Positions in shareholders

Name	Name of shareholder	Position	Date of Appointment	Date of Termination
WANG Zhangwei (王章為)	Shenzhen Jisheng Investment Development Co., Ltd.	General manager, director	November 2014	to date
	China Merchants Finance Investment Holdings Co., Ltd.	Supervisor	September 2011	to date
FANG Xiaobing (房小兵)	China Communications Construction Company Ltd.	General manager of the financial management department	August 2014	to date
CAO Dong (曹棟)	Hebei Port Group Co., Ltd.	Head of the audit department	May 2010	January 2017

Statement of positions in shareholders' company

(II). Positions in other companies

Name	Name of company	Position	Date of Appointment	Date of Termination
HUO Da (霍達)	17th Public Offering Review Committee of the CSRC	Part-time committee member	September 2017	to date
SU Min (蘇敏)	China Merchants Finance Holdings Co., Ltd.	General manager	September 2015	to date
	China Merchants Finance Holdings Co., Ltd.	Director	December 2015	to date
	China Merchants Capital Investments Co., Ltd.	Supervisor	January 2016	to date
	China Merchants Venture Capital Management Co., Ltd.	Director	November 2015	to date
	China Merchants Bank	Director	September 2014	to date
	Shenzhen China Merchants Qihang Internet Investment Management Co., Ltd.	Chairman of the board of directors	November 2015	April 2017

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Name of company	Position	Date of Appointment	Date of Termination
XIONG Xianliang (熊賢良)	China Merchants Group	Head of strategic development department	March 2015	to date
	China Merchants Group	Head of the security and supervision department	February 2017	to date
	China Merchants Group	Head of information management department and research department	March 2015	September 2017
SU Jian (粟健)	China Merchants Group	Head of the finance department (property rights department)	July 2017	To date
	China Merchants Group	Deputy head of the finance department (property rights department)	January 2017	July 2017
	China Merchants Industry Holdings Co., Ltd.	Deputy general manager	May 2016	January 2017
WANG Yan (王岩)	International cooperation committee of Securities Association of China	Chairman of committee	February 2018	to date
	Securities Association of China	Vice president, standing council member	May 2012	to date
	Council of the SZSE	Council member	February 2012	to date
	Appeal Review Committee under Council of the SZSE	Chairman of committee	June 2017	to date
	Self-disciplinary Management Committee under Council of the SZSE	Vice chairman	June 2017	to date
	Supervisory Board of the SSE	Supervisor	September 2016	to date
	Strategic Development Committee under Council of the SSE	Vice chairman	September 2016	to date
	The People's Government of Jilin Province	Economic and Technical Consultant	July 2012	to date
	CMS International	Chairman of the board of directors	September 2015	to date
CMS Investment	Executive director	December 2017	to date	
PENG Lei (彭磊)	China Merchants Finance Holdings Co., Ltd.	Deputy general manager	April 2016	to date
	Bosera Funds	Director	November 2017	to date
	Morgan Stanley Huaxin Fund Management Co., Ltd.	Director	March 2015	to date
	China Great Wall Securities Co., Ltd.	Director	June 2011	to date

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Name	Name of company	Position	Date of Appointment	Date of Termination
XIONG Jiantao (熊劍濤)	Agency Committee of Securities Association of China	Vice chairman	September 2011	to date
	China Merchants Futures	Chairman of the board of directors	March 2008	to date
	Bosera Funds	Director	November 2014	November 2017
	CMS Asset Management	Chairman of the board of directors	March 2015	to date
	CMS International	Director	September 2015	to date
HUANG Jian (黃堅)	China COSCO Shipping Corporation Limited	General manager of capital operation department	September 2016	to date
	COSCO SHIPPING Technology Co., Ltd.	Director	December 2017	to date
	COSCO SHIPPING Captive Insurance Co., Ltd.	Director	August 2017	to date
	Lanhai Medical Investment Co., Ltd.	Director	May 2017	to date
	COSCO SHIPPING Development Co., Ltd.	Non-executive director	June 2016	to date
WANG Daxiong (王大雄)	COSCO SHIPPING Captive Insurance Co., Ltd.	Chairman of the board of directors	October 2017	to date
	COSCO SHIPPING Financial Co., Limited	Chairman of the board of directors	March 2014	to date
	COSCO SHIPPING Development Co., Ltd.	Chief executive officer, executive director	May 2016	to date
	China Merchants Bank Co., Ltd.	Director	November 2016	to date
	New China COSCO Financial Holdings Limited	Vice chairman of the board of directors	March 2017	to date
	CIB Fund Management Co., Ltd.	Director	April 2016	June 2017
CHEN Zhigang (陳志剛)	PICC Life Insurance Company Limited	Secretary to the board	February 2018	to date
	PICC Life Insurance Company Limited	Executive director	January 2018	to date
	PICC Life Insurance Company Limited	Vice president	January 2017	to date
	PICC Health Insurance Company Limited	Vice president	April 2011	to date
XIANG Hua (向華)	Turui Investment Management Co., Ltd. (圖瑞投資管理有限公司)	Chief executive officer	January 2018	to date
	Luojia Holdings Co., Ltd. (羅伽控股有限公司)	Director	March 2017	January 2018
	Deepwater Capital Limited	Chief executive officer, chief operating officer	October 2014	November 2017

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Name	Name of company	Position	Date of Appointment	Date of Termination
XIAO Houfa (肖厚發)	HuaPu TianJian Certified Public Accountants LLP	Principal partner	January 2014	to date
	Princeton University	Teacher	July 2000	to date
	Princeton University	Professor of Economics	July 2007	to date
	Princeton University	Trumbull-Adams Professor of Finance	July 2014	to date
XIONG Wei (熊偉)	Shenzhen Finance Institute, CUHK (SZ)	Director	January 2016	to date
	Chinese University of Hong Kong, Shenzhen	Academic Dean of the School of Economics and Management	June 2015	to date
	Hong Kong Institute for Monetary Research	Academic adviser	July 2012	to date
HU Honggao (胡鴻高)	Fudan University	Professor of law, doctoral advisor	January 2008	to date
	Shanghai Tofflon Science and Technology Co., Ltd.	Independent director	March 2014	to date
	Shanghai Amarsoft Information & Technology Co., Ltd.	Independent director	March 2017	to date
YANG Jun (楊鈞)	Shanghai United Assets and Equity Exchange	Assistant to the president, general manager of the Beijing headquarters, head of financial property transaction center, COO of equity trading, general manager of the equity trading department	July 2005	to date
	Shanghai Zhenhua Heavy Industries Company Limited	Independent director	April 2015	to date
LI Xiaofei (李曉霏)	China Merchants Finance Holdings Co., Ltd.	Deputy general manager	November 2017	to date
	China Merchants Finance Holdings Company Limited	Assistant to the general manager	November 2014	November 2017
	China Great Wall Securities Co., Ltd.	Supervisor	July 2015	to date

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Name	Name of company	Position	Date of Appointment	Date of Termination
WANG Zhangwei (王章為)	China Merchants Finance Holdings Co., Ltd.	Assistant to the general manager and concurrent general manager of the supervision department, head of the discipline inspection commission office, general manager of the audit department	May 2016	to date
	Shenzhen Yan Qing Investment and Development Company Ltd.	General manager, director	November 2014	to date
	Shenzhen Chuyuan Investment and Development Company Ltd.	General manager, director	November 2014	to date
	Shenzhen Jisheng Investment Development Co., Ltd.	General manager, director	November 2014	to date
	China Merchants Finance Investment Holdings Co., Ltd.	Supervisor	September 2011	to date
MA Yunchun (馬蘊春)	Hebei Port Group Investment Management Co., Ltd.	General manager	January 2016	to date
	Hebei Port Group Shanghai Investment Management Company	Chairman of the board of directors, general manager	January 2016	to date
FANG Xiaobing (房小兵)	Beijing United Development Co., Ltd	Director	July 2006	to date
	Jiang Tai Insurance Brokers Co., Ltd.	Supervisor	October 2015	to date
	CCCC Shanghai Equipment Engineering Co., Ltd.	Director	December 2007	to date
	CCCC Finance Company Ltd.	Director	March 2016	to date
	CCCC Fund Management Co., Ltd.	Director	August 2016	to date
	China Communications Construction Company Ltd.	General manager of the financial management department	August 2014	to date
ZHANG Zehong (張澤宏)	Shenzhen Huaqiang Holdings Limited	Vice president	August 2014	to date
	Shenzhen Huaqiang Industry Co., Ltd.	Director	June 2012	to date
	Shenzhen Huaqiang Electronic Commerce Co., Ltd.	Director	July 2015	to date
XIONG Zhigang (熊志綱)	CMS Investment	Supervisor	December 2017	to date
	CMS Asset Management	Chief compliance officer, chief risk officer, secretary to the board	May 2015	December 2017

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Name of company	Position	Date of Appointment	Date of Termination
DENG Xiaoli (鄧曉力)	Risk Control Committee of Securities Association of China	Vice chairman	January 2018	to date
	CMS International	Director	January 2006	to date
	China Merchants Fund	Vice chairman of the board of directors	November 2013	to date
	China Merchants Fund	Director	November 2006	to date
SUN Yizheng (孫議政)	Investment Bank Committee under Securities Association of China	Vice chairman	November 2014	to date
	Guangdong Equity Exchange Co., Ltd.	Chairman of the board of directors	April 2017	to date
	Guangdong Equity Exchange Co., Ltd.	Director	September 2013	to date
	ECT	Director	January 2015	to date
LI Zongjun (李宗軍)	CMS Zhiyuan	Chairman of the board of directors	January 2015	to date
	Ganzhou China Merchants Zhiyuan No.1 Equity Investment Management Company Limited	Director	June 2013	to date
	Anhui Jiaokong China Merchants Fund Management Co., Ltd. (安徽交控招商基金管理有限公司)	Chairman of the board of directors	April 2017	to date
ZHAO Bin (趙斌)	China Merchants Futures	Director	July 2008	to date
	CMS Asset Management	Director	July 2015	to date
	China Merchants Fund	Chairman of the supervisory committee	September 2017	to date
	CMS Asset Management	Chief compliance officer	January 2018	to date

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Name of company	Position	Date of Appointment	Date of Termination
HUA Li (華立)	China Merchants Group	Head of the finance department (property rights department)	January 2012	July 2017
	China Merchants Finance Holdings Co., Ltd.	Director	December 2015	September 2017
	China Merchants Energy Shipping Co., Ltd.	Director	April 2014	May 2017
	China Merchants Expressway Network & Technology Holdings Co., Ltd.	Director	August 2016	July 2017
	China Merchants Port Holdings Company Limited	Director	October 2016	September 2017
	China Merchants Industry Holdings Co., Ltd.	Director	May 2012	September 2017
	China Merchants Logistics Holding Co., Ltd.	Director	May 2012	September 2017
	China Merchants Chongqing Transportation Research and Design Company Limited	Director	May 2012	September 2017
GUO Jian (郭健)	China Merchants Kunlun Capital Co., Ltd.	General manager	April 2014	to date
	Zhongxinjian Merchant Equity Investment Co., Ltd.	General manager	April 2014	to date
	China Merchants Capital Investments Co., Ltd.	Deputy general manager	May 2014	to date
	Shenzhen China Merchants Sanxin Capital Management Co., Ltd.	Chairman of the board of directors	April 2015	to date
	Shenzhen China Merchants Hongda Capital Management Co., Ltd.	Vice chairman of the board of directors	August 2015	to date
	Shenzhen Xinzhaohong Capital Management Co., Ltd.	Chairman of the board of directors	December 2015	to date
	Shenzhen China Merchants Guoxie No. 1 Equity Investment Fund Management Co., Ltd.	Director, general manager	October 2016	to date
	Shenzhen China Merchants Yinhe Equity Investment Fund Management Co., Ltd.	Director	October 2016	to date
CAO Dong (曹棟)	Qinghuangdao Port Co., Ltd.	Deputy head and head of the audited department	April 2009	to date
YI Xiqun (衣錫群)	China Association of Private Equity	Executive vice president	October 2010	to date
	Zhongguancun Entrepreneurs Consultancy Committee	Committee member	March 2010	to date

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Name of company	Position	Date of Appointment	Date of Termination
LIU Jialing (劉嘉凌)	Cinda International Asset Management Limited	Managing director	February 2011	to date
	Far East Horizon Ltd.	Independent director	March 2011	to date
DING Huiping (丁慧平)	Beijing Jiaotong University	Professor and Ph.D. tutor	July 1999	to date
	Center for Enterprise Competitiveness Research	Head	July 2007	to date
	Huadian Power International Corporation Limited	Independent director	May 2014	to date
	Metro Land Corporation Ltd.	Independent director	April 2015	to date
	China Merchants Bank	External supervisor	June 2016	to date
ZHU Haiwu (朱海武)	Shandong International Trust Co., Ltd.	Independent director	August 2015	to date
	Ruihua Certified Public Accountants	Partner	January 2000	to date
	Shanxi Securities Co., Ltd.	Independent director	May 2015	to date
	Sinosteel Engineering & Technology Co., Ltd.	Independent director	September 2014	December 2017
LIU Chong (劉沖)	Huayuan Property Co., Ltd.	Independent director	November 2014	to date
	China International Marine Containers (Group) Co., Ltd.	Non-executive director	May 2016	to date
	China Shipping Investment Co., Ltd.	General manager	October 2012	to date
	COSCO SHIPPING Development Co., Ltd.	Executive director	May 2016	to date
	COSCO SHIPPING Development Co., Ltd.	General manager	March 2016	to date
ZHU Haibin (朱海彬)	China Shipping (Group) Leasing Co., Ltd.	General manager	August 2014	to date
ZHU Haibin (朱海彬)	COFCO Property (Group) Co., Ltd.	Deputy general manager	February 2006	to date
ZHAN Guifeng (詹桂峰)	China Merchants Securities Asset Management Co., Ltd.	Supervisor	July 2015	to date
DING Edward An Hua (丁安華)	CMS International	Director	December 2009	April 2017
	China Merchants Fund	Chairman of the supervisory committee	November 2016	April 2017
Statement of positions in other companies		None		

Chapter 7: Directors, Supervisors, Senior Management and Employees

III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making procedures of remuneration of Directors, Supervisors and senior management	The Remuneration and Appraisal Committee considers and reviews the remuneration policy, standard and proposal for the Directors and senior management, and makes recommendations to the Board on the formulation of official and transparent procedures for determining the remuneration policy. Remuneration of the senior management shall be considered and determined by the Remuneration and Appraisal Committee.
Basis for determination of remuneration of Directors, Supervisors and senior management	Remuneration of the senior management shall be determined by the Remuneration and Appraisal Committee with reference to the principal duties of relevant managerial positions, the results of performance assessment as well as the remuneration level in the market, according to the pilot scheme of Management Methods of the Remuneration of Senior management.
Remuneration paid to Directors, Supervisors and senior management	During the Reporting Period, remuneration was paid by the Company to Directors, Supervisors and senior management according to the pilot scheme of Management Methods of the Remuneration of Senior management. Please refer to "I. Change in Shareholdings and Remuneration" of this chapter.
Aggregate remuneration payable to Directors, Supervisors and senior management as of the end of the Reporting Period	Remunerations before tax received by Directors, Supervisors and senior management from the Company during the Reporting Period totalled RMB41.3104 million, of which a total of RMB33.1811 million was for senior executives/ executive Directors, a total of RMB7.1293 million was for Supervisors, and a total of RMB1 million was for independent non-executive Directors. Please refer to "I. Change in Shareholdings and Remuneration" of this chapter. During the Reporting Period, the Company also paid HK\$7 million as compensation for the bonus losses incurred by President WANG Yan due to his leave from the original employing unit.

Chapter 7: Directors, Supervisors, Senior Management and Employees

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Change and effective date	Date of Change	Reason
HUO Da (霍達)	Chairman of the Board and Executive Director	Elected	May 26, 2017	Elected at the shareholders' meeting
SU Jian (粟健)	Non-executive Director	Elected	June 29, 2017	Elected at the shareholders' meeting
XIONG Jiantao (熊劍濤)	Executive Director	Elected	May 26, 2017	Elected at the shareholders' meeting
CHEN Zhigang (陳志剛)	Non-executive Director	Elected	June 29, 2017	Elected at the shareholders' meeting
XIANG Hua (向華)	Independent non-executive director	Elected	July 18, 2017	Elected at the shareholders' meeting
XIAO Houfa (肖厚發)	Independent non-executive director	Elected	July 12, 2017	Elected at the shareholders' meeting
XIONG Wei (熊偉)	Independent non-executive director	Elected	August 3, 2017	Elected at the shareholders' meeting
HU Honggao (胡鴻高)	Independent non-executive director	Elected	July 18, 2017	Elected at the shareholders' meeting

Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Position	Change and effective date	Date of Change	Reason
WANG Zhangwei (王章為)	Shareholder representative Supervisor	Elected	June 29, 2017	Elected at the shareholders' meeting
MA Yunchun (馬蘊春)	Shareholder representative Supervisor	Elected	June 29, 2017	Elected at the shareholders' meeting
XIONG Zhigang (熊志鋼)	Employee representative Supervisor	Elected	May 23, 2017	Democratic election by the employee representatives
GONG Shaolin (宮少林)	Chairman of the Board and Executive Director	Resigned	May 26, 2017	Expiry of the term of office
HUA Li (華立)	Non-executive Director	Resigned	May 26, 2017	Expiry of the term of office
GUO Jian (郭健)	Non-executive Director	Resigned	May 26, 2017	Expiry of the term of office
CAO Dong (曹棟)	Non-executive Director	Resigned	May 26, 2017	Expiry of the term of office
YI Xiqun (衣錫群)	Independent non-executive director	Resigned	August 3, 2017	Expiry of the term of office
LIU Jialing (劉嘉凌)	Independent non-executive director	Resigned	July 18, 2017	Expiry of the term of office
DING Huiping (丁慧平)	Independent non-executive director	Resigned	July 18, 2017	Expiry of the term of office
ZHU Haiwu (朱海武)	Independent non-executive director	Resigned	July 12, 2017	Expiry of the term of office
LIU Chong (劉沖)	Shareholder representative Supervisor	Resigned	May 26, 2017	Expiry of the term of office
ZHU Haibin (朱海彬)	Shareholder representative Supervisor	Resigned	May 26, 2017	Expiry of the term of office
ZHAN Guifeng (詹桂峰)	Employee representative Supervisor	Resigned	May 23, 2017	Expiry of the term of office
DING Edward An Hua (丁安華)	Vice President	Resigned	April 7, 2017	Resignation

Chapter 7: Directors, Supervisors, Senior Management and Employees

The term of office of the fifth session of the Board and the Supervisory Committee which had been established since May 30, 2014 expired on May 30, 2017. The new sessions were elected at the 2016 annual general meeting of the Company held on May 26, 2017 in accordance with the Articles of Association. Based on the results of the election, Mr. HUO Da, Mr. SU Jian, Mr. XIONG Jiantao, Mr. CHEN Zhigang, Mr. XIANG Hua, Mr. XIAO Houfa, Mr. XIONG Wei, Mr. HU Honggao and Mr. WONG Ti were elected as the Directors of the sixth session of the Board. Mr. WANG Zhangwei and Mr. MA Yunchun were elected as the shareholder representative Supervisors of the sixth session of the Supervisory Committee. Mr. GONG Shaolin, Mr. HUA Li, Mr. GUO Jian and Mr. CAO Dong ceased to act as the Directors of the Company, and Mr. LIU Chong and Mr. ZHU Haibin ceased to act as the shareholder representative Supervisors of the Company. In the same month, Mr. XIONG Zhigang replaced Mr. ZHAN Guifeng as the employee representative Supervisor through democratic election by the employee representatives. The remaining Directors and Supervisors shall continue to hold office.

On May 26, 2017, Mr. HUO Da was elected as the Chairman of the sixth session of the Board of the Company at the first meeting of the sixth session of the Board of the Company. On the same day, the Company received the Shenzhen office of the China Securities Regulatory Commission's Approval of HUO Da as a Chairman of a Securities Firm (《深圳證監局關於核准霍達證券公司董事長類人員任職資格的批覆》) (Shen Zheng Ju Xu Ke Zi [2017] No. 30). Pursuant to such approval, Mr. HUO Da has been appointed as the Chairman of the Company with effect from May 26, 2017, and his term of office will end on the expiry date of the sixth session of the Board. On June 1, the Company received the Notice of Change (Filing) (《變更(備案)通知書》) (21700379241) issued by the Market Supervision Administration of Shenzhen Municipality (深圳市市場監督管理局). According to such notice, the legal representative of the Company has been changed to HUO Da, the Chairman.

In June 2017, the qualifications of Mr. SU Jian and Mr. CHEN Zhigang as directors in a securities firm were approved by the CSRC Shenzhen Office. They shall officially serve as non-executive Directors of the Company with their terms of office ending on the expiry date of the current session of the Board. In the same month, the qualifications of Mr. WANG Zhangwei and Mr. MA Yunchun as supervisors in a securities firm were approved by the CSRC Shenzhen Office. They shall officially serve as shareholder representative Supervisors of the Company with their terms of office ending on the expiry date of the current session of the Supervisory Committee.

In July 2017, the qualifications of Mr. XIANG Hua, Mr. XIAO Houfa and Mr. HU Honggao as independent directors in a securities firm were approved by the CSRC Shenzhen Office. They shall officially serve as independent non-executive Directors of the Company with their terms of office ending on the expiry date of the current session of the Board. Mr. LIU Jialing, Mr. ZHU Haiwu and Mr. DING Huiping ceased to act as the independent non-executive Directors of the Company. In August 2017, the qualifications of Mr. XIONG Wei as independent director in a securities firm were approved by the CSRC Shenzhen Office. He shall officially serve as independent non-executive Director of the Company with his term of office ending on the expiry date of the current session of the Board. Mr. YI Xiqun ceased to act as the independent non-executive Director of the Company.

In January 2018, the qualifications of Mr. WONG Ti as an independent director in a securities firm were approved by the CSRC Shenzhen Office. He shall officially serve as independent non-executive Director of the Company with his term of office ending on the expiry date of the current session of the Board. Mr. YANG Jun ceased to act as the independent non-executive Director of the Company.

Chapter 7: Directors, Supervisors, Senior Management and Employees

V. MEMBERS OF COMMITTEES UNDER THE BOARD

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

- (I) Strategy Committee with 7 committee members: HUO Da (convener), XIONG Xianliang, WANG Yan, XIONG Jiantao, WANG Daxiong, CHEN Zhigang and XIANG Hua.
- (II) Risk Management Committee with 7 committee members: SU Min (convener), SU Jian, WANG Yan, PENG Lei, WANG Daxiong, CHEN Zhigang and XIANG Hua.
- (III) Audit Committee with 5 committee members: XIAO Houfa (convener), SU Jian, HUANG Jian, WONG Ti and HU Honggao.
- (IV) Remuneration and Appraisal Committee with 5 committee members: XIANG Hua (convener), SU Min, PENG Lei, XIONG Wei and WONG Ti.
- (V) Nomination Committee with 5 committee members: XIONG Wei (convener), WANG Yan, PENG Lei, XIAO Houfa and HU Honggao.

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

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

VII. EMPLOYEES OF THE PARENT COMPANY AND MAJOR SUBSIDIARIES

(I) Employees

Number of employees of the parent company	9,922
Number of employees of major subsidiaries	711
Total number of employees	10,633
Number of resigned and retired employees with expenses borne by the parent company and major subsidiaries	44

Chapter 7: Directors, Supervisors, Senior Management and Employees

Classification by business function	
Business function	Number
Management and administration	364
Securities and futures brokerage	8,269
Investment banking	823
Investment management	175
Investment and trading	155
Research	186
Legal and compliance, risk management and internal audit	124
IT	302
Finance and accounting	135
Others	100
Total	10,633

Classification by education background	
Education background	Number (person)
Doctor	88
Master	2,608
Bachelor	5,414
Below bachelor's Degree	2,523
Total	10,633

(II) Remuneration

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

Chapter 7: Directors, Supervisors, Senior Management and Employees

(III) Training

According to the strategy of “catching up and forging ahead in all aspects”, the Company energetically built its marketing capability with higher standards, closely aligned with the requirements of business development, and planned and implemented classified and specific training programs, including profession, management and general training programs, covering all employees in order to support their growth and enhance the core competitiveness of the Company.

1. Profession training was conducted for all employees to raise their profession in securities and innovation capability through 31 sessions of internal themed training covering marketing, integrated operation, wealth management, innovative businesses and basic skills.
2. Management training was provided for backup, new and current management and senior management members to enhance their overall management abilities through themed training programs covering leadership, management creativity, global vision and the latest financial knowledge.
3. General training was mainly provided for basic level employees to improve their professionalism through various forms of online and offline training programs covering diversified subjects including corporate culture, compliance and risk control, rules and systems, business procedures and vocational skills.

(IV) Outsourced services

Hours of outsourced services	711,662 hours
Total remuneration paid for outsourced services	RMB36.14 million

VIII. OTHERS

As of December 31, 2017, the Company entered into the securities agency contracts with 3,454 agents.

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

Chapter 8: Corporate Governance Report

I. OVERVIEW OF CORPORATE GOVERNANCE

The Company, being a company listed in Hong Kong and the PRC, manages its operation in strict compliance with the laws, regulations and regulative documents of the places where its shares are listed, and strives to protect and enhance its corporate image. The Company continues to improve its corporate governance structure in compliance with the Company Law, Securities Law and the regulations and requirements of the CSRC, SFC and the Hong Kong Stock Exchange. The corporate governance of the Company complies with the applicable requirements of the laws and regulations. The Company has established a corporate governance structure consisting of the shareholders' general meeting, the Board, the Supervisory Committee and the management with separate duties and effective checks and balances in order to maintain regulated corporate governance and operation. The corporate governance structure is sound and does not deviate from relevant requirements of the regulatory authorities from where the Company's shares are listed.

During the Reporting Period, the Company strictly complied with Corporate Governance Code under Appendix 14 of the Hong Kong Listing Rules and Corporate Governance Report (hereinafter referred to as the "Code and Report"). Save as disclosed below, the Company satisfied all provisions under the Code and Report and substantially all of the recommended best practices under the Code and Report.

Code provision A.2.7 of the Corporate Governance Code requires the chairman of the Board to hold meetings at least annually with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. Since our Chairman Mr. HUO Da served as our executive Director concurrently, the Chairman did not hold any meeting together with non-executive Directors without the attendance of executive Directors within the year ended December 31, 2017, which resulted in a deviation from code provision A.2.7. But, the non-executive Directors and independent non-executive Directors may communicate with the Chairman directly in the day-to-day operations of the Company to express their opinions to and exchange views with the Chairman on the affairs of the Company. Therefore, the Company believes that, there have been sufficient channels for the Chairman and non-executive Directors (including independent non-executive Directors) to discuss the affairs of the Company without management members present. Moreover, at each Board meeting, the person chairing such meeting will ensure all Directors making comprehensive and positive contribution to the affairs of the Board, encourage all dissident Directors to express their opinions, provide enough time to discuss relevant matters, and guarantee the Board's decision fairly reflecting the consensus of the Board.

During the Reporting Period, the Company held two shareholders' general meetings to consider 12 resolutions; 11 Board meetings to consider 43 resolutions and review seven reports; 16 meetings of committees under the Board to consider 29 resolutions (proposals) and review 20 reports; as well as seven meetings of the Supervisory Committee to consider 15 resolutions and review four reports.

(I) Shareholders and Shareholders' General Meetings

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

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

Chapter 8: Corporate Governance Report

(II) Directors and the Board

The appointment and replacement of Directors of the Company are in strict compliance with the Articles of Association, and the number of Directors and composition of the Board fulfil the requirement of laws and regulations. The Board refines its rules of procedures from time to time and the convention, holding and voting procedures of the Board meetings are legal and effective. The Board has set up five committees, including the Risk Management Committee, the Strategy Committee, the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee, and formulated rules, clear division of authorities of each committee, decision procedures and rules of procedures. The Company has set up a work system of independent directors, which can protect the interests of the Company and shareholders independently and objectively and ensure effective checks and balances during the decision making process of the Board. In addition, the Company has set up a system of secretary to the Board. The Secretary to the Board is responsible for the preparation of the shareholders' general meetings, Board meetings and meetings of committees under the Board, the filing of minutes and documents of the meetings, information disclosure and management of investor relations.

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

1. Composition of the Board

The Company shall have a board of directors accountable to the shareholders' general meeting. According to the requirements of the Articles of Association, the Board consists of 15 directors, including independent Directors of one-third of the total number of Directors. There are three executive Directors, seven non-executive Directors and five independent non-executive Directors in the Board. The Directors are elected at shareholders' general meetings. They serve a term of three years which starts from the date on which they are elected at the shareholders' general meeting and their qualifications as directors and independent directors of securities company are obtained from the CSRC or its authorised institutions. Directors are eligible for re-elections upon expiry of their terms of office. Independent non-executive Directors shall not hold office for more than six consecutive years. Please see "I. Change in Shareholdings and Remuneration" in "Chapter 7 Directors, Supervisors, Senior Management and Employees" of this report for the composition of the Board and the biography of the Directors of the Company.

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

Chapter 8: Corporate Governance Report

2. *Duties and responsibilities of the Board*

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

(III) Supervisors and Supervisory Committee

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

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

Chapter 8: Corporate Governance Report

(IV) Senior Management

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

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

(V) Chairman and General Manager

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

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

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

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(VII) Party Committee

The Company has established a Party Committee. According to the Articles of Association, the Party Committee shall perform the core leadership and core political functions to provide directions, manage overall situations and ensure implementation. The Party Committee consists of one secretary and other several members. The chairman of the Board of Directors shall serve as the Party Committee secretary. Eligible Party Committee members may be appointed as members of the Board of Directors, the Supervisory Committee and the management team of the Company through legal procedures, while eligible Party members from the Board of Directors, the Supervisory Committee and the management team of the Company may be appointed as members of the Party Committee pursuant to relevant requirements and procedures. The Company has also established a Discipline Inspection Commission in accordance with relevant regulations. The Company has established the working organs of the Party, equipped them with sufficient staff to deal with Party affairs and provided them with sufficient funds to operate the Party organization. The organic combination between the Party's leadership and the governance of the Company's Board of Directors, the Supervisory Committee and Shareholders' General Meeting has promoted the scientific decision-making and high-quality development of the Company.

(VIII) Information Disclosure and Transparency

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

(IX) Stakeholders

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

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

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II. SHAREHOLDERS' GENERAL MEETINGS

Meeting	Date of meeting	Inquiry of index of designated website for the publication of poll results	Poll results	Date of publication
2016 Annual General Meeting	May 26, 2017	SSE website/ Hong Kong Stock Exchange website	Passed	May 27, 2017
2017 First Extraordinary General Meeting	December 15, 2017	SSE website/ Hong Kong Stock Exchange website	Passed	December 16, 2017 (SSE)/December 15, 2017 (Hong Kong Stock Exchange)

III. DUTY PERFORMANCE OF DIRECTORS

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

Name Of Director	Whether an independent Director	Attendance of Board meetings						Attendance of shareholders' general meeting
		Number of Board meetings requiring attendance	Attendance in person(times)	Attendance through correspondence (times)	Attendance by proxy (times)	Absence (times)	Whether not attending in person for two Consecutive meetings	Attendance of Shareholders' general meeting (times)
HUO Da (霍達)	No	6	6	0	0	0	No	1
SU Min (蘇敏)	No	11	11	1	0	0	No	2
XIONG Xianliang (熊賢良)	No	11	11	1	0	0	No	2
SU Jian (粟健)	No	4	4	0	0	0	No	1
WANG Yan (王岩)	No	11	11	1	0	0	No	2
PENG Lei (彭磊)	No	11	11	1	0	0	No	2
XIONG Jiantao (熊劍濤)	No	6	6	0	0	0	No	1
HUANG Jian (黃堅)	No	11	11	1	0	0	No	2
WANG Daxiong (王大雄)	No	11	11	1	0	0	No	2
CHEN Zhigang (陳志剛)	No	4	4	0	0	0	No	1

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Name Of Director	Whether an independent Director	Attendance of Board meetings						Attendance of shareholders' general meeting
		Number of Board meetings requiring attendance	Attendance in person(times)	Attendance through correspondence (times)	Attendance by proxy (times)	Absence (times)	Whether not attending in person for two Consecutive meetings	Attendance of Shareholders' general meeting (times)
GONG Shaolin (宮少林) (ceased to hold office)	No	5	5	1	0	0	No	1
HUA Li (華立) (ceased to hold office)	No	5	1	1	4	0	Yes	1
GUO Jian (郭健)(ceased to hold office)	No	5	5	1	0	0	No	1
CAO Dong (曹棟) (ceased to hold office)	No	5	5	1	0	0	No	1
XIANG Hua (向華)	Yes	4	4	0	0	0	No	1
XIAO Houfa (肖厚發)	Yes	4	4	0	0	0	No	1
XIONG Wei (熊偉)	Yes	4	4	0	0	0	No	1
HU Honggao (胡鴻高)	Yes	4	4	0	0	0	No	1
YANG Jun (楊鈞)	Yes	11	11	1	0	0	No	2
YI Xiqun (衣錫群) (ceased to hold office)	Yes	7	7	1	0	0	No	1
DING Huiping (丁慧平) (ceased to hold office)	Yes	7	7	1	0	0	No	1
LIU Jialing (劉嘉凌) (ceased to hold office)	Yes	7	7	1	0	0	No	1
ZHU Haiwu (朱海武) (ceased to hold office)	Yes	7	7	1	0	0	No	1

Reasons for not attending Board meetings in person for two consecutive times:

Mr. HUA li, our Director, attended the Board meetings by proxy for four consecutive times in the year, due to health reasons.

Number of Board meetings convened in the year	11
Of which: number of onsite meetings	3
Number of meetings convened by way of correspondence	1
Number of meetings convened onsite and by way of correspondence	7

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(II) Convening of Board Meetings

No.	Meeting	Date of Meeting	Resolutions	Voting results	Date of announcement on resolutions
1	46th meeting of the fifth session of the Board	February 10, 2017	Resolution regarding the additional capital injection of HK\$2.6 billion (or RMB equivalent) by the Company to its wholly-owned subsidiary, CMS International, and the additional capital injection of HK\$2.0 billion by CMS International to its wholly-owned subsidiary, China Merchants Securities (HK) Co., Limited.	Passed	February 11, 2017
2	47th meeting of the fifth session of the Board	March 28, 2017	Working report of the Board for 2016; duty report of independent Directors for 2016 (non-voting matter at this Board meeting); 2016 annual report; resolution on profit distribution of the Company for 2016; resolution on budget for proprietary investment of the Company for 2017; resolution on contemplated ordinary related party transactions of the Company for 2017; resolution on the appointment of auditing firm of the Company for 2017; work report of the Audit Committee under the Board for 2016; 2016 operational report of the Company; compliance management report of the Company for 2016; internal control assessment report of the Company for 2016; audit report on internal control of the Company for 2016; social responsibilities report of the Company for 2016; resolution regarding the budget for charity donations of the Company in 2017; resolution regarding the report on the deposit and usage of proceeds from issuance of H Shares in 2016; resolution on the work plan of the Company on implementing comprehensive risk management requirements; resolution on the convention of 2016 annual general meeting	Passed	March 29, 2017
3	48th meeting of the fifth session of the Board	April 10, 2017	Proposal on election of members of the sixth Session of the Board; resolution on the general mandate of the Company to issue debt financing instruments	Passed	April 11, 2017
4	49th meeting of the fifth session of the Board	April 28, 2017	Resolution of the first quarterly report of the Company in 2017	Passed	April 29, 2017
5	50th meeting of the fifth session of the Board	April 30, 2017	Resolution on the mandate to adjust the scale of securities-backed lending business of the Company	Passed	May 4, 2017

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No.	Meeting	Date of Meeting	Resolutions	Voting results	Date of announcement on resolutions
6	First meeting of the sixth session of the Board	May 26, 2017	Resolution on election of chairman of the sixth session of the Board; resolution on election of members of special committees under the sixth session of the Board; resolution on appointment of senior management members of the Company; resolution on change of the authorized representative of the Company; resolution on change of the authorized person of the Company for the e-Submission System of Hong Kong Stock Exchange; resolution on appointment of the representative of securities affairs of the Company	Passed	May 27, 2017
7	Second meeting of the sixth session of the Board	June 28, 2017	Resolution on adjustment to the additional capital injection by the Company to its wholly-owned subsidiary, CMS International; resolution regarding the additional capital injection by the Company to its wholly-owned subsidiary, CMS Zhiyuan; resolution on formulation of the Comprehensive Risk Management System of the Company; resolution regarding the 2016 Environmental, Social and Governance Report of the Company	Passed	June 29, 2017
8	Third meeting of the sixth session of the Board	August 18, 2017	Resolution regarding the additional capital injection by the Company to and related party transaction with China Merchants Fund Management Limited	Passed	August 19, 2017
9	Fourth meeting of the sixth session of the Board	August 24, 2017	Resolution on 2017 interim operational report of the Company; resolution on 2017 interim report of the Company; resolution on 2017 interim compliance report of the Company; resolution on application to China Merchants Bank for extension of loans used for China Merchants Securities Building or a related party transaction; resolution on application to China Merchants Bank for credit facility for non-financing letters of guarantee or a related party transaction	Passed	August 25, 2017
10	Fifth meeting of the sixth session of the Board	October 27, 2017	Resolution on the third quarterly report of the Company in 2017; Resolution on the revision of the Articles of Association of China Merchants Securities Co., Ltd.; resolution on the convention of the first extraordinary meeting of the Company in 2017; resolution on establishment of the CMS financial technology innovation fund	Passed	October 28, 2017
11	Sixth meeting of the sixth session of the Board	December 29, 2017	Approval of the revision of the Compliance Management System of China Merchants Securities Co., Ltd.; resolution on adjustment to the additional capital injection by the Company to its wholly-owned subsidiary, CMS Zhiyuan and the additional capital injection of 1.9 billion by the Company to its wholly-owned subsidiary, CMS Investment	Passed	December 30, 2017

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

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

(IV) Duty Performance of Independent Directors

For details of the duty performance of independent Directors of the Company, please see the Annual Duty Report of Independent Directors of China Merchants Securities Co., Ltd. for 2017 (《招商證券股份有限公司獨立董事2017年度述職報告》) published on the SSE website for the same period of this report.

(V) Implementation of Resolutions Passed at Shareholders' General Meetings by the Board

1. On May 26, 2017, the 2016 annual general meeting of the Company considered and approved the Resolution on the Profit Distribution of the Company for 2016. The profit distribution plan was completed during the Reporting Period.
2. On May 26, 2017, the 2016 annual general meeting of the Company considered and approved the Resolution on Election of Members of the Sixth Session of the Board. Pursuant to the resolution, Mr. HUO Da, Mr. WANG Yan and Mr. XIONG Jiantao were elected as executive Directors of the sixth session of the Board; Ms. SU Min, Mr. XIONG Xianliang, Mr. SU Jian, Ms. PENG Lei, Mr. HUANG Jian, Mr. WANG Daxiong and Mr. CHEN Zhigang were elected as non-executive Directors of the sixth session of the Board; and Mr. XIANG Hua, Mr. XIAO Houfa, Mr. XIONG Wei, Mr. HU Honggao and Mr. WONG Ti were elected as independent non-executive Directors of the sixth session of the Board. Upon receipt of the Approval of SU Jian as a Director of a Securities Firm (Shen Zheng Ju Xu Ke Zi [2017] No. 38) (《關於核准栗健證券公司董事任職資格的批覆》(深證局許可字[2017]38號)) and the Approval of CHEN Zhigang as a Director of a Securities Firm (Shen Zheng Ju Xu Ke Zi [2017] No. 35) (《關於核准陳志剛證券公司董事任職資格的批覆》(深證局許可字[2017]35號)) from the CSRC Shenzhen Office in June 2017, the appointments of SU Jian and CHEN Zhigang were officially approved. Upon receipt of the Approval of XIANG Hua as an Independent Director of a Securities Firm (Shen Zheng Ju Xu Ke Zi [2017] No. 44) (《關於核准向華證券公司獨立董事任職資格的批覆》(深證局許可字〔2017〕44號)), the Approval of XIAO Houfa as an Independent Director of a Securities Firm (Shen Zheng Ju Xu Ke Zi [2017] No. 39) (關於核准肖厚發證券公司獨立董事任職資格的批覆》(深證局許可字〔2017〕39號)) and the Approval of HU Honggao as an Independent Director of a Securities Firm (Shen Zheng Ju Xu Ke Zi [2017] No. 42) (關於核准胡鴻高證券公司獨立董事任職資格的批覆》(深證局許可字〔2017〕42號)) from the CSRC Shenzhen Office in July 2017, the appointments of XIANG Hua, XIAO Houfa and HU Honggao were officially approved. Upon receipt of Approval of XIONG Wei as an Independent Director of a Securities Firm (Shen Zheng Ju Xu Ke Zi [2017] No. 50) (關於核准熊偉證券公司獨立董事任職資格的批覆》(深證局許可字〔2017〕50號)) from the CSRC Shenzhen Office in August 2017, the appointment of XIONG Wei was officially approved. Upon receipt of the Approval of WONG Ti as an Independent Director of a Securities Firm (Shen Zheng Ju Xu Ke Zi [2018] No. 12) (關於核准汪棣證券公司獨立董事任職資格的批覆》(深證局許可字〔2018〕12號)) from the CSRC Shenzhen Office in January 2018, the appointment of WONG Ti was officially approved.

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3. On May 26, 2017, the 2016 annual general meeting of the Company considered and approved the Resolution on Election of Shareholder Representative Supervisors of the Sixth Session of the Supervisory Committee. Pursuant to the resolution, Ms. ZHOU Linda Lei, Mr. LI Xiaofei, Mr. WANG Zhangwei, Mr. MA Yunchun, Mr. FANG Xiaobing and Mr. ZHANG Zehong were elected as the shareholder representative Supervisors of the sixth session of the Supervisory Committee. Upon receipt of the Approval of WANG Zhangwei as a Supervisor of a Securities Firm (Shen Zheng Ju Xu Ke Zi [2017] No. 34) (關於核准王章為證券公司監事任職資格的批覆》(深證局許可字〔2017〕34號)) and the Approval of MA Yunchun as a Supervisor of a Securities Firm (Shen Zheng Ju Xu Ke Zi [2017] No. 36) (關於核准馬蘊春證券公司監事任職資格的批覆》(深證局許可字〔2017〕36號)) from the CSRC Shenzhen Office in June 2017, the appointments of WANG Zhangwei (王章為) and MA Yunchun (馬蘊春) were officially approved.
4. On May 26, 2017, the 2016 annual general meeting of the Company considered and approved the Resolution on the Budget for Proprietary Investment the Company for 2017. Pursuant to the resolution, the total proprietary amount of equity securities and derivatives of the Company did not exceed (effective) 100% of its net capital. The cost of A-share directional investment did not exceed 30% of its net capital at the end of 2016; the total amount of non-equity securities and derivatives did not exceed (effective) 400% of its net capital. The Company's relevant operational indicators were all kept within the scope of authorization by the shareholders' general meeting during the Reporting Period.
5. On May 26, 2017, the 2016 annual general meeting of the Company considered and approved the Resolution on Contemplated Ordinary Related Party Transactions of the Company for 2017. Please refer to the Announcement on the Contemplated Ordinary Related Party Transactions of the Company for 2018 disclosed on the SSE website, China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily for details of the actual implementation of the ordinary related party transactions of the Company.
6. On May 26, 2017, the 2016 annual general meeting of the Company considered and approved the Resolution on Appointment of Auditing Firm of the Company for 2017. Pursuant to the resolution, the Company re-appointed ShineWing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited as the auditors of the annual report and internal control of the Company for 2017.
7. On May 26, 2017, the 2016 annual general meeting of the Company considered and approved the Resolution on the General Mandate of the Company to Issue Debt Financing Instruments. Pursuant to the resolution, the shareholders' general meeting authorized the Board, and consented that the Board in turn authorized the management of the Company to deal with all matters in connection with the issuance of debt financing instruments, including but not limited to the determination of the type, issuance size, place of issuance, timing of issuance, maturity, interest rate, use and management of proceeds raised, guarantee and credit enhancement, security for repayment and engagement of intermediary agencies for the debt financing instruments as and when appropriate, within the limit of outstanding debt financing instrument and during the validity period of the resolution, adhering to the principle of maximizing the interest of shareholders, provided that the leverage ratio, risk control indicators, liquidity regulatory indicators and risk limits of various debt financing instruments shall be in compliance with the requirements of the regulatory authorities. The authorization period is 36 months. During the Reporting Period, each of all debt financings was conducted under the mandate of the shareholders' general meeting.
8. On December 15, 2017, the 2017 first extraordinary general meeting of the Company considered and approved the Resolution in relation to the Amendments to the Articles of Association of China Merchants Securities Co., Ltd. The application for the amendment to major provisions of the Articles of Association has been accepted by the CSRC Shenzhen Office.



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(VI) Others

1. *Directors' Training*

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

2. *Directors' Remuneration*

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

3. *Term of Office of Non-executive Directors*

As at the end of the Reporting Period, there were seven non-executive Directors (SU Min, XIONG Xianliang, SU Jian, PENG Lei, HUANG Jian, WANG Daxiong, CHEN Zhigang) and five independent non-executive Directors (XIANG Hua, XIAO Houfa, XIONG Wei, HU Honggao, YANG Jun). For details of their terms of office, see "I. Change in Shareholdings and Remuneration" in "Chapter 7 Directors, Supervisors, Senior Management and Employees" of this report.

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

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

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

(I) Strategy Committee

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

As at the date of this report, the Strategy Committee comprised the following members: HUO Da (executive Director), XIONG Xianliang (non-executive Director), WANG Yan (executive Director), XIONG Jiantao (executive Director), WANG Daxiong (non-executive Director), CHEN Zhigang (non-executive Director), XIANG Hua (independent non-executive Director). Among those members, HUO Da was the convener.

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During the Reporting Period, the Strategy Committee held a total of two meeting. At the meetings, comprehensive discussions were carried out on the implementation of business strategies for 2016 and three year implementation period from 2015 to 2017 in line with the corporate development and business strategies of the Company.

Number	Session	Date	Proposal	Report
1	The sixth meeting of the Strategy Committee of the fifth session of the Board	March 27, 2017	–	Report on the Implementation of the Business Strategy of the Company for 2016
2	The first meeting of the Strategy Committee of the sixth session of the Board	November 14, 2017	–	Review on the Implementation of the 2015-2017 Business Strategy of the Company

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

Number	Name	Number of meetings attended/Number of meetings held
1	HUO Da (霍達) (Convener)	1/1
2	XIONG Xianliang (熊賢良)	2/2
3	WANG Yan (王岩)	2/2
4	XIONG Jiantao (熊劍濤)	1/1
5	WANG Daxiong (王大雄)	1/1
6	CHEN Zhigang (陳志剛)	1/1
7	XIANG Hua (向華)	1/1
8	HUANG Jian (黃堅)	1/1
9	GONG Shaolin (宮少林) (ceased to hold office)	1/1
10	GUO Jian (郭健) (ceased to hold office)	1/1
11	CAO Dong (曹棟) (ceased to hold office)	1/1
12	LIU Jialing (劉嘉凌) (ceased to hold office)	1/1

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(II) Risk Management Committee

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

As at the date of this report, the Risk Management Committee comprised the following members: Su Min (non-executive Director), SU Jian (non-executive Director), WANG Yan (executive Director), PENG Lei (non-executive Director), WANG Daxiong (non-executive Director), CHEN Zhigang (non-executive Director), XIANG Hua (independent non-executive Director). Among those members, SU Min was the convener.

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

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Number	Session	Date	Proposal	Report
1	The twelfth meeting of the Risk Management Committee of the fifth session of the Board	March 27, 2017	Work plan on implementing the requirements of comprehensive risk management; Budget for proprietary investment of the Company for 2017; compliance management report of the Company for 2016; risk evaluation report of the Company for 2016; report on risk appetite, risk tolerance and allocation of economic capital of the Company for 2017; report on all-inclusive budget for proprietary investment of the Company for 2017; report on net capital and risk control indicators of the Company for 2016.	–
2	The first meeting of the Risk Management Committee of the sixth session of the Board	June 29, 2017	Risk evaluation report of the Company for the first quarter of 2017; compliance management report of the Company for the first quarter of 2017.	–
3	The second meeting of the Risk Management Committee of the sixth session of the Board	August 4, 2017	Interim risk evaluation report of the Company for 2017; interim compliance management report of the Company for 2017.	Introduction to risk management and compliance management system.
4	The third meeting of the Risk Management Committee of the sixth session of the Board	October 9, 2017	Temporary increase of the authorized limit regarding directional investments of A Shares by RMB1.5 billion	Risk evaluation report on temporary increase of the authorized investment limit by RMB1.5 billion
5	The fourth meeting of the Risk Management Committee of the sixth session of the Board	November 14, 2017	Risk evaluation report of the Company for the third quarter of 2017; compliance management report of the Company for the third quarter of 2017.	Report on the 2012-2017 results of the brokerage business

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

Number	Name	Number of meetings attended/ Number of meetings held
1	SU Min (蘇敏) (Convener)	5/5
2	SU Jian (粟健)	2/2
3	WANG Yan (王岩)	5/5
4	PENG Lei (彭磊)	5/5
5	WANG Daxiong (王大雄)	5/5
6	CHEN Zhigang (陳志剛)	3/3
7	XIANG Hua (向華)	3/3
8	HUA Li (華立) (ceased to hold office)	1/1
9	CAO Dong (曹棟) (ceased to hold office)	1/1
10	LIU Jialing (劉嘉凌) (ceased to hold office)	2/2

(III) Audit Committee

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

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As at the date of this report, the Audit Committee comprised the following members: XIAO Houfa (independent non-executive Director), SU Jian (non-executive Director), HUANG Jian (non-executive Director), WONG Ti (independent non-executive Director), HU Honggao (independent non-executive Director). Among those members, XIAO Houfa was the convener.

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

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

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

Number	Session	Date	Proposal	Report
1	The sixteenth meeting of the Audit Committee of the fifth session of the Board	March 27, 2017	Annual report of the Company for 2016; assessment report on internal control of the Company for 2016; audit report on internal control of the Company for 2016; report on the use of proceeds from the offering of H shares of the Company in 2016; work report of the Audit Committee under the Board of the Company for 2016; contemplated ordinary related party transactions of the Company for 2017; engagement of auditing firm of the Company for 2017.	Audit financial report of the Company for 2016; work report on internal audit of the Company for 2016 and working schedule on internal audit for 2017; comprehensive performance evaluation report of audit department for 2016; Audit of the annual report of the Company for 2016.
2	The seventeenth meeting of the Audit Committee of the fifth session of the Board	April 28, 2017	First quarterly report of the Company for 2017.	—

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Number	Session	Date	Proposal	Report
3	The first meeting of the Audit Committee of the sixth session of the Board	August 24, 2017	Interim financial report of the Company for 2017.	Interim work report on internal audit of the Company for 2017
4	The second meeting of the Audit Committee of the sixth session of the Board	October 26, 2017	Third quarterly financial statement of the Company.	Audit of the 2017 Annual Report (governance communication report-at planning stage); work report on internal audit of the Company for the third quarter

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

Number	Name	Number of meetings attended/ Number of meetings held
1	XIAO Houfa (肖厚發) (Convenor)	2/2
2	SU Jian (粟健)	2/2
3	HUANG Jian (黃堅)	4/4
4	HU Honggao (胡鴻高)	2/2
5	YANG Jun (楊鈞)	4/4
6	ZHU Haiwu (朱海武) (ceased to hold office)	2/2
7	HUA Li (華立) (ceased to hold office)	2/2
8	DING Huiping (丁慧平) (ceased to hold office)	2/2

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(IV) Nomination Committee

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

As at the date of this report, the Nomination Committee comprised the following members: XIONG Wei (independent non-executive Director), WANG Yan (executive Director), PENG Lei (non-executive Director), XIAO Houfa (independent non-executive Director), HU Honggao (independent non-executive Director). Among those members, XIONG Wei was the convener.

During the Reporting Period, the Nomination Committee held a total of two meetings.

Number	Session	Date	Proposal	Report
1	The tenth meeting of the Nomination Committee of the fifth session of the Board	April 10, 2017	Nomination of members of the sixth session of the Board	–
2	The first meeting of the Nomination Committee of the sixth session of the Board	May 26, 2017	Appointment of Senior Management for the Company	–

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

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

(V) Remuneration and Appraisal Committee

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

As at the date of this report, the Remuneration and Appraisal Committee comprised the following members: XIANG Hua (Independent non-executive Director), SU Min (non-executive Director), PENG Lei (non-executive Director), XIONG Wei (independent non-executive Director), WONG Ti (independent non-executive Director). Among those members, XIANG Hua was the convener.

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

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Number	Session	Date	Proposal	Report
1	The eighth meeting of the Remuneration and Appraisal Committee of the fifth session of the Board	January 24, 2017	Total remuneration payable to senior management of the Company for 2014; verification and payment of deferred bonuses payable to President WANG Yan accrued during his service with the original employing unit; adjustment to the remuneration standard for ZHAO Bin, the Chief Compliance Officer	–
2	The ninth meeting of the Remuneration and Appraisal Committee of the fifth session of the Board	March 27, 2017	–	Work debriefing of nine senior management members of the Company for 2016.
3	The first meeting of the Remuneration and Appraisal Committee of the sixth session of the Board	December 14, 2017	Total remuneration payable to senior management of the Company for 2015; adjustment to the remunerations payable to XIONG Jiantao, DENG Xiaoli and the Chief Compliance officer	–

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

Number	Name	Number of meetings attended/ Number of meetings held
1	XIANG Hua (向華) (Convenor)	1/1
2	SU Min (蘇敏)	3/3
3	PENG Lei (彭磊)	1/1
4	XIONG Wei (熊偉)	1/1
5	YI Xiqun (衣錫群) (ceased to hold office)	2/2
6	CAO Dong (曹棟) (ceased to hold office)	2/2
7	LIU Jialing (劉嘉凌) (ceased to hold office)	2/2
8	ZHU Haiwu (朱海武) (ceased to hold office)	2/2

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V. DUTY PERFORMANCE OF SUPERVISORS

During the Reporting Period, the Supervisory Committee of the Company fully performed its duties in corporate governance in accordance with the relevant laws and regulations such as the Company Law and Securities Law and the related provisions regarding the responsibilities of the Supervisory Committee in the Articles of Association. The Supervisory Committee supervised the Board and senior management in respect of their implementation of resolutions of the Shareholders' general meetings, inspected the daily operation and financial position of the Company and conducted investigations and researches on frontline staff. The Supervisors made active explorations by actively providing advice and closely monitoring the risk control and compliance of the Company in order to safeguard the legal interests of the Company, its shareholders and all investors and ensure regulated operation of the Company.

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

Name of Supervisor	Position	Attendance of meetings of the Supervisory Committee						Attendance of shareholders' general meetings
		Number of meetings of the Supervisory Committee held during the year	Attendance in person	Attendance through correspondence	Attendance by proxy	Absence	Whether not attending in person in two consecutive meetings	Attendance of Shareholders' general meeting
ZHOU Linda Lei (周語菡)	Chairman of the Supervisory Committee	7	7	3	0	0	No	2
LI Xiaofei (李曉霏)	Supervisor	7	7	4	0	0	No	2
WANG Zhangwei (王章為)	Supervisor	2	2	1	0	0	No	1
MA Yunchun (馬蘊春)	Supervisor	2	2	2	0	0	No	1
FANG Xiaobing (房小兵)	Supervisor	7	7	6	0	0	No	2
ZHANG Zehong (張澤宏)	Supervisor	7	7	4	0	0	No	2
YIN Hongyan (尹虹艷)	Employee Representative Supervisor	7	7	3	0	0	No	2

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Name of Supervisor	Position	Attendance of meetings of the Supervisory Committee						Attendance of shareholders' general meetings
		Number of meetings of the Supervisory Committee held during the year	Attendance in person	Attendance through correspondence	Attendance by proxy	Absence	Whether not attending in person in two consecutive meetings	Attendance of Shareholders' general meeting
HE Min (何敏)	Employee Representative Supervisor	7	7	3	0	0	No	2
XIONG Zhigang (熊志鋼)	Employee Representative Supervisor	3	3	2	0	0	No	1
LIU Chong (劉沖)	Supervisor	4	4	3	0	0	No	1
ZHU Haibin (朱海彬)	Supervisor	4	4	3	0	0	No	1
ZHAN Guifeng (詹桂峰)	Supervisor	4	4	2	0	0	No	1

Number of meetings of the Supervisory Committee convened	7
Of which: Number of onsite meetings	3
Number of meetings convened by way of correspondence	3
Number of meetings convened onsite and by way of correspondence	1

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(II) Convening of the Meetings of the Supervisory Committee

In 2017, the Supervisory Committee convened a total of seven meetings, details of which are set out as follows:

Number	Session	Date of meeting	Proposal	Voting results	Date of disclosure of proposal
1	The fourteenth meeting of the fifth session of the Supervisory Committee	March 27, 2017	Work report of the Supervisory Committee of the Company for 2016; annual report of the Company for 2016; 2016 operational report of the Company; internal control assessment report of the Company for 2016; compliance management report of the Company for 2016; social responsibilities report of the Company for 2016; report on the deposit and usage of proceeds from issuance of H Shares in 2016	Passed	March 28, 2017
2	The fifteenth meeting of the fifth session of the Supervisory Committee	April 10, 2017	Election of shareholder representative Supervisors of the sixth session of the Supervisory Committee of the Company	Passed	April 10, 2017
3	The sixteenth meeting of the fifth session of the Supervisory Committee	April 28, 2017	The first quarterly report of the Company for 2017; assessment report on the efficiency of compliance management of the Company for 2016	Passed	April 29, 2017
4	The seventeenth meeting of the fifth session of the Supervisory Committee	May 18, 2017	Resignation audit report of DING Edward An Hua (丁安華), the Vice President of the Company	Passed	May 18, 2017
5	The first meeting of the sixth session of the Supervisory Committee	May 26, 2017	Election of chairman of the sixth session of the Supervisory Committee of the Company	Passed	May 26, 2017
6	The second meeting of the sixth session of the Supervisory Committee	August 23, 2017	Interim report of the Company for 2017; interim compliance report of the Company for 2017	Passed	August 24, 2017
7	The third meeting of the sixth session of the Supervisory Committee	October 27, 2017	The third quarterly report of the Company for 2017	Passed	October 27, 2017

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(III) Supervision and Inspection by the Supervisory Committee

In 2017, the Supervisory Committee of the Company fully performed its duties in corporate governance in accordance with the relevant laws and regulations such as the Company Law and Securities Law and the related provisions regarding the responsibilities of the Supervisory Committee in the Articles of Association. The Supervisory Committee supervised the Board and senior management in respect of their implementation of resolutions of the general meetings, inspected the daily operation and financial position of the Company, monitored the risk control and compliance of the Company and conducted investigations and researches on frontline staff in order to safeguard the legal interests of the Company, its shareholders and all investors and ensure regulated operation of the Company. The major supervision and inspection works are as follows:

1. *Completing assessment on the effectiveness of the Company's compliance management in 2016 and formulating the work plan for 2017*

The Supervisory Committee engaged ShineWing Certified Public Accountants LLP ("SHINEWING") to conduct an assessment on the effectiveness of the Company's compliance management in 2016. According to the Assessment Report on the Effectiveness of the Compliance Management of China Merchants Securities Co., Ltd. in 2016 (《招商證券股份有限公司2016年度合規管理有效性評估報告》) issued by SHINEWING, it is concluded that the Company has developed and effectively implemented corresponding management systems for the businesses and issues subject to assessment during the Reporting Period, and its targets for compliance management were generally fulfilled. There was no material compliance risk in all aspects. The above report was delivered to and filed with the CSRC Shenzhen Office upon the approval of the sixteenth meeting of the fifth session of the Supervisory Committee.

The Company engaged SHINEWING by means of quotation for the assessment on the effectiveness of the Company's compliance management in 2017.

2. *Investigations and assessments*

The Supervisory Committee conducted two assessments on the business departments during the year: Assessments were conducted by the Supervisory Committee on the operation of the business departments in Ningbo, Zhejiang as well as the Shanghai Branch and its business department in June and December 2017, respectively. The Supervisory Committee debriefed the branches and the business departments on their overall business operation. The Supervisory Committee had adequate communications and discussions with the frontline staff of the branches and business departments with regard to various issues such as main problems currently hindering the development of the business departments, general business operation, account opening via mobile phone QR code, repeated and in-depth customer development, retaining competitive businesses while resolving loss of customers and assets, competitive edge of the Company and support from its headquarters, three-tiered management structure across branches, first-tier and second-tier business departments, employment of full-time compliance officers at the business departments, internet finance competition, asset management products and other related problems found during internal and external investigations. The questions raised by the frontline staff were reflected to the headquarters of the Company in the assessment reports or through face-to-face communications with the management with ongoing follow-ups.

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3. *Completing the departure audit of Mr. DING Edward An Hua (丁安華), the former Vice President of the Company*

The Supervisory Committee of the Company engaged the Audit Department to conduct a departure audit of Mr. DING Edward An Hua (丁安華), the former vice president of the Company. The audit report was filed with CSRC Shenzhen Office upon the approval by the seventeenth meeting of the fifth session of the Supervisory Committee.

4. *Assisting the departure audit of Mr. GONG Shaolin (宮少林), the former Chairman of the Board*

The Company engaged PricewaterhouseCoopers by way of bid invitation to conduct a departure audit of Mr. GONG Shaolin (宮少林), the former Chairman of the Board. Ms. ZHOU Linda Lei (周語菡), chairman of the Supervisory Committee, participated in the whole process as deputy head of the audit working group and guided audit personnel to complete the departure audit smoothly.

5. *Other daily duties*

The Supervisory Committee completed the performance appraisals on the Directors, Supervisors and senior management of the Company in 2016.

The new session of the Supervisory Committee was elected.

(IV) Independent Opinions of the Supervisory Committee

In 2017, in accordance with the relevant laws and regulations such as the Company Law and Securities Law and the relevant requirements of the Articles of Association, the Supervisory Committee duly performed its duties with an aim to protect the interests of the Company and all shareholders. The Supervisory Committee supervised and inspected the legal operation, major decisions, major operating and financial conditions as well as related party transactions of the Company, and provided the following independent opinions:

1. *Legal operation of the Company*

In 2017, the Board and the management of the Company were able to operate legally in accordance with the Company Law, Securities Law, Articles of Association, and other applicable laws, regulations and rules. The Company was able to maintain regulated operation in respect of corporate governance, information disclosure and investor relations by adhering to the regulatory policies in both the Mainland China and Hong Kong. The major operational decisions of the Company were reasonable while its decision-making procedures were lawful and effective. The Company has continuously improved its risk management, compliance management and internal control systems and consolidated the management of implementation. All internal management systems were effectively implemented. The Company has been one of the only two securities firms in the industry receiving the “AA” credit rating for ten consecutive years. The Supervisory Committee has not identified any behaviour of the Directors and senior management during their performance of duties that violated the relevant laws, regulations and the Articles of Association or was detrimental to the interests of the Shareholders and the Company.

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2. *Inspection of the financial position of the Company*

In 2017, the Supervisory Committee duly reviewed the financial statements and financial information of the Company. The Supervisory Committee was of the view that the preparation of the financial statements of the Company was in compliance with the relevant requirements of the Accounting Standards for Enterprises and IFRSs. The 2017 financial statements of the Company were able to reflect the financial position, results of operation and cash flows of the Company. The audit opinions contained in the standard unqualified auditor's report issued by SHINEWING were objective and fair.

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

In 2017, the Supervisory Committee monitored the implementation of resolutions of the shareholders' general meetings. The Supervisory Committee was of the view that the Board was able to duly enforce the resolutions of the shareholders' general meetings and had no such behaviours that were detrimental to the interests of shareholders, in particular the minority shareholders.

4. *Related party transactions*

In 2017, the review, voting, disclosure and implementation of the relevant related party transactions of the Company were in compliance with the applicable laws, regulations and the provisions and requirements of the internal management systems of the Company. The pricing of such transactions was fair and reasonable. The Supervisory Committee has not identified any circumstances that were detrimental to the interests of the Company.

5. *Review of relevant reports*

The Supervisory Committee reviewed the 2017 Operational Report of the Company (《公司2017年度經營工作報告》), Report on the Deposit and Use of Proceeds from the Offering of H Shares of the Company in 2017 (《公司2017年度H股募集資金使用情況報告》), Internal Control Assessment Report of the Company for 2017 (《公司2017年度內部控制評價報告》), Compliance Management Report of the Company for 2017 (《公司2017年度合規管理工作報告》) and Social Responsibility Report of the Company for 2017 (《公司2017年度社會責任報告》), and had no objection to such reports.

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

In 2017, the Supervisory Committee supervised the enforcement of the Registration System for Persons with Inside Information. The Supervisory Committee was of the view that the Company has formulated the Registration System for Persons with Inside Information of China Merchants Securities Co., Ltd. (《招商證券股份有限公司內幕信息知情人登記制度》) in accordance with the Regulation on the Establishment of Registration System for Persons with Inside Information by Listed Companies (《關於上市公司建立內幕信息知情人登記管理制度的規定》), relevant laws and regulations and the Articles of Association. The Supervisory Committee has not identified any violation of such policy.

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

2017 was the final year of the “2015-2017 catching up and forging ahead strategy” of the Company. Despite severe challenges from the external environment, the Directors and all senior management members of the Company held fast to the strategic focus, leading all employees of the Company to carry out the “catching up and forging ahead strategy” with all strength and march forward vigorously. As a result, we achieved remarkable results in fulfilling the strategic requirements: both overall operation scale and core business competitiveness were taken to a new level with higher rankings; differentiated competitive edges were apparently established in core business areas; and the overall requirement of “outrunning the market and outperforming the peers” was satisfied. In addition, the Company has always insisted on risk control and compliance, and maintained relatively sound and lawful operation. The Supervisory Committee highly appreciated the works of the Directors and all senior management of the Company in 2017.

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

VI. IDENTIFICATION OF RISKS IN THE COMPANY BY THE SUPERVISORY COMMITTEE

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

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

Applicable Not applicable

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

Applicable Not applicable

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

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

IX. REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

X. DISCLOSURE OF SELF-ASSESSMENT REPORT OF INTERNAL CONTROL

For details of the self-assessment report of internal control of the Company, please see the 2017 Internal Control Assessment Report of China Merchants Securities Co., Ltd. (《招商證券股份有限公司2017年度內部控制評價報告》) which will be published on the SSE website on the same date of this report.

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

For details of the audit report on internal control of the Company, please see the 2017 Audit Report on Internal Control of China Merchants Securities Co., Ltd. (《招商證券股份有限公司2017年度內部控制審計報告》) which will be published on the SSE website on the same date of this report.

Whether to disclose the audit report on internal control: yes

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

(I) Responsibility Statement on Internal Control

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

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

Based on the assessment on the internal control of the Company, the Board believes that the Company has maintained an effective internal control on financial reporting in all material aspects pursuant to the regulations of corporate internal control system and relevant requirement. As of the date of internal control assessment report (December 31, 2017), the Company was not aware of any material deficiency in the internal control for financial reporting and non-financial reporting aspects.

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

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

(III) Development of Internal Control System

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

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XIII. DEVELOPMENT OF COMPLIANCE MANAGEMENT SYSTEM OF THE COMPANY

(I) Development of Compliance Management System of the Company

In 2017, under its five-level compliance management structure comprising the Board, senior management, chief compliance officer, Legal and Compliance Department, and other departments, branches and subsidiaries, and the three-line of compliance management framework consisting of the shareholders' general meeting, the Board and management, the Company duly performed its compliance management duties and maintained lawful operation effectively. Based on changes in external regulatory policies and the progress of its business development, the Company effectively implemented the Administrative Measures on Compliance By Securities Firms and Securities Investment Fund Managers (《證券公司和證券投資基金管理公司合規管理辦法》), built up a stronger legal compliance team, kept improving its compliance management system. The Company actively conducted various self-inspections and on-site inspections pursuant to the regulatory requirements in order to prevent any imposition of regulatory measures to safeguard its reputation and interests. The Company actively participated in the development of industrial regulations by assisting in the formulation and revision of such regulations. By keeping abreast of the changes in the laws, regulations and policies, the Company formulated, revised and abolished its rules and policies in a timely manner. The Company optimized the procedures for legal compliance management works and continuously improved the control over legal compliance management. Through enhancing process management in a sensible way, sound legal compliance supports and services were provided for the regulated development of various businesses. A total of 40 sessions of targeted legal compliance trainings were conducted during the year with over 18,000 participants to promote the awareness of compliance among all staff. The Company progressively carried out its first self-assessment on money laundering risks. The quality of its anti-money laundering reports for suspicious transactions was praised by the headquarters of the People's Bank of China for several consecutive years. The Company optimized its information segregation system and continued to improve its inspection means in response to the increasing supervision needs. Centralized management of the legal compliance works of the subsidiaries was enhanced through diversified compliance management according to their different internal compliance management structures.

(II) Compliance Check during the Reporting Period

In 2017, the Company stepped up its compliance check by carrying out preventive inspections and risk triggering tests with focus on the major regulatory concerns, and expanding its preventive compliance inspection to all business lines. In particular, the Company carried out preventive inspections on high-risk areas, new businesses and major regulatory concerns, in order to eliminate compliance risks timely. A total of 29 compliance inspections were carried out, representing an increase of 22.73% over the same period of last year. In respect of the problems identified by compliance check and suggestions for rectification, adoption rate of business departments was 100%.

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(III) Progress of Audit

During the Reporting Period, the Company conducted audit by closely monitoring the business development progress of the Company and maintaining the tradition and requirement of risk prediction, taking action in advance, and unremitting supervision. Firstly, the Company explored quantitative bases for risk prediction to make the audit more forward-looking. Secondly, while coordinating all resources to keenly support the development of innovative business and rapidly growing business, the Company prudently predicted and pre-emptively mitigated new risks arising in the course of development of the industry in advance. Thirdly, the Company deepened communication on audit matters, enabling stronger risk prevention along the first and second defence lines of internal control. Fourthly, the Company persistently improved audit techniques and approaches to ramp up its expertise of audit. Fifthly, while implementing audit at the head office as well as all subsidiaries and business departments, the Company carried out assessment on crucial internal control processes to urge improvement in internal control.

During the Reporting Period, the Company completed a total of 134 audit and inspection items of various types, including 25 related to special/internal control audit of the headquarters and subsidiaries, one related to the effectiveness evaluation on internal control and 108 related to branches. Through these internal audits and evaluation, the Company inspected the internal control systems of the audit targets and the completeness and effectiveness thereof, and issued reminders on major risks, which significantly supported the improvement of risk prevention awareness of the audit targets, the prevention of various moral hazards and policy risks as well as the enhancement of internal control of the Company.

XIV. MISCELLANEOUS

(I) Compliance with Code on Securities Transactions

The Company has adopted the Model Code as the code of conduct regarding the transactions of securities of the Company by all Directors and Supervisors. Having made specific inquiries, all Directors and Supervisors of the Company have confirmed that during the Reporting Period, they have strictly complied with the standards under the Model Code. According to the requirements of the CSRC, employees of the Company shall be regarded as securities practitioners and shall be prohibited from dealings in shares. The Company is not aware of any breach of the guidelines by the relevant employees. The Board will inspect the corporate governance and its operation from time to time, in order to comply with the applicable requirements under the Hong Kong Listing Rules and safeguard the interests of shareholders. Upon enquiry, all Directors, Supervisors and senior management have confirmed they have strictly complied with the applicable requirements under the Model Code and the Management Rules on the Shares and Changes of Shareholdings of Directors, Supervisors and Senior Management in China Merchants Securities Co., Ltd. (《招商證券股份有限公司董事、監事和高級管理人員所持公司股份及其變動管理制度》). For details regarding the shareholdings of the Directors, Supervisors and senior management in the Company, please see "Change in Shareholdings and Remuneration" under "Chapter 7 Directors, Supervisors, Senior Management and Employees" of this report.

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(II) Responsibilities of Directors for Financial Statements

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

The Board of the Company has confirmed that it took responsibility for the preparation of the annual report for the year ended December 31, 2017 of the Group.

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

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

(III) Joint Company Secretaries

Mr. WU Huifeng and Ms. KWONG Yin Ping Yvonne are the joint company secretaries of the Company, whose appointments were made in July 2015 and April 2016, respectively, and became effective in October 2016. Mr. WU Huifeng is the secretary to the Board and the main contact person within the Company. Ms. KWONG Yin Ping Yvonne is a vice president of SW Corporate Services Group Limited. According to Rule 3.29 of the Hong Kong Listing Rules, as of December 31, 2017, both Mr. WU Huifeng and Ms. KWONG Yin Ping Yvonne have received over 15 hours of relevant professional trainings.

(IV) Interests of Shareholders

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

The Company pays high attention to the shareholders' opinions and advice, actively and regularly carries out various investor relations activities to keep communication with shareholders and fulfil their reasonable requests timely. The Company has formulated a series of thorough rules and regulations such as the Administrative System Regarding Investor Relationship (《投資者關係管理制度》), to manage investor relationship in accordance with the standards, systems and procedures. The Company has formed a good interaction and communication with the investors through various channels, such as investor service hotlines the special column for investor relations in the Company's website and reception of on-site researchers.

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The Board of the Company welcomes the shareholders' advice and encourages shareholders to attend the Shareholders' general meetings to ask the Board or management directly about any doubts they may hold. Shareholders may convene extraordinary general meetings or submit temporary proposals to general meetings according to the procedures set out in Articles 75 and 80 of the Articles of Association, which has been published on the SSE website, Hong Kong Stock Exchange website and company's website. The Company will arrange for the Board to answer shareholders' questions in its annual general meeting for 2017.

(V) Auditor's Remuneration

For details of auditor's remuneration of the Company, please refer to "Appointment and Removal of Accounting Firms" of "Chapter 5 Major Events" of this report.

In 2017, the Company engaged SHINEWING (HK) CPA Limited as its international auditor and ShineWing Certified Public Accountants LLP as its domestic auditor. The fees payable for the auditing services provided by the two auditors to the Group in 2017 were RMB3.58 million and no non-auditing service fee was incurred.

(VI) Relationship with Investors

In 2017, the Company had one-on-one and one-on-many contacts with 570 local and international institutional investors on 60 occasions through the annual results presentation and promotion at the interim results analyst meeting, giving speeches at investment strategy seminars and forums organized by domestic and foreign securities firms, reception of visits from institutional investors and participation in analyst seminars of the securities industry. We also had communicated with 113 investors via SSE E-Interaction, telephone, email and shareholders' general meeting. As at the end of 2017, the Company, in terms of market value, ranked 87th among the 500 highest valued listed companies in the PRC and sixth in the securities industry, and the Company was one of the three securities firms that achieved a year-on-year growth in market value among the top ten securities firms.

(VII) Risk Management

For details of the risk management of the Company, please refer to "Potential risks and corresponding measures" under "Chapter 4 Report of the Board of Directors" of this report.

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(VIII) Management of Inside Information

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

(IX) Amendments to the Articles of Association

On December 15, 2017, the resolution regarding the amendments to the Articles of Association of China Merchants Securities Co., Ltd. was considered and approved at the first extraordinary general meeting for 2017 of the Company. The Articles of Association is pending approval from the CSRC Shenzhen Office.

(X) Environmental, Social and Governance Report

For details, please refer to the 2017 Social Responsibility Report of China Merchants Securities Co., Ltd. (《招商證券股份有限公司2017年度社會責任報告》) and the Environmental, Social and Governance Report (《環境、社會及管治報告》) disclosed on the website of Shanghai Stock Exchange and Hong Kong Stock Exchange respectively in the same period when this report is disclosed.

Chapter 9: Corporate Bonds

I. GENERAL INFORMATION OF CORPORATE BONDS

Outstanding corporate bonds as at the date of approval for the publication of this annual report:

Unit: RMB100 million Currency: RMB

Name	Abbreviation	Code	Issue completion date	Date of expiry	Remaining balance	Interest rate (%)	Payment of principal and interest	Trading place	Eligibility of investors
2012 Type Three Corporate Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司2012年公司債券品種二)	12 China Merchants 03 (12招商03)	122234	March 5, 2013	March 5, 2023	55.00	5.15	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange	Public offering to investors
The 2014 corporate bonds publicly issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司公開發行2014年公司債券)	14 China Merchants Bonds (14招商債)	122374	May 26, 2015	May 26, 2025	55.00	5.08	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange	Public offering to investors
The 2017 corporate bonds (first tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2017年公司債券(第一期))	17 China Merchants G1 (17招商G1)	143327	October 13, 2017	October 13, 2019	45.00	4.78	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange	Public offering to qualified investors
The 2017 corporate bonds (second tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2017年公司債券(第二期))	17 China Merchants G2 (17招商G2)	143342	October 23, 2017	October 23, 2020	10.60	4.78	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange	Public offering to qualified investors
The 2017 corporate bonds (third tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2017年公司債券(第三期))	17 China Merchants G3 (17招商G3)	143369	October 31, 2017	October 31, 2020	10.00	4.85	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange	Public offering to qualified investors
The 2018 corporate bonds (first tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2018年公司債券(第一期))	18 China Merchants G1 (18招商G1)	143460	February 5, 2018	February 5, 2021	19.40	5.35	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange	Public offering to qualified investors
The 2015 subordinated bonds (fourth tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2015年第四次次級債券)	15 China Merchants 04 (15招商04)	123211	April 13, 2015	April 13, 2018	50.00	5.75	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange	Private offering to qualified institutional investors
The 2017 subordinated bonds (first tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年次級債券(第一期))	17 China Merchants C1 (17招商C1)	145899	November 27, 2017	November 27, 2019	22.00	5.45	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange	Private offering to qualified institutional investors
The 2018 subordinated bonds (first tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2018年次級債券(第一期))	18 China Merchants C1 (18招商C1)	150078	January 12, 2018	January 12, 2020	16.40	5.56	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange	Private offering to qualified institutional investors
The 2018 subordinated bonds (second tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2018年次級債券(第二期))	18 China Merchants C2 (18招商C2)	150097	January 22, 2018	January 22, 2020	51.50	5.70	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange	Private offering to qualified institutional investors

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Name	Abbreviation	Code	Issue completion date	Date of expiry	Remaining balance	Interest rate (%)	Payment of principal and interest	Trading place	Eligibility of investors
The 2017 securities companies short-term corporate bonds (sixth tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券(第六期))	China Merchants 1707 (招商1707)	117570	August 9, 2017	May 16, 2018	32.40	4.60	One-off payment of principal and interest upon expiry	Shenzhen Stock Exchange	Private offering to qualified institutional investors
The 2017 securities companies short-term corporate bonds (seventh tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券(第七期))	China Merchants 1708 (招商1708)	117571	August 25, 2017	August 25, 2018	11.00	4.90	One-off payment of principal and interest upon expiry	Shenzhen Stock Exchange	Private offering to qualified institutional investors
The 2017 securities companies short-term corporate bonds (eighth tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券(第八期))	China Merchants 1709 (招商1709)	117572	September 6, 2017	June 13, 2018	30.00	4.95	One-off payment of principal and interest upon expiry	Shenzhen Stock Exchange	Private offering to qualified institutional investors
The 2017 securities companies short-term corporate bonds (ninth tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券(第九期))	17 China Merchants D9 (17招商D9)	145810	September 20, 2017	September 20, 2018	22.00	4.85	One-off payment of principal and interest upon expiry	Shanghai Stock Exchange	Private offering to qualified institutional investors
The 2017 securities companies short-term corporate bonds (tenth tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券(第十期))	17 China Merchants D10 (17招商D10)	145827	October 12, 2017	July 9, 2018	29.30	4.95	One-off payment of principal and interest upon expiry	Shanghai Stock Exchange	Private offering to qualified institutional investors
The 2017 securities companies short-term corporate bonds (eleventh tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券(第十一期))	17 China Merchants D11 (17招商D11)	145879	October 24, 2017	October 19, 2018	46.80	4.90	One-off payment of principal and interest upon expiry	Shanghai Stock Exchange	Private offering to qualified institutional investors
The 2017 securities companies short-term corporate bonds (twelfth tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券(第十二期))	17 China Merchants D12 (17招商D12)	145891	October 30, 2017	October 30, 2018	36.00	5.00	One-off payment of principal and interest upon expiry	Shanghai Stock Exchange	Private offering to qualified institutional investors
The 2017 securities companies short-term corporate bonds (thirteenth tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券(第十三期))	17 China Merchants D13 (17招商D13)	145703	November 15, 2017	August 12, 2018	22.80	5.10	One-off payment of principal and interest upon expiry	Shanghai Stock Exchange	Private offering to qualified institutional investors
The 2018 corporate bonds (first tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2018年非公開發行公司債券(第一期))	18 China Merchants F1 (18招商F1)	150179	March 13, 2018	September 9, 2018	20.50	5.15	One-off payment of principal and interest upon expiry	Shanghai Stock Exchange	Private offering to qualified institutional investors
	18 China Merchants F2 (18招商F2)	150180	March 13, 2018	March 13, 2019	30.00	5.30	One-off payment of principal and interest upon expiry	Shanghai Stock Exchange	Private offering to qualified institutional investors
The 2018 corporate bonds (second tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2018年非公開發行公司債券(第二期))	18 China Merchants F3 (18招商F3)	150200	March 20, 2018	September 16, 2018	11.20	5.18	One-off payment of principal and interest upon expiry	Shanghai Stock Exchange	Private offering to qualified institutional investors

Note: The principals and interests for "12 China Merchants 01", "12 China Merchants 02" and "15 China Merchants 02" were completely settled on March 5, 2018, March 5, 2018 and March 24, 2018, respectively.

Chapter 9: Corporate Bonds

Payment of Interest and Principal of Corporate Bonds

Name	Abbreviation	Code	Issue completion date	Date of expiry	Amount (RMB100 million)	Payment of interest and principal and implementation of special clause
The 2012 Type One Corporate Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司2012年公司債券品種一)	12 China Merchants 01 (12招商01)	122232	March 5, 2013	March 5, 2018 (attached with the issuer's discretionary right to raise coupon rate and the investor's discretionary right of resale upon expiry of the third year)	30.00	Payment of interest and principal in full as scheduled
The 2012 Type Two Corporate Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司2012年公司債券品種二)	12 China Merchants 02 (12招商02)	122233	March 5, 2013	March 5, 2018	15.00	Payment of interest and principal in full as scheduled
The 2012 Type Three Corporate Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司2012年公司債券品種三)	12 China Merchants 03 (12招商03)	122234	March 5, 2013	March 5, 2023	55.00	Payment of interest in full as scheduled
The 2014 corporate bonds publicly issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司公開發行2014年公司債券)	14 China Merchants Bonds (14招商債)	122374	May 26, 2015	May 26, 2025	55.00	Payment of interest in full as scheduled
The 2015 subordinated bonds (first tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2015年第一期次級債券)	15 China Merchants 01 (15招商01)	123230	March 19, 2015	March 19, 2018 (attached with the issuer's discretionary redemption right upon expiry of the second year)	100.00	Exercise of redemption right and payment of interest and principal in full as scheduled
The 2015 subordinated bonds (second tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2015年第二期次級債券)	15 China Merchants 02 (15招商02)	123227	March 24, 2015	March 24, 2020 (attached with the issuer's discretionary redemption right upon expiry of the third year)	100.00	Exercise of redemption right and payment of interest and principal in full as scheduled
The 2015 subordinated bonds (third tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2015年第三期次級債券)	15 China Merchants 03 (15招商03)	123210	April 13, 2015	April 13, 2018 (attached with the issuer's discretionary redemption right upon expiry of the second year)	50.00	Exercise of redemption right and payment of interest and principal in full as scheduled
The 2015 subordinated bonds (fourth tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2015年第四期次級債券)	15 China Merchants 04 (15招商04)	123211	April 13, 2015	April 13, 2018	50.00	Payment of interests in full as scheduled
The 2015 subordinated bonds (fifth tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2015年第五期次級債券)	15 China Merchants 05 (15招商05)	123092	April 24, 2015	October 24, 2017	50.00	Payment of interest and principal in full as scheduled
The 2016 securities companies short-term corporate bonds (first tranche) of China Merchants Securities Co., Ltd. (Type One) (招商證券股份有限公司2016年第一期證券公司短期公司債券(品種一))	China Merchants 1601 (招商1601)	117550	December 26, 2016	April 15, 2017	10.00	Payment of interest and principal in full as scheduled
The 2017 securities companies short-term corporate bonds (first tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券(第一期))	China Merchants 1701 (招商1701)	117552	January 12, 2017	May 12, 2017	38.00	Payment of interest and principal in full as scheduled
The 2017 securities companies short-term corporate bonds (second tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券(第二期))	China Merchants 1702 (招商1702)	117554	February 22, 2017	June 2, 2017	30.00	Payment of interest and principal in full as scheduled

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Name	Abbreviation	Code	Issue completion date	Date of expiry	Amount (RMB100 million)	Payment of interest and principal and implementation of special clause
The 2017 securities companies short-term corporate bonds (third tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券 (第二期))	China Merchants 1703 (招商1703)	117555	March 9, 2017	August 9, 2017	20.00	Payment of interest and principal in full as scheduled
The 2017 securities companies short-term corporate bonds (fourth tranche) of China Merchants Securities Co., Ltd. (Type One) (招商證券股份有限公司2017年第四期證券公司短期公司債券 (品種一))	China Merchants 1704 (招商1704)	117557	March 29, 2017	June 27, 2017	32.20	Payment of interest and principal in full as scheduled
The 2017 securities companies short-term corporate bonds (fifth tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券 (第五期))	China Merchants 1706 (招商1706)	117568	July 13, 2017	November 10, 2017	30.00	Payment of interest and principal in full as scheduled

Details of the Issuance of Other Corporate Bonds

In February 2018, the Company received the No Objection Letter for the Offer for Sale of Corporate Bonds Privately Issued by China Merchants Securities Co., Ltd. ((Shang Zheng Han [2018] No. 160) (《關於對招商證券股份有限公司非公開發行公司債券掛牌轉讓無異議的函》(上證函[2018]160號)) from the Shanghai Stock Exchange, pursuant to which the Shanghai Stock Exchange has no objection to the offer for sale of corporate bonds privately issued by the Company to qualified investors in the amount of no more than RMB40 billion. As of the date of approval for the publication of this annual report, the Company had issued a total of two tranches of privately-offered corporate bonds on the Shanghai Stock Exchange and raised RMB6.17 billion.

Chapter 9: Corporate Bonds

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

The table below sets forth trustees and credit rating agencies in the outstanding corporate bonds as at the date of approval for the publication of this annual report:

Abbreviation	Code	Trustee	Credit rating agency
12 China Merchants 03 (12招商03)	122234	Huatai United Securities	Shanghai Brilliance
14 China Merchants Bonds (14招商債)	122374	Everbright Securities	Shanghai Brilliance
17 China Merchants G1 (17招商G1)	143327	Everbright Securities	CCXR
17 China Merchants G2 (17招商G2)	143342	Everbright Securities	CCXR
17 China Merchants G3 (17招商G3)	143369	Everbright Securities	CCXR
18 China Merchants G1 (18招商G1)	143460	Everbright Securities	CCXR
15 China Merchants 04 (15招商04)	123211	Everbright Securities	Shanghai Brilliance
17 China Merchants C1 (17招商C1)	145899	Galaxy Securities	CCXR
18 China Merchants C1 (18招商C1)	150078	Galaxy Securities	CCXR
18 China Merchants C2 (18招商C2)	150097	Galaxy Securities	CCXR
China Merchants 1707 (招商1707)	117570	Galaxy Securities	CCXR
China Merchants 1708 (招商1708)	117571	Galaxy Securities	CCXR
China Merchants 1709 (招商1709)	117572	Galaxy Securities	CCXR
17 China Merchants D9 (17招D9)	145810	Galaxy Securities	CCXR
17 China Merchants D10 (17招D10)	145827	Galaxy Securities	CCXR
17 China Merchants D11 (17招D11)	145879	Galaxy Securities	CCXR
17 China Merchants D12 (17招D12)	145891	Galaxy Securities	CCXR
17 China Merchants D13 (17招D13)	145703	Galaxy Securities	CCXR
18 China Merchants F1 (18招商F1)	150179	Essence Securities	CCXR
18 China Merchants F2 (18招商F2)	150180	Essence Securities	CCXR
18 China Merchants F3 (18招商F3)	150200	Essence Securities	CCXR

During the Reporting Period, none of the above bonds incurred any change to their trustees or credit rating agencies.

Chapter 9: Corporate Bonds

The table below sets forth the contact person and contact details of the trustees in the Company's bonds and contact details of the credit rating agencies giving follow-up ratings to the bonds:

Trustee	Name	Huatai United Securities Co., Ltd.
	Office address	(01A, 02, 03, 04), 17A, 18A, 24A, 25A & 26A, 5/F, HKCTS Tower, Central Business District, Futian District, Shenzhen
	Contact person	YU Shouxiang (于首祥)
	Contact number	0755-82492956
Trustee	Name	Everbright Securities Co., Ltd.
	Office address	No. 1508, Xinzha Road, Jing'an District, Shanghai
	Contact person	XUE Jiang (薛江), SUN Bei (孫蓓), LI Qunyan (李群燕)
	Contact number	021-22169999, 021-22169880
Trustee	Name	China Galaxy Securities Co., Ltd.
	Office address	Room 218, Tower C, Corporate Square, No. 35 Finance Street, Xicheng District, Beijing (北京市西城區金融大街35號國際企業大廈C座218室)
	Contact person	XU Jinjun (許進軍)
	Contact number	010-66568061
Trustee	Name	Essence Securities Co., Ltd.
	Office address	35/F & 28/F (A02), Anlian Building, No. 4018 Jintian Road, Futian District, Shenzhen (深圳市福田區金田路4018號安聯大廈35層, 28層A02單元)
	Contact person	HAO Wulan (郝烏蘭)
	Contact number	010-66239358
Credit rating agency	Name	Shanghai Brilliance Credit Rating & Investors Service Co., Ltd.
	Office address	14/F, Huasheng Building, No. 398 Hankou Road, Shanghai
Credit rating agency	Name	China Chengxin Securities Rating Co., Ltd.
	Office address	Room 968, Block 1, No. 599 Xinye Road, Qingpu District, Shanghai (上海市青浦區新業路599號1幢968室)

Chapter 9: Corporate Bonds

III. USE OF PROCEEDS FROM THE ISSUANCE OF CORPORATE BONDS

(I) Procedures for the supervision over and the use of proceeds from the issuance of corporate bonds

As required by relevant laws and regulations, the Company centralizes the management of proceeds from the issuance of corporate bonds, which practically ensures such proceeds to be used as prescribed in relevant prospectus. The Company has established a sound capital management regime and an effective internal financial control system. The trustees and proceeds supervision banks fulfill their regulatory duties in respect of the use of proceeds pursuant to regulatory provisions and contractual agreements.

Proceeds from the issuance of corporate bonds shall be used under the following approval procedures:

1. The Company files an application for using the proceeds according to the purposes of use prescribed in relevant prospectus, and then after the application is approved by competent approver in line with the authorization system described in the Rules on Authorization of Proprietary Money Appropriation, the Company sends a proceeds transfer instruction to the proceeds supervision bank;
2. The supervision bank examines the proceeds transfer instruction from the Company, and effect the proceeds transfer if the use of proceeds is confirmed to be consistent with that prescribed in relevant prospectus; and
3. The supervision bank issues to the Company the automatic record and bank receipt regarding the transaction involving the supervised account, and notifies the trustee.

(II) Use of proceeds from the issuance of corporate bonds

Currently, all proceeds from the issuance of corporate bonds have been utilized. The actual uses of proceeds are consistent with that prescribed in relevant prospectuses, application plans and other agreements. The details are as follows:

As prescribed in the prospectuses for the corporate bonds publicly issued by the Company, namely, "12 China Merchants 01", "12 China Merchants 02" and "12 China Merchants 03", all proceeds from the issuance of said bonds, after deducting the issuance expenses, shall be used for replenishment of the Company's working capital. As at December 31, 2013, all such proceeds had been used by the Company for replenishment of the Company's working capital in accordance with relevant provisions of the prospectuses.

As prescribed in the prospectus for the corporate bonds publicly issued by the Company, namely, "14 China Merchants Bonds", all proceeds from the issuance of said bonds, after deducting the issuance expenses, shall be used for replenishment of the Company's working capital. As at December 31, 2015, all such proceeds had been used by the Company for replenishment of the Company's working capital in accordance with relevant provisions of the prospectus.

As prescribed in the prospectuses for the corporate bonds publicly issued to qualified investors by the Company, namely, "17 China Merchants G1", "17 China Merchants G2", "17 China Merchants G3" and "18 China Merchants G1", the proceeds from the issuance of the said bonds shall be used for "satisfaction of the capital demand by the Company's business operations, adjustment to the Company's debt structure and replenishment of the Company's working capital". As at the date of approval for the publication of this report, all such proceeds had been utilized as prescribed in accordance with relevant provisions of the prospectuses. In breakdown, "17 China Merchants G1" raised RMB4.5 billion, with RMB3 billion used for debt restructuring and RMB1.5 billion used for replenishment of working capital; "17 China Merchants G2" raised RMB1.06 billion, all being used for replenishment of working capital; "17 China Merchants G3" raised RMB1 billion, with RMB609 million used for debt restructuring and RMB391 million used for replenishment of working capital; "18 China Merchants G1" raised RMB1.94 billion, with RMB1.391 billion used for debt restructuring and RMB549 million used for replenishment of working capital.

Chapter 9: Corporate Bonds

As prescribed in the prospectuses for the subordinated bonds privately issued by the Company, namely, "15 China Merchants 01", "15 China Merchants 02", "15 China Merchants 03", "15 China Merchants 04", "15 China Merchants 05", "17 China Merchants C1", "18 China Merchants C1" and "18 China Merchants C2", the perpetual subordinated bonds privately issued by the Company, namely, "17 China Merchants Y1", "17 China Merchants Y2", "17 China Merchants Y3" and "17 China Merchants Y4", as well as the securities companies short-term corporate bonds, namely "China Merchants 1601", "China Merchants 1701", "China Merchants 1702", "China Merchants 1703", "China Merchants 1704", "China Merchants 1706", "China Merchants 1707", "China Merchants 1708", "China Merchants 1709", "17 China Merchants D9", "17 China Merchants D10", "17 China Merchants D11", "17 China Merchants D12" and "17 China Merchants D13", all proceeds from the issuance of said bonds shall be used for "replenishment of the Company's working capital". As at the date of approval for the publication of this report, all such proceeds, after deducting the issuance expenses (if any), had been used for replenishment of the Company's working capital in accordance with the relevant provisions of the prospectuses.

As prescribed in the prospectuses for the bonds privately issued by the Company, namely, "18 China Merchants F1", "18 China Merchants F2" and "18 China Merchants F3", all proceeds from the issuance of said bonds shall be used for "replenishment of the Company's working capital". As at the date of approval for the publication of this report, all such proceeds, after deducting the issuance expenses (if any), had been used for replenishment of the Company's working capital in accordance with the relevant provisions of the prospectuses.

As prescribed in the prospectuses for the securities companies short-term corporate bonds privately issued by the Company, namely, "China Merchants 1401", "China Merchants 1501", "China Merchants 1502", "15 China Merchants D3" and "15 China Merchants D4", all proceeds from the issuance of said bonds shall be used for "replenishment of the Company's working capital". As at the date of approval for the publication of this report, all such proceeds, after deducting the issuance expenses (if any), had been used for replenishment of the Company's working capital in accordance with the relevant provisions of the prospectuses.

IV. RATING OF CORPORATE BONDS

During the Reporting Period, the Company was granted AAA credit ratings both as an issuer of bonds and as an issuer of debt financing instruments in the PRC unanimously by credit rating agencies. None of credit rating agencies conducted any irregular follow-up rating in respect of the Company and its bonds. Within the time limit on follow-up rating, credit rating agencies will complete the regular follow-up rating for the year within two months after the bond issuer and bond guarantor (if any) release relevant annual reports. When it comes to fixed income products due within one year, credit rating agencies will announce the results and reports of regular follow-up rating in the sixth month after the official issuance of relevant bonds. Corresponding follow-up rating reports will be published on the website of SSE and the website of SZSE. Investors are advised to pay attention.

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

As at date of approval for the publication of this report, based on the credit enhancement mechanism the existing bonds were issued without any guarantees. According to the repayment plans, the existing six tranches of corporate bonds and four tranches of subordinated bonds shall pay interest annually during the duration of the bonds and the last installment of interest payment shall be paid together with the principal. According to the repayment plans, the existing eight tranches of short-term corporate bonds of securities companies shall pay principal together with all interests upon maturity.

Chapter 9: Corporate Bonds

During the Reporting Period, there was no change in the credit enhancement mechanism, debt repayment plans and other repayment guarantee measures of the corporate bonds as compared with their prospectuses. The Company had strictly complied with the requirements regarding repayment plans as mentioned in the prospectus and paid all interests of the corporate bonds as scheduled and disclosed relevant information on a timely basis in order to protect the legal interests of the investors.

The Company set up special account of debt repayment deposit for each tranche of bonds issued by the Company during the Reporting Period, which is the very account used as special account for the proceeds relating to each respective tranche of bonds and independent from those special accounts of debt repayment deposit under other accounts of the Company. The account only serves the purposes of interest payment, collection of payable amounts and reception of bond proceeds as well as deposit and transfer, to the exclusion of any other purposes. The Company deposits all amounts payable or maybe payable as principal and interests of bonds to the special account of debt repayment deposit pursuant to relevant prospectus and regulatory requirements.

VI. MEETINGS OF CORPORATE BONDHOLDERS

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

VII. DUTY PERFORMANCE OF THE TRUSTEES OF CORPORATE BONDS

During the Reporting Period, trustees in the bonds carried out their duties diligently by tracking and monitoring the performance by the Company of the obligations under relevant prospectuses and trust agreements, and issued regular and extraordinary trust reports according to the requirements of regulatory authorities.

Huatai Securities, Everbright Securities and Essence Securities, each being a trustee will publish the 2017 corporate bonds trust reports on the website of Shanghai Stock Exchange and the website of Shenzhen Stock Exchange before June 30. Investors are advised to pay attention.

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

Unit: RMB100 million Currency: RMB

Key indicators	2017	2016	Change (%)	Reasons for the change
EBITDA	120.43	119.53	0.75	—
Current ratio	1.66	2.20	-24.57	—
Quick ratio	1.66	2.20	-24.57	—
Gearing ratio (%)	66.18	65.86	0.49	—
EBITDA/debt ratio	8.35	11.60	-28.03	—
Interest coverage ratio	2.49	2.20	13.13	—
Cash interest coverage ratio	-3.65	0.99	-468.69	Proprietary investment and investment for capital-based intermediary business were huge in 2017, as well as the negative cash flow from operating activities.
EBITDA/interest coverage ratio	2.53	2.23	13.48	—
Loan repayment ratio (%)	100	100	—	—
Interest payment ratio (%)	100	100	—	—



Chapter 9: Corporate Bonds

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

During the Reporting Period, other debt financing instruments of the Company included placements from other financial institutions, financial assets sold under repurchase agreements, and principal of structured notes, of which all principals and interests were settled on schedule.

X. BANK CREDITS OF THE COMPANY DURING THE REPORTING PERIOD

As at the end of 2017, the Company had available credit lines from its major lending banks amounting to RMB258.9 billion, of which RMB72.5 billion were utilized and RMB186.4 billion were unused.

On October 30, 2012, the Company entered into a facility contract with the Shenzhen Binhe Shidai sub-branch (previous Shenzhen Xinzhou sub-branch) of China Merchants Bank, pursuant to which the Company applied with China Merchants Bank for a credit line of RMB700 million regarding the CMS Tower (招商證券大廈). The contract has terminated on October 30, 2017, but given the construction progress of the tower, the Company entered into a supplemental agreement thereto with Shenzhen Binhe Shidai sub-branch of China Merchants Bank to extend the credit line granted for the construction of CMS Building by one year. (The act constituted a related party transaction, and for details of due deliberation procedures relating thereto, please refer to the announcement released on 25 August 2017).

The Company is creditworthy. During the Reporting Period, it had repaid all bank loans as they fall due without any extension or reduction of loans

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

During the Reporting Period, the Company was in strict compliance with its commitments and undertakings in respect of corporate bonds under the prospectuses and the proceeds were used in such manner as stated in the prospectuses. The Company strictly performed its obligations of information disclosure and made timely payments of bond interests in order to safeguard the legal interests of investors.

During the Reporting Period, the Company had no defaults on its principal and interest repayments for the issued bonds. The Company had a sound operation and favourable profitability, and hence had not identified any risks which might give rise to its inability to fulfill future payments on time.

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

As at October 31, 2017, the balance of the Company's borrowings amounted to approximately RMB77.779 billion, and of those borrowings RMB22.693 billion was newly-accrued, accounting for 37.88% (exceeding 20%) of the net assets as at the end of last year. The Company made temporary announcements thereon separately and the trustee also issued relevant extraordinary trust reports (see the announcements dated November 8, 2017 and November 13, 2017). As at the end of 2017, the balance of the Company's borrowings amounted to approximately RMB70.295 billion, and of those borrowings RMB15.209 billion was newly-accrued, accounting for 25.38% (exceeding 20%) of the net assets as at the end of last year. The newly-accrued borrowings mentioned above were incurred in the ordinary course of business to meet the need of operation and business development of the Company. The Company had stable business operations, good profitability, and it had paid principals and interests concerning all of its debts as scheduled. The said matters of newly-accrued borrowings will not exert adverse effect on the operation and payment ability of the Company.

Save as described above, during the Reporting Period, the material incidents stated in Clause 45 of the Administrative Measures for the Issuance and Trading of Corporate Bonds (《公司債券發行與交易管理辦法》) had not occurred, and the Company had favourable business operations, strong overall payment ability and low financial risks.

Chapter 10: Financial Report

INDEPENDENT AUDITOR'S REPORT

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

招商證券股份有限公司

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

Opinion

We have audited the consolidated financial statements of China Merchants Securities Co., Ltd. and its subsidiaries ("the Group") set out on pages 218 to 353, which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 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") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ("the Code") and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Chapter 10: Financial Report

Key Audit Matters

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

The key audit matter	How the matter was addressed in our audit
Valuation of financial instruments held at fair value classified under level 2 and level 3 of fair value hierarchy	
Refer to summary of significant accounting policies in note 3 and the disclosures note 65 to the consolidated financial statements.	
<p>As at December 31, 2017, the Group's financial assets and financial liabilities totalled RMB107,367,278 thousand and RMB7,077,419 thousand respectively. Financial assets of RMB71,806,886 thousand and financial liabilities of RMB2,898,064 thousand were classified as level 2 and financial assets of RMB2,729,994 thousand were classified as level 3.</p> <p>The valuation of the Group's financial instruments is based on a combination of market data and valuation models which often require a considerable number of observable and/or unobservable inputs. The accuracy of inputs required management estimation and the application of valuation methodology and models also involved significant management judgement.</p> <p>We identified assessing the fair value of financial instruments as a key audit matter due to the degree of complexity involved in valuing certain financial instruments and because of the significant degree of judgement exercised by management in determining the inputs used in the valuation models.</p>	<p>Our procedures in relation to assessing the fair value of financial instruments:</p> <p>We assessed the internal control policy over the valuation of financial instruments adopted by the management and evaluate its reasonableness and effectiveness.</p> <p>We evaluated the reasonableness of valuation methodology and models applied in various types of valuation techniques in the financial instruments on sample basis; we also evaluated on a sample basis the reasonableness and appropriateness of the unobservable and observable inputs used for measuring the fair value of level 3 fair value hierarchy with reference to relevant market data.</p> <p>We assessed the relevant current market data regularly to ensure the observable market inputs are reflected in the valuation techniques adopted by the management at measurement date.</p> <p>We assessed the fair value quoted from the individual third party pricing service agents (such as brokers, market makers, etc) on the relevant financial assets and financial liabilities, and considering the relevant market situation, the existence of active market, sufficient and continuous quotations from the participants as well as the leadership of pricing services agency in the market. We also independently perform confirmation procedures on a sample basis.</p> <p>We reperformed the calculation on the financial instruments valuation on a sample basis to ensure the accuracy.</p>

Chapter 10: Financial Report

Key Audit Matters (Continued)

The key audit matter	How the matter was addressed in our audit
<p>Impairment of advance to customers and financial assets held under resale agreements</p>	
<p>Refer to summary of significant accounting policies in note 3 and the disclosures notes 26 and 29 to the consolidated financial statements.</p>	
<p>As at December 31, 2017, the Group has advance to customers amounted to approximately RMB59,235,426 thousand and the securities-backed lending included in the financial assets held under resale agreements amounted to approximately RMB30,555,637 thousand, the total balance was approximately RMB89,791,063 thousand, it represented 31.43% of total assets value of the Group.</p> <p>Provision for impairment is calculated on a collective basis for portfolios of financial assets with similar characteristics and on an individual basis for significant balances of financial assets. The management reviews the individually significant financial assets for indication of impairment at the end of reporting period. Financial assets that are not to be impaired individually are reviewed at the end of the reporting period on a collective basis.</p> <p>The audit was focused on loan impairment allowances due to the materiality of the balances and the calculations are inherently subject to significant judgement of management.</p>	<p>Our procedures in relation to management's impairment assessment on advance to customers and financial assets held under repurchase agreements included:</p> <p>We evaluated the design and implementation, and tested the operating effectiveness of controls over the individual and collective impairment assessment, including the impairment methodology, source of inputs and the results approval. We also re-performed management's calculation and reviewed the work performed by the relevant personnel.</p> <p>For the assessment on a collective basis, we examined the appropriateness and consistency of the policies and methodology adopted, the reasonableness of credit loss ratio used in the model; and re-performed the calculation in accordance with the methodology. If there is a change in the collective assessment policies during the reporting period, we assess whether the extent of the impact had been properly authorised.</p> <p>For individual impairment assessment, we obtained the management's assessment documentations and the counterparty's information. We examined the use of the relevant parameters in the individual identification, the value of collateral and the customers' past repayment history, and evaluated the reasonableness of the judgement made by the management.</p> <p>We obtained the list of collateral with consideration on the existence of concentration of collateral, investigate for the unfavorable factors, including the existence of significant negative information, prolong suspension, stock pricing fluctuation, etc, to assess the extent and likelihood of credit loss caused by individual stock factor.</p>

Chapter 10: Financial Report

Key Audit Matters (Continued)

The key audit matter	How the matter was addressed in our audit
Determination of consolidated structured entities	
Refer to summary of significant accounting policies in note 3 and the disclosures note 21 and 23 to the consolidated financial statements.	
<p>The Group set up various structured entities including collective asset management schemes, limited partnerships and investment funds where the Group acts as manager for or held interests in these structured entities.</p> <p>As at December 31, 2017, the total assets value of consolidated structured entities amounted to approximately RMB5,497,332 thousand. The Group considered whether the combination of the interest and power it held together with its remuneration and credit enhancements created exposure to variability of returns from the activities of these structured entities that are of such significance that it indicated that the Group was a principal and therefore should consolidate these structured entities.</p> <p>We identified determination of consolidation scope as a key audit matter due to the key judgement exercised by the management of the Group in assessing and concluding whether the Group, as an investor, controlled the structured entities.</p>	<p>Our procedures in relation to management's determination of consolidation scope included:</p> <p>We had obtained the understanding on the Group's assessment of its controls over their investees and determining consolidation scope of structured entities; and; the financial reporting process for the consolidation of these structured entities. We performed internal control testing on this business process.</p> <p>We had obtained the related contracts of collective asset management schemes, limited partnerships and investment funds, analysed the Group's extent of power and responsibilities; and checked the remuneration and exposures or rights to variable returns in these structured entities.</p> <p>We had assessed the adequacy of disclosures being made in the consolidated financial statements required under applicable accounting standards for those consolidated or unconsolidated structured entities.</p>

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Chapter 10: Financial Report

Responsibilities of Directors of the Company 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 issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors of the Company 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.
- Conclude on the appropriateness of the Company's 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.

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Chan Wing Kit.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Chan Wing Kit

Practising Certificate Number: P03224

Hong Kong

March 27, 2018

Consolidated Statement of Profit or Loss

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2017	2016
Revenues			
Fee and commission income	6	9,750,400	10,302,652
Interest income	7	6,718,349	6,470,406
Net investment gains	8	2,876,948	1,394,933
Total revenues		19,345,697	18,167,991
Other income and gains or losses, net	9	(86,811)	383,727
Total revenues and other income		19,258,886	18,551,718
Depreciation and amortization	10	(198,526)	(161,690)
Staff costs	11	(4,392,001)	(3,296,948)
Fee and commission expenses	12	(1,813,267)	(1,829,189)
Interest expenses	13	(4,921,863)	(5,575,103)
Tax and surcharges		(96,490)	(412,338)
Other operating expenses	14	(1,535,019)	(1,386,631)
Impairment losses, net	15	(40,653)	(66,222)
Total expenses		(12,997,819)	(12,728,121)
Share of profits of associates		845,489	629,323
Profit before income tax		7,106,556	6,452,920
Income tax expenses	16	(1,301,847)	(1,035,838)
Profit for the year		5,804,709	5,417,082
Attributable to:			
Owners of the Company		5,785,956	5,403,451
Non-controlling interests		18,753	13,631
		5,804,709	5,417,082
Earnings per share attributable to owners of the Company (Expressed in RMB per share)	17		
— Basic and diluted		0.78	0.91

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2017	2016
Profit for the year		5,804,709	5,417,082
Other comprehensive income (expense):			
Items that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets			
Net fair value changes during the year		972,730	(494,632)
Reclassification adjustment to profit or loss		(96,636)	(566,505)
Income tax impact		(228,096)	278,111
Subtotal		647,998	(783,026)
Share of other comprehensive (expense)income of associates		(4,899)	4,965
Exchange differences arising from foreign currency translation		(166,858)	157,555
Other comprehensive income (expense) for the year, net of tax		476,241	(620,506)
Total comprehensive income for the year		6,280,950	4,796,576
Total comprehensive income for the year attributable to:			
Owners of the Company		6,262,197	4,782,945
Non-controlling interests		18,753	13,631
		6,280,950	4,796,576

Consolidated Statement of Financial Position

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2017	2016
Non-current assets			
Property and equipment	18	1,832,087	1,779,170
Goodwill	19	9,671	9,671
Other intangible assets	20	21,579	23,429
Interests in associates	22	7,489,497	5,288,506
Available-for-sale financial assets	24	7,793,163	8,809,469
Financial assets held under resale agreements	26	8,801,458	6,462,211
Deferred tax assets	27	903,214	1,207,996
Other non-current assets	28	197,917	195,050
Total non-current assets		27,048,586	23,775,502
Current assets			
Advances to customers	29	59,235,426	53,351,538
Accounts and other receivables	30	4,081,875	6,827,360
Current tax assets		429,403	425,412
Available-for-sale financial assets	24	25,482,190	15,912,717
Loan receivables	25	84,621	64,725
Financial assets held under resale agreements	26	27,297,865	12,490,932
Financial assets at fair value through profit or loss	31	73,070,285	48,244,455
Derivative financial assets	32	1,021,640	1,109,613
Deposits in exchanges and non-bank financial institutions	33	1,224,478	540,442
Clearing settlement funds	34	14,010,491	19,043,469
Cash and bank balances	35	52,656,695	61,272,263
Total current assets		258,594,969	219,282,926
Total assets		285,643,555	243,058,428
Current liabilities			
Short-term borrowings	37	6,611,444	3,251,970
Short-term debt instruments	38	47,045,670	21,782,330
Borrowings from other financial institutions	39	1,470,000	1,500,000
Accounts payable to brokerage clients	40	51,095,335	67,581,720
Accrued staff costs	41	4,640,605	4,707,662
Other payables and accrued charges	42	5,022,544	6,719,125
Provision	43	—	—
Current tax liabilities		141,817	72,739
Financial liabilities at fair value through profit or loss	44	5,492,509	4,439,956
Derivative financial liabilities	32	1,584,910	1,842,803
Financial assets sold under repurchase agreements	45	33,382,970	19,398,988
Long-term borrowings due within one year	51	378,134	368,596
Bonds payable due within one year	53	19,499,911	5,000,000
Total current liabilities		176,365,849	136,665,889
Net current assets		82,229,120	82,617,037
Total assets less current liabilities		109,277,706	106,392,539

Consolidated Statement of Financial Position

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2017	2016
Equity			
Share capital	46	6,699,409	6,699,409
Capital reserve		27,533,939	27,533,939
Other equity instruments	47	15,000,000	—
Investment revaluation reserve	48	327,404	(315,695)
Foreign currency translation reserve		(114,737)	52,121
General reserves	49	12,790,340	11,498,783
Retained profits		16,993,794	14,357,780
Equity attributable to owners of the Company		79,230,149	59,826,337
Non-controlling interests		103,555	88,702
Total equity		79,333,704	59,915,039
Non-current liabilities			
Accrued staff costs	41	787,540	787,540
Deferred tax liabilities	27	235,002	98,754
Deferred income	50	126,000	126,000
Bonds payable	54	27,729,674	45,465,206
Long-term borrowings	52	1,065,786	—
Total non-current liabilities		29,944,002	46,477,500
Total equity and non-current liabilities		109,277,706	106,392,539

The consolidated financial statements on pages 218 to 353 were approved and authorised for issuance by the board of directors on March 27, 2018 and are signed on its behalf by:

HUO DA
Executive Director

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

Consolidated Statement of Changes in Equity

For the year ended December 31, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Equity attributable to owners of the Company								Non-controlling interests	Total
	Share capital	Capital reserve	Other equity instruments	Investment revaluation reserve	Foreign currency translation reserve	General reserves	Retained profits	Subtotal		
	(Note 46)			(Note 48)		(Note 49)				
At January 1, 2016	5,808,136	19,403,877	—	462,366	(105,434)	10,117,807	12,664,367	48,351,119	80,671	48,431,790
Profit for the year	—	—	—	—	—	—	5,403,451	5,403,451	13,631	5,417,082
Other comprehensive (expense) income for the year	—	—	—	(778,061)	157,555	—	—	(620,506)	—	(620,506)
Total comprehensive (expense) income for the year	—	—	—	(778,061)	157,555	—	5,403,451	4,782,945	13,631	4,796,576
Issuance of shares (note 46)	891,273	8,317,047	—	—	—	—	—	9,208,320	—	9,208,320
Transaction costs attributable to issuance of shares	—	(186,985)	—	—	—	—	—	(186,985)	—	(186,985)
Appropriation to general reserve	—	—	—	—	—	1,380,976	(1,380,976)	—	—	—
Dividends recognised as distribution (note 55)	—	—	—	—	—	—	(2,329,062)	(2,329,062)	(5,600)	(2,334,662)
At December 31, 2016	6,699,409	27,533,939	—	(315,695)	52,121	11,498,783	14,357,780	59,826,337	88,702	59,915,039

	Equity attributable to owners of the Company								Non-controlling interests	Total
	Share capital	Capital reserve	Other equity instruments	Investment revaluation reserve	Translation reserve	General reserves	Retained profits	Subtotal		
	(Note 46)			(Note 48)		(Note 49)				
At January 1, 2017	6,699,409	27,533,939	—	(315,695)	52,121	11,498,783	14,357,780	59,826,337	88,702	59,915,039
Profit for the year	—	—	—	—	—	—	5,785,956	5,785,956	18,753	5,804,709
Other comprehensive income (expense) for the year	—	—	—	643,099	(166,858)	—	—	476,241	—	476,241
Total comprehensive income (expense) for the year	—	—	—	643,099	(166,858)	—	5,785,956	6,262,197	18,753	6,280,950
Issuance of Perpetual bond (note 47)	—	—	15,000,000	—	—	—	—	15,000,000	—	15,000,000
Capital injected by non-controlling shareholders	—	—	—	—	—	—	—	—	4,500	4,500
Appropriation to general reserve	—	—	—	—	—	1,291,557	(1,291,557)	—	—	—
Distribution to holders of other equity instruments (note 55)	—	—	—	—	—	—	(592,196)	(592,196)	—	(592,196)
Dividends recognised as distribution (note 55)	—	—	—	—	—	—	(1,266,189)	(1,266,189)	(8,400)	(1,274,589)
At December 31, 2017	6,699,409	27,533,939	15,000,000	327,404	(114,737)	12,790,340	16,993,794	79,230,149	103,555	79,333,704

Consolidated Statement of Cash Flows

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2017	2016
OPERATING ACTIVITIES			
Profit before income tax		7,106,556	6,452,920
Adjustments for:			
Interest expenses		4,921,863	5,575,103
Share of results of associates		(845,489)	(629,323)
Depreciation and amortization		198,526	161,690
Impairment losses, net		40,653	66,222
Losses on disposal of property and equipment, other intangible assets and other non-current assets, net		1,179	1,623
Foreign exchange losses (gains), net		150,379	(258,692)
Net realised losses (gains) from disposal of available-for-sale financial assets		164,280	(297,664)
Dividend income and interest income from available-for-sale financial assets		(837,856)	(900,932)
Unrealised fair value changes in financial instruments at fair value through profit or loss		(906,909)	2,372,721
Unrealised fair value change in derivatives financial instruments		(103,074)	(776,700)
Operating cash flows before movements in working capital		9,890,108	11,766,968
(Decrease) increase in advances to customers		(5,855,558)	11,157,105
Decrease (increase) in other current assets		1,699,430	(330,047)
Increase in interest receivables		(632,890)	(373,310)
Increase in financial assets held under resale agreements		(17,199,147)	(4,603,272)
(Decrease) increase in financial instruments at fair value through profit or loss, net		(22,834,706)	14,663,259
(Decrease) increase in deposit in exchanges and non-bank financial institutions		(684,036)	317,000
Decrease (increase) in clearing settlement funds		7,441,876	(593,761)
Decrease in cash held on behalf of customers		7,800,924	22,089,279
Decrease in accounts payable to brokerage clients		(16,486,385)	(21,167,323)
Decrease in accrued staff costs		(67,057)	(2,417,549)
Decrease in other current liabilities		(1,533,764)	(2,538,563)
Increase (decrease) in financial assets sold under repurchase agreements		13,983,982	(23,554,039)
Decrease in borrowing from other financial institutions		(30,000)	(2,500,000)
Decrease in provisions		—	(96)
Cash (used in) from operation		(24,507,223)	1,915,651
Income taxes paid		(1,023,728)	(2,462,089)
Interest paid		(1,780,344)	(1,902,487)
NET CASH USED IN OPERATING ACTIVITIES		(27,311,295)	(2,448,925)

Consolidated Statement of Cash Flows

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	2017	2016
INVESTING ACTIVITIES			
Dividends and interest received from investments		931,156	984,224
Purchase of property and equipment, other intangible assets and other non-current assets		(268,917)	(436,808)
Proceeds from disposal of property and equipment, other intangible assets and other non-current assets		1,513	319
Capital injection/Deposit for acquisition of interest in an associate		(495,000)	(945,405)
(Purchase of) proceeds on disposal (purchase of) available-for-sale financial assets, net		(7,800,455)	10,167,477
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(7,631,703)	9,769,807
FINANCING ACTIVITIES			
Dividends paid to shareholders		(1,274,589)	(2,329,062)
Repayment of bonds and short-term debt instruments interest		(3,760,877)	(4,185,250)
Repayment of borrowings interest		(113,630)	(94,680)
Repayment of bonds and short-term debt instruments		(70,826,240)	(29,734,327)
Proceeds from issuance of perpetual bond		15,000,000	—
Capital injection from non-controlling shareholders, net		4,500	—
Proceeds from issuance of H shares		—	9,208,320
Proceeds from bonds and short-term debt instruments		92,849,580	20,995,710
Proceeds from borrowings		3,697,736	—
Proceeds from long-term borrowings		1,112,681	8,402
Other financing activities payments		(29,430)	(150,864)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		36,659,731	(6,281,751)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,716,733	1,039,131
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		12,325,818	10,554,561
Effect of foreign exchange rate changes		(670,864)	732,126
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	36	13,371,687	12,325,818

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

1 CORPORATE INFORMATION

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

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

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

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

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

As at December 31, 2017, the Company’s registered capital was RMB6,699,409,329 and the Company has a total of 6,699,409,329 issued shares of RMB1 each.

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

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

In the current year, the Group has applied the following new and revised IFRSs issued by the International Accounting Standard Board (“IASB”).

Amendments to IFRS 12	Annual Improvements to IFRSs 2014-2016 Cycle
Amendment to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

The application of the new and revised IFRSs in current year has had no material impact on the Group’s financial performance and position for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised IFRSs issued but not yet effective

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

IFRS 9 (2014)	Financial Instruments ¹
IFRS 15	Revenue from Contracts with Customers ¹
IFRS 16	Leases ³
IFRS 17	Insurance Contracts ⁴
Amendments to IAS 28	Annual Improvements to IFRSs 2014 — 2016 Cycle ¹
Amendments to IFRS 2	Classification and Measurement of Share-based Payments Transactions ¹
Amendments to IAS 28	Investments in Associates and Joint Ventures ³
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts ¹
Amendments to IFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to IFRS 10 and IAS 28	Sale and Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendment to IAS 40	Transfers of Investment Property ¹
IFRIC-Int 22	Foreign Currency Transactions and Advance Consideration ¹
IFRIC-Int 23	Uncertainty over Income Tax Treatments ³
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle ³

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

² Effective date not yet been determined.

³ Effective for annual periods beginning on or after 1 January, 2019.

⁴ Effective for annual periods beginning on or after 1 January, 2021.

The directors of the Company anticipate that the application of other new and revised IFRSs, except as described below, will have no material impact on the results and the consolidated financial statement of the Group.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

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

New and revised IFRSs issued but not yet effective (Continued)

IFRS 9 (2014) Financial instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9 that are relevant to the Group are:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.
- In the aspect of impairment assessments, the impairment requirements relating to the accounting for an entity’s expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 9 it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

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

New and revised IFRSs issued but not yet effective (Continued)

IFRS 9 (2014) Financial instruments (Continued)

- IFRS 9 introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, IFRS 9 looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under IAS 39, it is necessary to exhibit eligibility and compliance with the requirements in IAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for IAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

IFRS 9 (2014) will become effective for annual periods beginning on or after January 1, 2018 with early application permitted.

The directors of the Company have performed a preliminary analysis of the Group’s financial instruments as at 31 December 2017 based on the fact and circumstances existing at that date. The directors of the Company have assessed the impact of adoption of IFRS 9 (2014) on the Group’s results and financial position, including the classification categories and the measurement of financial assets, and disclosures, as follows:

(a) Classification and measurement

The directors of the Company expect to continue recognising initially at fair value for all financial assets which are subsequently measured at amortised costs. The Group’s available-for-sale equity instrument investments will either be measured as fair value through profit or loss or be designated with irrevocable election to present in other comprehensive income the changes in fair value.

(b) Impairment

The application of the expected credit loss model may result in earlier recognition of credit losses for the financial assets classified as loan and receivables and increase the amount of impairment allowance recognised for these items.

The Group adopted the IFRS 9 (2014) as at January 1, 2018, based on the assessment, upon the adoption of the new classification and measurement basis and expected credit loss model mentioned above, it do not have material impact to the Group’s consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

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

New and revised IFRSs issued but not yet effective (Continued)

IFRS 15 Revenue from contracts with customers

IFRS 15 issued in May 2014 established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction contracts and IFRIC 13 Customer Loyalty Programs when it becomes effective. It also includes guidance on when to capitalise costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosed requirements.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective.

IFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The major sources of revenues of the Group are commission from dealing in securities and futures contracts, interest income from client, placing and underwriting commission, financial advisory income and assets management fee income. Under IFRS 15, revenue is recognised for each of the performance obligations when control over a good or service is transferred to a customer. The directors of the Company have preliminarily assessed each type of the performance obligations and consider that the performance obligations are similar to the current identification of separate revenue components under IAS 18 Revenue. Furthermore, IFRS 15 requires the transaction price to be allocated to each performance obligation on a relative stand-alone selling price basis, which may affect the timing and amounts of revenue recognition, and results in more disclosures in the consolidated financial statements. However, the directors of the Company expect that the adoption of IFRS 15 will not have a material impact on the timing and amounts of revenue recognised based on the existing business model of the Group as at December 31, 2017.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

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

New and revised IFRSs issued but not yet effective (Continued)

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date. Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 will supersede the current lease standards including IAS 17 Leases and the related Interpretations when it becomes effective.

IFRS 16 will be effective for annual periods beginning on or after January 1, 2019 with early application permitted provided that the entity has applied IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

As at December 31, 2017, the Group has non-cancellable operating lease commitments of approximately RMB947,394 thousand as disclosed in note 58. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these lease unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detailed review.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
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3 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the following accounting policies which conform with IFRSs. In addition, the consolidated financial statement includes applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved where the Company: (a) has power over the investee; (b) is exposed, or has rights, to variable returns from its involvement with the investee; and (c) has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Investments in subsidiaries are stated at cost less accumulated impairment loss, if any, in the Group's statement of financial position. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or losses from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interest in subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them) and (ii) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost. When assets and liabilities of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets and liabilities. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate.

Structured entities

The Group served as the manager of collective asset management schemes and funds. These collective asset management schemes and funds invest mainly in equities, debt securities, cash and cash equivalents and securities-backed lending under resale agreement. The Group's percentage ownership in these structured entities can fluctuate from day to day according to the Group's and third-party participation in them. Where the Group is deemed to control such collective asset management schemes and funds, with control determined based on an analysis of the guidance in IFRS 10 Consolidated financial statements, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the relevant group entity as an issuer to repurchase or redeem units in such collective asset management schemes and funds for cash. These are presented as "Third-party interests in consolidated collective asset management schemes" within other liabilities or "Financial liabilities at fair value through profit or loss" in the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- (1) deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income taxes and IAS 19 Employee benefits respectively;
- (2) liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based payment at the acquisition date; and
- (3) assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current assets held for sale and discontinued operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less accumulated impairment losses, if any.

Foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the dates of the transactions.

A spot exchange rate is an exchange rate quoted by the "People's Bank of China", the State Administrative of Foreign Exchange or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is a rate determined under a systematic and rational method, normally the average exchange rate of the current period.

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of the year. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the resulting exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale financial assets, which are recognised as other comprehensive income in capital reserve.

The assets and liabilities of foreign operation are translated to RMB at the spot exchange rate at the end of reporting period. The equity items, excluding "retained earnings", are translated to RMB at the spot exchange rates at the transaction dates. The income and expenses of foreign operation are translated to RMB at the rates that approximate the spot exchange rates. The resulting translation differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. Upon disposal of a foreign operation, the cumulative amount of the translation differences recognised in shareholders' equity which relates to that foreign operation is transferred to profit or loss in the period in which the disposal occurs.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to insignificant risk of change in value.

Goodwill

Goodwill represents the excess of:

- (i) the aggregate of the fair value of the consideration transferred, the amount of any noncontrolling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of associates is described below.

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For the year ended December 31, 2017
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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, unless it is classified as held for sale. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal or partial disposal of the Group's interest in an associate in which the Group lost significant influence and discontinued the use of equity method, any retained interest that is within the scope of IAS 39 is measured at fair value on that date, the difference between the carrying amount of the associate at the date, and the proceeds from disposing of such interest (or partial interest) in the associate and the fair value of the retained interest is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in their comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related asset or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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For the year ended December 31, 2017
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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interests in associates (Continued)

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

When an investment in an associate is held by, or is held indirectly through, a group entity that is a venture capital organization and similar entities, the Group may elect to measure investments in those associates and joint ventures at fair value through profit or loss in accordance with IAS 39 Financial instruments: Recognition and measurement.

In the Company's statement of financial position, investments in associates of the Company are accounted for using the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

Property and equipment and other non-current assets

Property and equipment including buildings and leasehold land (classified as finance leases) and other non-current assets including leasehold improvement and deferred expenses for use in the supply of services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation/amortization and subsequent accumulated impairment losses, if any.

Depreciation/amortization is recognised so as to write off their costs, other than construction in progress, less their residual values over their estimated useful lives, using straight-line method. The estimated useful lives, residual values and depreciation/amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress is carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories when completed and ready for intended use. Depreciation/amortization of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment and other non-current assets is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

If an item of property and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, the cost and accumulated depreciation of that item at the date of transfer are transferred to investment property for subsequent measurement and disclosure purposes.

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment and other non-current assets (Continued)

The estimated residual value rates and useful lives of each class of property and equipment and other non-current assets are as follows:

Classes	Estimated residual value rates	Useful lives
Leasehold land and buildings	5%	30 — 50 years
Motor vehicles	5%	5 years
Electronic and communication equipment	5%	5 years
Office equipment	5%	5 years

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

The estimated residual value rates and useful lives of investment properties are as follows:

Classes	Estimated residual value rates	Useful lives
Buildings	5%	30 — 50 years
Leasehold land	—	Over the term of the lease

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For the year ended December 31, 2017
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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

The estimated useful lives of each class of intangible assets are as follows:

Classes	Useful lives
Trading rights (with finite life)	10 years
Others	5 years

Intangible assets acquired in a business combination

The intangible assets acquired in the business combination shall be separately recognized from the goodwill, and shall be initially recognized based on the fair value at the acquisition date (as the cost of the intangible assets).

After the initial recognition, the intangible assets with limited useful lives obtained in the business combination shall be presented on the same basis as the intangible assets obtained separately, and shall be presented according to the cost minus accumulated amortization and any accumulated impairment losses. Intangible assets with indefinite useful lives obtained in a business combination are stated at cost less any subsequent accumulated impairment losses. (See the accounting policy related to the impairment loss of tangible and intangible assets below).

An intangible asset is derecognized when it is disposed of or it is expected that its use or disposal will no longer generate future economic benefits. The gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss on derecognition of the asset.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment on non-financial assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property and equipment, investment property, intangible assets with finite useful lives, interests in subsidiaries and other non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

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For the year ended December 31, 2017
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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing (Continued)

Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property and equipment and investment properties.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

If the construction of qualifying assets have been suspended under abnormal circumstances, the corresponding capitalization of the borrowing cost should be stopped accordingly.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

Salaries and allowances

Salaries and allowances are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Contributions to retirement benefits scheme

The Group participates in Central Provident Fund (“CPF”) Scheme for its employees in the PRC organised by the municipal governments of the relevant provinces. The Group also participates in the Mandatory Provident Fund Scheme (the “MPF Scheme”) for its employees in Hong Kong under the Mandatory Provident Fund Scheme Ordinance. The Group also sets up annuity scheme for qualified employees. Annuity contributions are accrued based on a certain percentage of the participants’ total salary when employees have rendered service entitling them to the contributions. The contribution is recognised in profit or loss.

Other social welfare

Social welfare expenditure refers to payments for employees’ social welfare system established by the government of the PRC, including social pension insurance, health care insurance, housing funds and other social welfare contributions. The Group contributes on a regular basis to these funds based on certain percentage of the employees’ salaries and the contributions are recognised in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group’s liabilities in respect of these funds are limited to the contribution payable in the reporting period.

Other long-term employee benefits

The Group’s net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in respect of their services in the current and prior periods.

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

(i) Recognition and measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorised as follows:

Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading and those designated as at fair value through profit or loss on initial recognition).

A financial asset or financial liability is classified at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or if it is designated at fair value through profit or loss.

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

- the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;
- the financial assets or financial liabilities contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transaction costs that may occur on sale, and changes therein are recognised in profit or loss excludes any dividend or interest earned on the financial assets and is reported under in the net investment gains line item.

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For the year ended December 31, 2017
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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

(i) *Recognition and measurement of financial assets and financial liabilities (Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses are recognised in profit or loss.

Other fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the investment revaluation reserve within equity. When the investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Other financial liabilities

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

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For the year ended December 31, 2017
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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

(ii) Impairment of financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of the year to determine whether there is objective evidence of impairment. If any such evidence exists, impairment losses are provided and recognised in profit or loss of the current period. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial assets and have impact on the estimated future cash flows of the asset, which can be estimated reliably.

Objective evidence that financial assets are impaired includes, but not limited to: significant financial difficulty of the borrower or issuer; a breach of contract by the borrower, such as a default or delinquency in interest or principal payments; it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; disappearance of an active market for financial assets because of financial difficulties of the issuer; significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower; and a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

When accessing the impairment to financial assets on a collective basis, the Group is based on same assets or assets with similar credit risk characteristics and in accordance to the terms of the agreements, to use as an indicator to categories the assets by reflect the debtors' repayment ability when the debt is mature.

Advances to customers, accounts receivable and loan receivables

The Group reviews its advances to customers, accounts receivable and loan receivables to assess impairment on a periodic basis. When there is objective evidence of impairment loss for advance to customers, accounts receivable and loan receivables, the Group takes into consideration the estimation of future cash flows. Specifically, the Group reviews the value of the securities collateral received from the customers firstly on an individual basis, then on a collective basis in determining the impairment.

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For the year ended December 31, 2017
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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

(ii) Impairment of financial assets (Continued)

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in other comprehensive income to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost net of any principal repayment and amortization and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

For the available-for-sale equity investment, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. A significant or prolonged decline in the fair value of an equity investment is an indicator of impairment in such investments where a decline in the fair value of equity investment below its initial cost by 50% or more; or fair value below cost for one year or longer, upon which impairment loss is recognised. The impairment of the available-for-sale equity investment was with reference to the common industry practice, provision for impairment is determined by industry standard, upon which circumstances an impairment loss is recognised.

If, in a subsequent period, the fair value of an impaired available-for-sale debt investments increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity investment is recognised in other comprehensive income.

For investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss. Any impairment loss in respect of available-for-sale equity investments carried at cost should not be reversed.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

(iii) Derecognition of financial assets and financial liabilities

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or
- the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability.

The difference between the carrying amount of the derecognised financial asset/(liability) and the consideration received and receivable paid and payables are recognised in profit or loss and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in investments revaluation reserve is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realizing the asset and settling the liability simultaneously.

(v) Equity instruments

An equity instrument is a contract that proves the ownership interest of the residual assets after deducting all liabilities of the Group. Considerations received from issuance of equity instruments net of transaction costs are recognised in equity. Considerations and transaction costs paid by the Group for repurchasing its own equity instruments are deducted from equity.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

(vi) Perpetual capital instruments

Perpetual capital instruments with no contracted obligation to repay its principal or to pay any distribution are classified as part of equity.

(vii) Derivative financial instruments

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments other than those designed as hedge instrument are recognised in profit or loss.

Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate.

All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative embedded in non-derivative host contracts are treated as separate derivative when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss.

(viii) Financial assets held under resale and sold under repurchase agreements

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the consolidated statement of financial position. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

(ix) Margin financing and securities lending

Margin financing and securities lending refer to the lending of funds by the Group to customers for purchase of securities, or lending of securities by the Group to customers for securities selling, for which the customers provide the Group with collateral.

The Group recognises margin financing receivables as loans and receivables, and recognises interest income using effective interest rate method. Securities lent are not derecognised when the risk and rewards are not transferred, and interest income is recognised using effective interest rate method.

Securities trading on behalf of margin financing or securities lending customers are accounted for as securities brokerage business.

(x) Fair value measurement

When measuring fair value except for the Group's value in use of goodwill and interests in associates for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In estimating the fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

If there is an active market for a financial asset or financial liability, the quoted market price without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, the quoted price is the current asking price. Quoted prices from an active market are prices that are readily and regularly available from an exchange, dealer, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

(x) Fair value measurement (Continued)

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the year. Where other pricing models are used, inputs are based on market data at the end of the year.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents the amounts receivable for services provided in the normal course of business. Revenue is recognised when it is probable that the economic benefits will flow to the Group and when revenue can be measured reliably, on the following basis:

- i. Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Handling and settlement fee income arising from brokerage business is recognised when the related services are rendered;
- ii. Underwriting and sponsors fees are recognised as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed;
- iii. Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a timely basis using the effective interest method, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition;
- iv. Consultancy and financial advisory fee income is recognised when the relevant transactions have been arranged or the relevant services have been rendered;
- v. Asset and fund management fee income is recognised when the services are provided and the Group is entitled to receive the income under the asset management agreement;
- vi. Net Investment Gains
 - Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably);
 - Net realised gains or losses from disposal of available-for-sale financial assets, financial assets at fair value through profit or loss, financial liabilities at fair value through profit or loss and derivative financial instruments is recognised when the Group meets the relevant derecognition criteria. The difference between the carrying amount of the derecognised financial asset (liability) and the consideration received and receivable (paid or payable) is recognised in profit or loss, and any corresponding cumulative gain or loss that had been recognised in other comprehensive income and accumulated in investments revaluation reserve is recognised in profit or loss;
 - Unrealised fair value change of financial assets at fair value through profit or loss, financial liabilities at fair value through profit or loss and derivative financial instruments represented the change in the fair values subsequent to the initial recognition and recognised in profit or loss; and
- vii. Other income is recognised on an accrual basis.

Notes to the Consolidated Financial Statements

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provision

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and the amount of the obligation can be reliably measured.

The amount recognised as provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organization, management requirements and internal reporting system. Each of the Group's operating segments represents a strategic business unit that offers services which are subject to risks and returns that are different from the other operating segments.

Two or more operating segments may be aggregated into a single operating segment if the segments have same or similar economic characteristics and are similar in respect of the nature of each products and service, the nature of production processes, the type or class of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Financial performance is regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance, and for which consolidated financial statements regarding financial position, financial performance and cash flows is available.

Intersegment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

Notes to the Consolidated Financial Statements

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3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group include, but are not limited to:

- the Company's parent;
- the Company's subsidiaries;
- enterprises that are controlled by the Company's parent;
- investors that have joint control or exercise significant influence over the Group;
- enterprises or individuals if a party has control or joint control over both the enterprises or individuals and the Group;
- joint ventures of the Group, including subsidiaries of joint ventures;
- associates of the Group, including subsidiaries of associates;
- principal individual investors of the Group and close family members of such individuals;
- key management personnel of the Group and close family members of such individuals;
- key management personnel of the Company's parent;
- close family members of key management personnel of the Company's parent;
- other enterprises that are controlled or jointly controlled by the principal individual investors, key management personnel of the Group, and close family members of such individuals; and
- a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years.

Fair value of financial instruments

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques include the use of recent transaction prices of the same or similar instruments, discounted cash flow analysis and option pricing models. To the extent practical market observable inputs and data, such as interest rate yield curves, foreign currency rates and implied option volatilities, are used when estimating fair value through a valuation technique. Where market observable inputs are not available, they are estimated using assumptions that are calibrated as closely as possible to market observable data. However, areas such as the credit risk of the Group and the counterparty, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the estimated fair value of financial instruments. Details are set out in note 65.

Impairment of advances to customers, financial assets held under resale agreements and receivables

The Group reviews its advances to customers, financial assets held under resale agreements and receivables to assess impairment on a periodic basis. In determining whether an impairment loss should be recognised in profit or loss, the Group assesses the balances of advances to customers and receivables by reviewing the customer credit status, mortgage securities, guarantee rate, solvency, willingness and other factors to make judgments when recognising impairment loss. When there is objective evidence of impairment loss for advance to customers and receivables, the Group takes into consideration the estimation of future cash flows. Specifically, the Group reviews the value of the securities collateral received from the customers firstly on an individual basis, then on a collective basis in determining the impairment.

The policy for impairment allowances for advances to customers, financial assets held under resale agreements and receivables of the Group is based on the evaluation of probability of default, loss given default and exposure at default of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realization of these financial assets, including the current creditworthiness, and the past collection history of each loan.

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4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Impairment of advances to customers, financial assets held under resale agreements and receivables (Continued)

The amount of the impairment loss for receivables is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

The methodology and assumptions used for estimating impairment loss are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Details are set out in notes 25, 26, 29, 30.

Impairment of available-for-sale financial assets

The determination of whether available-for-sale financial assets are impaired requires significant judgment. For listed available-for-sale equity investments, funds and collective asset management schemes, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. In assessing whether it is prolonged, the decline is evaluated against the period in which the fair value of the asset has been below its original cost. In assessing whether it is significant, the decline in fair value is evaluated against the original cost of the asset at initial recognition. The Group also takes into account other factors, such as the historical data on market volatility and the price of the specific investment, significant changes in technology, markets, economies or the law, as well as industry and sector performance and the financial information regarding the investee that provide evidence that the cost of the equity securities may not be recoverable. For available-for-sale debt instruments, trust investment, wealth management and targeted management products, the Group makes the judgments as to whether there is an objective evidence of impairment which indicates a measurable decrease in the estimated future cash flows of these debt instruments. This requires a significant level of management judgment which would affect the amount of impairment losses in profit or loss. Details are set out in note 24.

Impairment of non-financial assets

Non-financial assets including goodwill and interests in associates are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgments are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption. Details are disclosed in notes 19 and 22.

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4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty (Continued)

Income taxes and deferred tax assets

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

The realization of a deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future.

In cases where it becomes probable that sufficient profits or taxable temporary differences are expected to be generated, deferred tax assets would be recognised in profit or loss in that period. On the contrary, if sufficient profits or taxable temporary differences are not expected to be generated, deferred tax assets would be reversed in profit or loss in that period. Details of the tax losses and deductible temporary differences are disclosed in note 27 to consolidated financial statements. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

Critical judgments in applying accounting policies

The followings are the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control sets out the following three elements of control: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor's returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For collective asset management schemes, investment funds and limited partnership where the Group involves as manager and also as investor, the Group assesses whether the combination of investments it holds together with its remuneration and credit enhancement creates exposure to variability of returns from the activities of the collective asset management schemes, investment funds and limited partnership that is of such significance that it indicates that the Group is a principal. The collective asset management schemes, investment funds and limited partnership are consolidated if the Group acts in the role of principal.

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5 TAXATION

The Group's main applicable taxes and tax rates are as follows:

Tax type	Tax basis	Tax rate
Enterprise income tax	Based on taxable profits	15%, 16.5%, 25%
Business tax	Based on taxable revenue	5%
Value added tax	Based on taxable revenue	6%
City maintenance and construction tax	Based on business tax and value added tax accrued	7%
Education surcharge	Based on business tax and value added tax accrued	2% — 3%

Under the Law of the PRC on EIT and implementation regulation of the EIT Law, the tax rate of the Company and its subsidiaries established in the PRC is 25% during the year, except for as mentioned below.

Upon the approval of the *Regulation on the EIT Preferential Policies for the Development of Western China by Ganzhou City (Trial)* (「贛州市執行西部大開發企業所得稅優惠政策管理辦法(試行)」), from January 1, 2012 to December 31, 2020, the Company is subject to a tax rate of 15%. The subsidiaries of the Group incorporated in Ganzhou namely, Jiangxi Zhaolian Investment Management Co., Ltd., Ganzhou China Merchants Zhiyuan No. 1 Fund Management Co., Ltd., Jiangxi Zhiyuan Development Investment Management Co., Ltd. and Ganzhou Zhaoyuan Investment Management Co., Ltd., are subject to the above preferential tax rate of 15% from January 1, 2012 to December 31, 2020.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year. Tax arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

According to the Ministry of Finance, State Administration of Taxation issued "On the comprehensive business tax reform VAT pilot pushed notice" requirement (Cai Shui [2016] 36), from May 1, 2016, the nationwide fully open business tax levy value-added tax (hereinafter referred to as "camp changed by") pilot, in which the taxpayers of financial industry has also been included in the scope of the pilot. From May 1, 2016, the Group's implemented this regulation, by the payment of business tax as VAT.

6 FEE AND COMMISSION INCOME

	2017	2016
Securities and futures brokerage business	5,412,952	6,199,858
Underwriting and sponsorship business	2,105,474	2,111,569
Asset management and fund management business	1,172,106	1,172,949
Financial advisory business	489,306	355,342
Others ⁽¹⁾	570,562	462,934
	9,750,400	10,302,652

(1) Others mainly comprise of custodian fee income and consultancy fee income received or receivable by the Group.

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7 INTEREST INCOME

Interest income, other than the net investment gains disclosed in note 8, is as follows:

	2017	2016
Interest income from deposits with exchanges and financial institutions	1,440,688	1,611,984
Interest income from advances to customers and securities lending	3,977,022	4,004,796
Interest income from securities-backed lending and stock repurchase agreement	1,241,576	828,876
Interest income from financial assets held under resale agreements	59,063	12,641
Interest income on leverages financing	—	12,109
	6,718,349	6,470,406

8 NET INVESTMENT GAINS

	2017	2016
Net realised (losses) gains from disposal of available-for-sale financial assets	(164,280)	297,664
Dividend and interest income from available-for-sale financial assets	837,856	900,932
Dividend and interest income from financial assets at fair value through profit or loss	2,328,083	2,824,453
Net realised losses from disposal of financial assets at fair value through profit or loss	(855,618)	(923,709)
Net realised (losses)/gains from disposal of financial liabilities at fair value through profit or loss	(17,417)	188,864
Net realised losses from derivatives financial instruments	(261,659)	(297,250)
Unrealised fair value change of financial instruments at fair value through profit or loss		
— Financial assets at fair value through profit or loss	876,046	(2,368,554)
— Financial liabilities at fair value through profit or loss	30,863	(4,167)
Unrealised fair value change of derivative financial instruments	103,074	776,700
	2,876,948	1,394,933

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9 OTHER INCOME AND GAINS OR LOSSES , NET

	2017	2016
Government grants ⁽¹⁾	18,899	60,956
Foreign exchange (losses) gains, net	(150,379)	258,692
Rental income	9,870	8,412
Gains on disposal of property and equipment, other intangible assets and other non-current assets	940	544
Fee from tax withholding and remitting	26,074	34,068
Others ⁽²⁾	7,785	21,055
	(86,811)	383,727

(1) Government grants represent the unconditional grants received by the Group from local government.

(2) Others represent compensation received from litigation and breach of employee contract and restrictive covenants from the Group's employees.

10 DEPRECIATION AND AMORTIZATION

	2017	2016
Depreciation of property and equipment	127,671	91,179
Amortization of other non-current assets	70,210	67,703
Amortization of other intangible assets	645	1,988
Depreciation of investment properties	—	820
	198,526	161,690

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11 STAFF COSTS

	2017	2016
Salaries, bonus and allowances	3,557,753	2,498,895
Contributions to retirement benefits ⁽¹⁾	300,980	295,218
Other social welfare ⁽²⁾	390,413	320,973
Others	142,855	181,862
	4,392,001	3,296,948

- (1) The domestic employees of the Group in the PRC participate in state-managed retirement benefits plans, operated by the relevant municipal and provincial governments. According to the relevant regulations, the premiums and retirement benefit contributions borne by the Group are calculated and paid to the relevant labour and social welfare authorities on a regular basis. These retirement benefits plans are defined contribution plans and contributions to the plans are expensed as incurred. In addition to the above retirement benefits plans, the Group also provides annuity schemes for certain qualified employees in the PRC. The employees' and the Group's contributions for the annuity schemes are calculated based on certain percentage of employees' salaries and recognised in profit or loss as expense. These annuity schemes are defined contribution plans.

The Group also operates the Mandatory Provident Fund Scheme for all qualified employees in Hong Kong. The Group contributes certain percentage of relevant payroll costs to the scheme, and the contribution is matched by employees but subject to a maximum amount for each employee. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

- (2) The domestic employees of the Group in the PRC participate in state-managed social welfare plans, including social pension insurance, health care insurance, housing funds and other social welfare contributions, operated by the relevant municipal and provincial governments. These social welfare plans are defined contribution plans and contributions to the plans are recognised as expense as incurred.

12 FEE AND COMMISSION EXPENSES

	2017	2016
Securities and futures brokerage business	1,376,949	1,479,561
Underwriting and sponsorship business	356,003	271,647
Asset management and fund management business	26,620	30,369
Financial advisory business	40,542	40,852
Others	13,153	6,760
	1,813,267	1,829,189

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13 INTEREST EXPENSES

	2017	2016
Accounts payable to brokerage clients	183,921	236,070
Financial assets sold under repurchase agreements	938,620	1,709,674
Margin refinancing and securities lending	113,846	54,351
Borrowings from other financial institutions	141,506	26,469
Long-term bonds payable	2,110,059	2,729,524
Short-term financing bills payables	—	13,901
Short-term bond payables	500,671	100,706
Principal of structured notes	748,056	588,235
Borrowings	115,706	95,037
Gold leasing	65,785	1,449
Others	3,693	19,687
	4,921,863	5,575,103

14 OTHER OPERATING EXPENSES

	2017	2016
Operating lease rentals in respect of rented premises	396,472	339,896
General and administrative expenses	100,745	106,686
Post and communication expenses	171,031	130,759
Electronic equipment operation expenses	136,798	139,406
Advertising and promotion expenses	235,183	212,280
Business travel expenses	182,418	161,719
Securities and futures investor protection funds	54,838	52,997
Stock exchange fees	87,005	75,704
Auditors' remuneration	3,580	3,515
Sundry expenses ⁽¹⁾	166,949	163,669
	1,535,019	1,386,631

(1) Sundry expenses included losses on scrapped equipment. As of December 31, 2017 and December 31, 2016, the amount was RMB2,119 thousand and RMB2,167 thousand.

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15 IMPAIRMENT LOSSES, NET

	2017	2016
(Reversal of allowance) allowance for impairment loss in respect of accounts and other receivables, net (note 30)	(3,324)	3,648
Reversal of impairment in respect of advances to customers (note 29)	(27,917)	(29,944)
Impairment loss (reversal of impairment) in respect of financial assets held under resale agreements (note 26)	52,967	(15,115)
Impairment loss in respect of available-for-sale financial assets (note 24)	18,927	107,633
	40,653	66,222

16 INCOME TAX EXPENSES

	2017	2016
Current tax:		
— PRC Enterprise Income Tax ("EIT")	1,046,702	1,581,794
— Hong Kong Profits Tax	32,081	4,236
	1,078,783	1,586,030
Under (over) provision in respect of prior years:		
— EIT	(361)	1,661
— Hong Kong Profits Tax	10,392	(562)
	10,031	1,099
Deferred taxation		
— Origination and reversal of temporary differences (note 27)	213,033	(551,291)
	1,301,847	1,035,838

Notes to the Consolidated Financial Statements

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16 INCOME TAX EXPENSES (Continued)

The reconciliation between the income tax expense at the statutory tax rate of 25% and the effective tax rate is as follows:

	2017	2016
Profit before income tax	7,106,556	6,452,920
Tax at the income tax rate of 25%	1,776,639	1,613,230
Tax effect of share of result of associates	(211,372)	(157,331)
Tax effect of expenses not deductible for tax purpose	26,778	95,724
Tax effect of income that are not taxable	(273,142)	(508,196)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(26,670)	(4,183)
Tax effect of the losses not recognised	—	4,834
Utilization of tax losses previously not recognised	(417)	(9,541)
Adjustment in respect of prior years	10,031	1,099
Others	—	202
Tax charge for the year	1,301,847	1,035,838

As at December 31, 2017, the estimated unused tax losses for the Group's subsidiaries were approximately RMB61,315 thousand, no deferred tax asset had been recognised in relation to such item in the consolidated statement of financial position due to the unpredictability of future profit streams of the subsidiaries. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax assets may arise, which would be recognised in the consolidated statement of profit or loss and other comprehensive income for the period in which such recognition takes place.

17 EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share attributable to owners of the Company is as follows:

	2017	2016
Earnings for the purpose of basic earnings per share:		
Profit for the year attributable to owners of the Company (RMB'000)	5,785,956	5,403,451
Accumulated interest for holders of perpetual bonds (RMB'000)	(592,196)	—
Sub-total	5,193,760	5,403,451
Number of shares:		
Weighted average number of shares in issue (in thousand)	6,699,409	5,956,681
Earnings per share:		
Earnings per share (RMB)	0.78	0.91

For the years ended December 31, 2017 and 2016, there were no potential ordinary shares in issue, thus no diluted earnings per share is presented.

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18 PROPERTY AND EQUIPMENT

	Leasehold land and buildings	Motor vehicles	Electronic and communication equipment	Office equipment	Construction in progress	Total
Cost						
As at January 1, 2017	385,382	65,604	546,777	58,612	1,206,606	2,262,981
Additions	5,499	3,844	95,047	5,556	129,149	239,095
Disposals	—	(4,506)	(38,432)	(2,052)	—	(44,990)
Transfer	—	—	96,664	—	(96,664)	—
Transfer to other non-current assets (note 28)	—	—	—	—	(52,612)	(52,612)
Exchange differences	—	(212)	(3,763)	(2,319)	(1,411)	(7,705)
As at December 31, 2017	390,881	64,730	696,293	59,797	1,185,068	2,396,769
Accumulated depreciation and impairment						
As at January 1, 2017	185,095	40,330	220,455	37,931	—	483,811
Charge for the period	12,455	7,102	97,456	10,658	—	127,671
Disposals	—	(4,296)	(36,218)	(1,951)	—	(42,465)
Exchange differences	—	(163)	(2,541)	(1,631)	—	(4,335)
As at December 31, 2017	197,550	42,973	279,152	45,007	—	564,682
Carrying values						
As at December 31, 2017	193,331	21,757	417,141	14,790	1,185,068	1,832,087
Cost						
As at January 1, 2016	359,492	62,817	379,077	75,846	1,067,210	1,944,442
Additions	—	5,919	198,872	3,813	160,221	368,825
Disposals	—	(3,336)	(34,126)	(23,889)	—	(61,351)
Transfer from investment properties	25,890	—	—	—	—	25,890
Transfer to other non-current assets (note 28)	—	—	—	—	(21,191)	(21,191)
Exchange differences	—	204	2,954	2,842	366	6,366
As at December 31, 2016	385,382	65,604	546,777	58,612	1,206,606	2,262,981
Accumulated depreciation and impairment						
As at January 1, 2016	151,837	35,958	189,105	49,027	—	425,927
Charge for the period	11,518	7,363	61,351	10,947	—	91,179
Transfer from investment properties	21,740	—	—	—	—	21,740
Disposals	—	(3,193)	(32,452)	(23,799)	—	(59,444)
Exchange differences	—	202	2,451	1,756	—	4,409
As at December 31, 2016	185,095	40,330	220,455	37,931	—	483,811
Carrying values						
As at December 31, 2016	200,287	25,274	326,322	20,681	1,206,606	1,779,170

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18 PROPERTY AND EQUIPMENT (Continued)

As at December 31, 2017, included in leasehold land and buildings, there are carrying values of approximately RMB13,601 thousand (2016: RMB8,839 thousand), for which the Group is in the progress to obtain the relevant land and building certificates. The directors of the Company considered that these will not have significant impact on the consolidated financial statements for the year ended December 31, 2017.

As at December 31, 2017, included in construction in progress, there are leasehold land with carrying values of approximately RMB420,000 thousand (2016: RMB420,000 thousand) pledged as security for borrowing.

As the lease payments included in the Group's leasehold land and buildings cannot be allocated reliably between the land and buildings, the entire leases are classified as finance lease and accounted for as property and equipment.

The leasehold land and buildings of the Group are situated in the PRC and held under medium-term lease.

19 GOODWILL

	As of December 31,	
	2017	2016
Cost		
At beginning and end of the year		
Unit A — Shanghai securities brokerage branch	4,500	4,500
Unit B — Jutian securities brokerage branch	18,367	18,367
Unit C — China Merchants Futures Co., Limited	9,671	9,671
	32,538	32,538
Accumulated impairment losses		
At beginning and end of the year		
Unit A — Shanghai securities brokerage branch	4,500	4,500
Unit B — Jutian securities brokerage branch	18,367	18,367
Unit C — China Merchants Futures Co., Limited	—	—
	22,867	22,867
Carrying values		
At beginning and end of the year		
Unit A — Shanghai securities brokerage branch	—	—
Unit B — Jutian securities brokerage branch	—	—
Unit C — China Merchants Futures Co., Limited	9,671	9,671
	9,671	9,671

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19 GOODWILL (Continued)

Impairment test

For the purpose of impairment testing, goodwill has been allocated into three individual cash generating units (“CGUs”), including Shanghai securities brokerage branch (“Unit A”), Jutian securities brokerage branch (“Unit B”) and China Merchants Futures Co., Limited (“Unit C”) acquired by the Company.

Unit A and B are securities brokerage branches acquired where the acquisition cost exceeds the fair value of net identifiable assets. As the CGU no longer generated future cash flows, Units A and B were fully impaired.

The directors of the Company had performed impairment testing on the goodwill acquired from Unit C as at December 31, 2017 and 2016. As the fair value of the CGU of China Merchants Futures Co., Limited exceeded its carrying amount, therefore no impairment was recognised.

The recoverable amounts of the CGUs have been determined on the basis of value-in-use calculation. The calculation used cash flow projections based on financial budgets approved by management covering a five-year period which reflected specific risks related to the CGU. Cash flows beyond the five-year period are extrapolated using an estimated annual growth rate based on industry growth forecasts. Management determined the budgeted gross margin based on past performance and its expectations on the market development. The discount rates used are the CGUs’ specific weighted average cost of capital, adjusted for the risks of the specific CGUs.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of the CGUs to exceed its recoverable amount.

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20 OTHER INTANGIBLE ASSETS

	Trading rights	Membership and others	Total
Cost			
As at January 1, 2017	82,805	1,624	84,429
Exchange difference	(1,289)	(15)	(1,304)
As at December 31, 2017	81,516	1,609	83,125
Accumulated amortization and impairment			
As at January 1, 2017	60,776	224	61,000
Charge for the year	645	—	645
Exchange difference	(84)	(15)	(99)
As at December 31, 2017	61,337	209	61,546
Carrying values			
As at December 31, 2017	20,179	1,400	21,579
Cost			
As at January 1, 2016	81,557	1,609	83,166
Exchange difference	1,248	15	1,263
As at December 31, 2016	82,805	1,624	84,429
Accumulated amortization and impairment			
As at January 1, 2016	58,706	209	58,915
Charge for the year	1,988	—	1,988
Exchange difference	82	15	97
As at December 31, 2016	60,776	224	61,000
Carrying values			
As at December 31, 2016	22,029	1,400	23,429

Trading rights mainly comprise the trading rights in Shanghai Stock Exchange, Shenzhen Stock Exchange, Hong Kong Stock Exchange (the "HKEX"), the Hong Kong Futures Exchange Limited (the "HKFE") and CME Group Inc. (the "CME"). These rights allow the Group to trade securities and futures contracts on or through these exchanges.

Membership and others held by the Group mainly comprises the membership with indefinite useful lives for the purposes of futures business in Futures Exchange.

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21 INTERESTS IN CONSOLIDATED STRUCTURED ENTITIES

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

The financial impact of these asset management products on the Group's financial position as at December 31, 2017 and 2016, and the results and cash flows for the years ended December 31, 2017 and 2016, though consolidated, are not significant and therefore not disclosed separately.

As at December 31, 2017, the Group consolidated 8 (2016: 6) structured entities. The total assets of the consolidated structured entities are approximately RMB5,497,332 thousand (2016: RMB4,689,802 thousand) within which are approximately RMB3,789,261 thousand (2016: RMB3,513,471 thousand) of investments accounted for as available-for-sale investments and financial assets at fair value through profit or loss.

22 INTERESTS IN ASSOCIATES

	As at December 31,	
	2017	2016
Cost of unlisted investments in associates	5,545,940	4,105,535
Share of post-acquisition profits and other comprehensive income, net of dividends received	2,612,707	1,852,121
	8,158,647	5,957,656
Impairment loss	(669,150)	(669,150)
	7,489,497	5,288,506

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22 INTERESTS IN ASSOCIATES (Continued)

The following list contains only the particulars of material associates, all of which are unlisted corporate entities whose quoted market price is not available. All of the above associates are accounted for using the equity method in the consolidated financial statements:

Name of associate	Place and date of incorporation/ establishment	Equity interest held by the Group		Principal activities
		December 31,		
		2017	2016	
Bosera Asset Management Co., Ltd.	PRC July 13, 1998	49%	49%	Fund Management
China Merchants Fund Management Limited	PRC December 27, 2002	45%	45%	Fund Management
Guangdong Equity Exchange Co., Ltd	PRC October 29, 2013	32.5%	32.5%	Transaction settlement services
China Merchants Xiangjiang Industrial Investment Management Co., Ltd.	PRC March 13, 2008	40%	40%	Investment Management
Qingdao Asset Management Co., Ltd. ⁽²⁾	PRC September 21, 2015	30%	—	Investment Management
Twenty-first Century Technology Investment Co., Ltd. ⁽¹⁾	PRC June 19, 2000	23.88%	23.88%	Investment holding

* This associate does not have official English name, English translated name is for identification only.

- (1) The associate went into liquidation, and the losses have been recognised to the consolidated statements of profit or loss.
- (2) The subsidiary of the Group, China Merchants Securities Investment Co., Ltd acquired Qingdao Asset Management Co., Ltd. with consideration RMB945,405 thousand and the holding percentage was 30%.

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22 INTERESTS IN ASSOCIATES (Continued)

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

Bosera Asset Management Co., Ltd.

	As at December 31,	
	2017	2016
Total assets	5,556,617	4,322,382
Total liabilities	(2,065,326)	(1,461,843)
Net assets	3,491,291	2,860,539
Revenue	3,102,162	2,414,846
Profit for the year	938,740	701,634
Other comprehensive (expense) income	(7,987)	3,534
Total comprehensive income	930,753	705,168
Dividend declared by the associate attributable to the Group	147,000	166,600
Reconciliation to the Group's interest in the associate		
Net assets of the associate attributable to the parent company	3,491,291	2,860,539
The Group's share of net assets of the associate	1,710,733	1,401,665
Other adjustment		
— Goodwill	3,425,523	3,425,523
— Impairment loss recognised ⁽³⁾	(669,150)	(669,150)
Carrying amount in the consolidated financial statements	4,467,106	4,158,038

- (3) As at December 31, 2014, the Company had recognised an impairment loss amounted to approximately RMB669,150 thousand to the interests in Bosera Asset Management Co., Ltd. The recoverable amounts of approximately RMB3,763,141 thousand had been determined by Vocational International (Beijing) Asset Appraisal Co., Ltd., a qualified valuer not related to the Group. The valuer determined the value-in-use by using cash flow projections which is based on financial budgets covering a five-year period approved by management. The pre-tax discount rates applied and growth rate used to extrapolate the cash flow projections is 10.78% and 9.2% respectively. The growth rates beyond the five-year period is nil for the forecast period. As at December 31, 2017 and 2016, the management assesses the above investments' recoverable amount was higher than carrying amount and considered no further impairment is identified.

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22 INTERESTS IN ASSOCIATES (Continued)

China Merchants Fund Management Limited

	As at December 31,	
	2017	2016
Total assets	6,647,796	3,883,798
Total liabilities	(2,672,134)	(1,980,116)
Net assets	3,975,662	1,903,682
Revenue	2,746,942	2,345,814
Profit for the year	803,068	628,211
Other comprehensive (expense) income	(2,191)	7,187
Total comprehensive income	800,877	635,398
Dividend declared by the associate attributable to the Group ⁽⁴⁾	—	76,996
Reconciliation to the Group's interest in the associate		
Net assets of the associate attributable to the parent company	3,975,662	1,903,682
The Group's share of net assets of the associate	1,789,048	856,657
Other adjustment		
— Goodwill	199,545	199,545
Carrying amount in the consolidated financial statements	1,988,593	1,056,202

(4) In 2016, pursuant to the resolution from the shareholders of China Merchants Fund Management Co., Ltd, the 2015 profit distribution plan was being approved, and the Group's entitled dividend receivable was RMB76,996 thousand. On March 9, 2017, pursuant to the meeting by the shareholders of China Merchants Fund Management Co., Ltd, the 2015 profit distribution plan was amended and no dividend distribution was made in relation to the 2015 profit distribution plan.

Aggregate information of associates that are not individually material:

	As at December 31,	
	2017	2016
The Group's share of profit for the year	24,126	2,827
The Group's share of total comprehensive income	24,126	2,827
Dividend declared by associate attributable to the Group	10,000	—
Aggregate carrying amount of the Group's interests in these associates	1,033,798	74,266

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23 INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group is principally involved with structured entities through financial investments. These structured entities generally purchase assets through financing. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them. The interests held by the Group in the unconsolidated structured entities are set out as below:

(a) Structured entities sponsored by the Group

Unconsolidated structured entities sponsored by the Group mainly include asset management schemes and partnership. The nature and aim of the structured entities is to manage investors' assets and collect management fees. Financing is sustained through investment products issued to investors. The interests held by the Group in the unconsolidated structured entities mainly involve management fees and performance fees collected from managed or directly controlled structured entities.

As at December 31, 2017, the total assets of these unconsolidated structured entities managed by the Group amounted to approximately RMB784,148,000 thousand (2016: RMB631,739,000 thousand).

Investments and income derived from these unconsolidated structured entities held by the Group were not significant.

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23 INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

(b) Structured entities sponsored by third party institutions

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

The carrying amount of the related accounts in the consolidated statement of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by third party institutions as at December 31, 2017 and 2016, which are listed below:

	As at December 31, 2017		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	—	20,683,969	20,683,969
Trust schemes	609,084	—	609,084
Wealth management products	51,280	754,966	806,246
Others	7,636,599	—	7,636,599
	8,296,963	21,438,935	29,735,898

	As at December 31, 2016		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	13,153	17,306,828	17,319,981
Trust schemes	349,645	—	349,645
Wealth management products	100,790	852,847	953,637
Others	8,718,045	—	8,718,045
	9,181,633	18,159,675	27,341,308

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24 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at December 31,	
	2017	2016
Non-current portion		
Measure at fair value		
— Others ⁽¹⁾⁽²⁾	7,793,163	8,809,469
Analyzed as:		
Unlisted	7,793,163	8,809,469
Current portion		
Measure at fair value		
— Equity securities ⁽³⁾⁽⁴⁾	1,227,110	1,657,485
— Funds	—	13,153
— Debt securities	23,594,715	13,462,285
— Others ⁽¹⁾	660,365	779,794
	25,482,190	15,912,717
Analyzed as:		
Listed outside Hong Kong	14,633,071	11,689,891
Unlisted	10,849,119	4,222,826
	25,482,190	15,912,717

- (1) Others mainly represent investments in collective wealth management products, trust products, targeted asset management schemes and special accounts in China Securities Finance Corporation Limited (the "CSFCL"). The fair value are calculated by reference to the underlying assets and liabilities' fair value or maintain the leverage to a certain proportion as a product manager.
- As at December 31, 2017, the Group has committed to hold its investments in collective asset management schemes and trust products and other wealth management products amounted to approximately of RMB8,402,248 thousand (2016: RMB9,358,016 thousand) that managed by the Company till the end of the investment period.
- (2) Others include an investment in a special account managed by the CSFCL, which mainly invest in debt securities and publicly traded equity securities listed in the PRC. As at December 31, 2017, the fair value of the Company's contribution are RMB7,636,599 thousand (2016: RMB8,718,045 thousand).
- (3) As at December 31, 2017, included in the balances are the listed equity securities of the Group included approximately RMB44,526 thousand (2016: RMB392,719 thousand) of restricted shares. The restricted shares are listed in the PRC with a legally enforceable restriction on these securities that prevents the Group to dispose of within the specified period. The fair value of the securities is determined by reference to the quoted market prices and discounted to reflect the effect of the restrictions.
- (4) As at December 31, 2017, the Group entered into securities lending arrangement with clients that resulted in the transfer of available-for-sale equity securities with total fair values of nil (2016: RMB2,662 thousand) to clients. These securities continued to be recognised as financial assets of the Group.
- (5) During the year ended December 31, 2017, an impairment of approximately RMB18,927 thousand (2016: RMB107,633 thousand) had been recognized in the profit or loss.
- (6) Fair value of the Group's available-for-sale investments are determined in the manner described in note 65.
- (7) In the opinion of the directors of the Company, non-current available-for-sale financial assets are expected to be realised or restricted for sale beyond one year from the end of the respective reporting periods.

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25 LOAN RECEIVABLES

	As at December 31,	
	2017	2016
Fixed-rate loan receivables	84,621	64,725
	84,621	64,725
Current		
Loan receivable, unsecured	84,621	64,725
	84,621	64,725

As at December 31, 2017 and 2016, the loan receivables are neither past due nor impaired and none of the loan receivables have been pledged as security for borrowings.

No single loan receivable is individually material, and terms and conditions of all loan receivables are presented by appropriate groupings.

As at December 31, 2017 and 2016, the effective interest rate of loan receivables was ranged from 2.0% to 2.5 % per annum.

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26 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analyzed by collateral type and market of financial assets held under resale agreements:

	As at December 31,	
	2017	2016
Non-current		
Analyzed by collateral type:		
Stock (Note)	8,835,124	6,479,114
Analyzed by market:		
Stock exchanges	8,835,124	6,479,114
Less: Allowance for impairment losses	(33,666)	(16,903)
Total	8,801,458	6,462,211
Current		
Analyzed by collateral type:		
Stock (Note)	21,860,815	10,312,528
Bond	5,543,686	2,248,836
	27,404,501	12,561,364
Analyzed by market:		
Stock exchanges	23,122,759	10,452,431
Interbank bond market	4,281,742	2,108,933
	27,404,501	12,561,364
Less: Allowance for impairment losses	(106,636)	(70,432)
	27,297,865	12,490,932

Note: The financial assets (pledged by stock) held under resale agreements and securities back-lending are those resale agreements which the qualified investors entered into with the Group with a commitment to purchase the specified securities at a future date with an agreed price. As at December 31, 2017, the fair value of securities of the Group which have been received as collateral were approximately RMB78,137,257 thousand (2016: RMB43,886,429 thousand).

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26 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

(2) The movements of impairment losses are as below:

	As at December 31,	
	2017	2016
At beginning of the year	87,335	102,450
Impairment losses recognised	52,967	—
Reversal of impairment losses	—	(15,115)
At end of the year	140,302	87,335

The Group determines the impairment losses based on: (i) the evaluation of collectability; (ii) the ageing analysis of accounts; and (iii) management judgment, including the assessment of liquidity of collateral and the past collection history of each client etc.

27 DEFERRED TAX ASSETS (LIABILITIES)

The following is an analysis of the deferred tax balances for financial reporting purposes:

	As at December 31,	
	2017	2016
Deferred tax assets	903,214	1,207,996
Deferred tax liabilities	(235,002)	(98,754)
	668,212	1,109,242

The followings are the major deferred tax assets (liabilities) recognised and movements thereon during the year:

	Financial instruments at fair value through profit and loss/derivatives	Accrued staff cost	Deferred income	Allowance for impairment loss	Fair value change of available-for-sale financial assets	Property and equipment	Others	Total
At January 1, 2016	(286,573)	603,651	31,500	65,101	(154,525)	(950)	21,685	279,889
Credit to profit or loss	440,685	77,524	—	16,555	—	454	16,073	551,291
Credit to other comprehensive income	—	—	—	—	278,111	—	—	278,111
Exchange differences	—	—	—	—	—	(49)	—	(49)
At December 31, 2016 and January 1, 2017	154,112	681,175	31,500	81,656	123,586	(545)	37,758	1,109,242
Credit (charge) to profit or loss	(212,440)	(13,285)	—	(5,581)	—	(1,794)	20,067	(213,033)
Credit to other comprehensive income	—	—	—	—	(228,096)	—	—	(228,096)
Exchange difference	—	2	—	—	—	97	—	99
At December 31, 2017	(58,328)	667,892	31,500	76,075	(104,510)	(2,242)	57,825	668,212

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28 OTHER NON-CURRENT ASSETS

(1) Analyzed by nature

	As at December 31,	
	2017	2016
Leasehold improvements and deferred expenses	197,917	195,050

(2) The movements of leasehold improvements and deferred expenses are as below:

	As at December 31,	
	2017	2016
At beginning of year	195,050	184,082
Additions	20,465	57,480
Transfer from construction in progress (note 18)	52,612	21,191
Amortization	(70,210)	(67,703)
At end of year	197,917	195,050

29 ADVANCES TO CUSTOMERS

(1) Analyzed by nature

	As at December 31,	
	2017	2016
Loans to margin clients	59,318,439	53,462,881
Less: impairment loss in respect of advances to customers	(83,013)	(111,343)
	59,235,426	53,351,538

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

The majority of the loans to margin clients which are secured by the underlying pledged securities and cash collateral as disclosed in note 40 are interest bearing. The Group maintains a list of approved stocks for margin lending at a specified loan-to-collateral ratio. Any excess in the lending ratio will trigger a margin call upon which the customers have to make up the difference.

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29 ADVANCES TO CUSTOMERS (Continued)

(2) Analyzed by fair value of collateral of margin financing and securities lending business

	As at December 31,	
	2017	2016
Collateral measured at fair value:		
Cash	5,009,363	6,540,993
Debt securities	3,111,363	7,634,119
Equity securities	167,987,579	148,029,271
Funds	369,368	413,453
	176,477,673	162,617,836

(3) The movements of allowance of impairment losses are as below

	As at December 31,	
	2017	2016
At beginning of the year	111,343	130,800
Impairment losses recognised	3,154	—
Transfer from accounts and other receivables (note 30)	—	10,487
Reversal of impairment losses	(31,071)	(29,944)
Exchange differences	(413)	—
At end of the year	83,013	111,343

The Group determines the impairment loss of the advance to financing customers based on: (i) the evaluation of collectability; (ii) the ageing analysis of accounts; and (iii) management judgment, they include the assessment of changes in credit quality, collateral and the past collection history of each client.

The directors of the Company are of the opinion that the ageing analysis does not give additional value in view of the nature of the securities margin financing business. As a result, no ageing analysis is disclosed.

The concentration of credit risk is limited due to the size and uncorrelated nature of the customer base.

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30 ACCOUNTS AND OTHER RECEIVABLES

(1) Analyzed by nature

	As at December 31,	
	2017	2016
Accounts and other receivables from/related to:		
Clearing houses, brokers and dealers	1,274,770	3,765,254
Commission and fee income	566,700	500,011
Other receivables	93,915	82,860
Interest receivables	1,894,871	1,261,981
Prepayments (note i)	75,597	51,546
Prepaid investment in an associate	—	945,405
Other tax assets	—	43,146
Others	180,188	184,647
	4,086,041	6,834,850
Less: Allowance for doubtful debts	(4,166)	(7,490)
	4,081,875	6,827,360

Note i: Prepayments comprise amount prepaid for construction expenditure and acquisition of a building.

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30 ACCOUNTS AND OTHER RECEIVABLES (Continued)

(2) Analyzed by ageing

As at the end of the year, the ageing analysis of accounts receivables based on trade day, is as follows:

	As at December 31, 2017		As at December 31, 2016	
	Amount	Impairment allowance	Amount	Impairment allowance
Within 1 year	673,552	(152)	618,637	(216)
Between 1 and 2 years	26,293	(897)	45,881	(4,156)
Between 2 and 3 years	747	—	—	—
After 3 years	—	—	—	—
	700,592	(1,049)	664,518	(4,372)

(3) The movement in the allowance for doubtful debts

	As at December 31,	
	2017	2016
At beginning of the year	7,490	14,020
Impairment losses recognised	—	3,648
Reversal of impairment losses	(3,324)	—
Transfer to advances to customers	—	(10,487)
Exchange realignment	—	309
At end of the year	4,166	7,490

(4) Accounts receivable that is not impaired

Accounts receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

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31 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(1) Analyzed by type:

	As at December 31,	
	2017	2016
Financial assets held-for-trading	71,140,059	46,973,821
Financial assets designated at fair value through profit or loss	1,930,226	1,270,634
	73,070,285	48,244,455

(2) Financial assets held-for-trading:

	As at December 31,	
	2017	2016
Debt securities	36,606,423	17,512,973
Equity securities	12,147,941	9,874,657
Funds	20,683,969	17,786,171
Others ⁽¹⁾	1,701,726	1,800,020
	71,140,059	46,973,821
Analyzed as:		
Listed in Hong Kong	201,224	221,033
Listed outside Hong Kong ⁽²⁾	19,194,845	16,464,160
Unlisted ⁽³⁾	51,743,990	30,288,628
	71,140,059	46,973,821

- (1) Others mainly represent investments in collective asset management schemes, commodities, wealth management products issued and managed by bank.
- (2) Equity securities and funds traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange are included in the "Listed outside Hong Kong" category.
- (3) Unlisted securities mainly comprise of debt securities traded on Interbank Bond Market. The fair value of these securities is estimated using valuation techniques.

As at December 31, 2017, the Group entered into securities lending arrangement with clients that resulted in the transfer of equity securities under held for trading with total fair values of approximately RMB304,291 thousand (2016: RMB197,405 thousand) to clients. These securities continued to be recognised as financial assets of the Group.

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31 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(3) Financial assets designated at fair value through profit or loss

	As at December 31,	
	2017	2016
Equity securities	415,378	354,798
Others ⁽¹⁾	1,514,848	915,836
	1,930,226	1,270,634
Analyzed as:		
Unlisted⁽²⁾	1,930,226	1,270,634

(1) Others mainly represent investments in funds and partnership invested by the Group.

(2) Unlisted securities mainly comprise of unlisted equity securities, funds and partnerships invested by the Group.

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32 DERIVATIVE FINANCIAL INSTRUMENTS

	As at December 31,			
	2017	2017	2016	2016
	Assets	Liabilities	Assets	Liabilities
Interest derivative instrument				
Interest rate swaps ⁽¹⁾	112,806	112,576	162,268	211,660
Bond futures ⁽²⁾	700	—	210	1,347
Equity derivative instrument				
Equity return swaps ⁽³⁾	38,633	3,665	9,393	98,414
Stock index futures ⁽⁴⁾	—	1,241	467	173
Options ⁽⁵⁾	135,580	363,915	12,456	55,831
Credit derivatives				
Credit default swap	—	—	404	146
Other derivative instrument				
Commodity futures ⁽²⁾	469,952	990,684	813,111	1,475,232
Commodity swaps ⁽⁶⁾	262,359	—	105,608	—
Forward contracts ⁽⁷⁾	1,610	112,829	5,696	—
	1,021,640	1,584,910	1,109,613	1,842,803

(1) Interest rate swaps: The notional principal amounts of the Group's interest rate swaps contracts as at December 31, 2017, were approximately RMB27,460,000 thousand (2016: RMB18,780,000 thousand).

(2) Bond futures and commodity futures: As at December 31 2017, the Group's principal of bond futures were approximately RMB6,174,058 (2016: RMB1,082,978 thousand). The Group's principal commodity futures were approximately RMB16,352,337 thousand (2016: RMB26,173,131 thousand).

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Company's position in the bond futures and commodity futures were settled daily and the corresponding receipts and payments were included in "clearing settlement funds" as at December 31, 2017 and 2016. Accordingly, the net position of the bond future contracts and commodity future contracts was nil at the end of each reporting period.

(3) Equity return swaps: The notional principal amounts of the Group's equity return swaps contracts as at December 31, 2017 were approximately RMB378,703 thousand (2016: RMB1,045,073 thousand).

(4) Stock index futures: The notional principal amounts of the Group's stock futures contracts as at December 31, 2017 were approximately RMB2,585,324 thousand (2016: RMB956,299 thousand).

Under the daily mark-to-market and settlement arrangement, any gains or losses of the stock index futures were settled daily and the corresponding receipts and payments were included in "clearing settlement funds" as at December 31, 2017 and 2016. Accordingly, the net position of the stock index futures contracts was nil at the end of each reporting period.

(5) Options: Included in options are over-the counter options, exchange-traded options and embedded options. The notional principal amounts of the Group's options contracts as at December 31, 2017, were approximately RMB8,231,934 thousand (2016: RMB3,141,120 thousand).

(6) Commodity swaps: As of December 31, 2017, the notional principal of commodity swap contracts the Group invested are approximately RMB2,304,355 thousand (2016: RMB10,527,965 thousand).

(7) Forward contracts: As at December 31, 2017, the notional principal of forward contracts the Group invested are approximately RMB3,314,162 thousand (2016: RMB206,385 thousand).

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33 DEPOSITS IN EXCHANGES AND NON-BANK FINANCIAL INSTITUTIONS

	As at December 31,	
	2017	2016
Deposits in stock exchanges and clearing house:		
Shanghai Clearing House	27,380	13,199
China Beijing Equity Exchange	3,076	3,556
London Stock Exchange	265,051	50,579
Hong Kong Stock Exchange	1,330	716
Hong Kong Securities Clearing Company Limited	80,548	17,167
China Securities Depository and Clearing Corporation Limited	428,916	373,027
Deposits in futures and commodity exchanges and financial institutions:		
China Financial Futures Exchange	10,057	10,057
Shanghai Gold Exchange	11,769	5,345
Chicago Mercantile Exchange	3,267	3,469
Hong Kong Futures Exchange	—	16,507
Yongan Futures Co., Ltd.	107,842	12,186
CITIC Futures Co., Ltd.	144,955	31,359
Nanhua Futures Co., Ltd.	6,786	3,275
Haitong Futures Co., Ltd.	6,279	—
Jianxin Futures Co., Ltd.	126,553	—
Other	669	—
	1,224,478	540,442

34 CLEARING SETTLEMENT FUNDS

	As at December 31,	
	2017	2016
Clearing settlement funds held with clearing house for:		
House accounts	3,983,803	1,574,905
Clients	10,026,688	17,468,564
	14,010,491	19,043,469

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

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35 CASH AND BANK BALANCES

	As at December 31,	
	2017	2016
House accounts	9,387,884	10,750,913
Pledge and restricted bank deposits		
— Restricted bank deposit for purchase of bond and stock	742,749	194,364
Bank balances — house account	10,130,633	10,945,277
Cash held on behalf of customers	42,526,062	50,326,986
	52,656,695	61,272,263

Note: Pledged bank deposits represent deposits pledged to banks to secure bank facilities granted to the Group.

36 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the followings:

	As at December 31,	
	2017	2016
Bank balances — house accounts (note 35)	10,130,633	10,945,277
Clearing settlement funds — house accounts (note 34)	3,983,803	1,574,905
Less: Pledged and restricted bank deposit (note 35)	(742,749)	(194,364)
	13,371,687	12,325,818

37 SHORT TERM BORROWINGS

	As at December 31,	
	2017	2016
Current⁽¹⁾		
Secured bank loans	2,376,360	—
Unsecured bank loans	4,235,084	3,251,970
	6,611,444	3,251,970

(1) As at December 31, 2017, the short-term borrowing were all borrowed in Hong Kong. The effective interest rate for the borrowings was ranged from 1.3 % to 2.8 % (2016: 2% to 2.50%) per annum. The short-term borrowing is repayable within one year.

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38 SHORT-TERM DEBT INSTRUMENTS

	Nominal interest rate	As at January 1, 2017	Issuance/ Other Transferred	Redemption	As at December 31, 2017
Short-term bond payables ⁽¹⁾	4.60%-5.10%	1,000,000	38,050,000	16,020,000	23,030,000
Principals of structured notes ⁽²⁾	4.30%-5.55%	20,782,330	38,039,580	34,806,240	24,015,670
		21,782,330	76,089,580	50,826,240	47,045,670

	Nominal interest rate	As at January 1, 2016	Issuance/ Other Transferred	Redemption	As at December 31, 2016
Short-term financing bill payables ⁽³⁾	3.05%	2,000,000	—	(2,000,000)	—
Short-term bond payables ⁽¹⁾	4.65%-5.40%	11,000,000	1,000,000	(11,000,000)	1,000,000
Principals of structured notes ⁽²⁾	2.85%-6.10%	14,878,320	22,495,710	(16,591,700)	20,782,330
		27,878,320	23,495,710	(29,591,700)	21,782,330

(1) Short-term bond payables

As at December 31, 2017, the short-term bond payables issued by company bear interest rate 4.60% to 5.10% (2016: 4.65%-5.4%). The short-term bonds are repayable upon maturity within nine months to one year.

(2) Principals of structured notes

As at December 31, 2017, the amount represents principals received from investors for subscription of structured notes issued by the Group. The structured notes bear fixed interest rate ranging from 4.3% to 5.55% (2016: 2.85% to 6.10% per annum), or variable rate linked to certain stock index. The interests are repayable upon maturity within one year. The notes with variable rate contain non-closely related derivative as their returns are linked to the fluctuation of stock index. For those embedded derivatives, they are accounted for in these consolidated financial statements under note 32 after being bifurcated from their respective host contracts.

(3) Short-term financing bill payables

As at December 31, 2016, short-term financing bills were debt securities issued in the PRC inter-bank market by the Group, bearing interest rates at 3.05% per annum. There is no short-term financing bill payable outstanding as at December 31, 2017.

39 BORROWINGS FROM OTHER FINANCIAL INSTITUTIONS

	As at December 31,	
	2017	2016
Borrowing from banks ⁽¹⁾	1,470,000	1,500,000

(1) As at December 31, 2017, the effective interest rate on due to banks is ranging from 4.82% to 8.5% (2016: 3.85%) per annum. The amount was repayable within seven days from the end of the reporting period.

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40 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

	As at December 31,	
	2017	2016
Clients' deposits for margin financing and securities lending	5,009,363	6,540,993
Clients' deposits for other brokerage business	46,085,972	61,040,727
	51,095,335	67,581,720

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

The majority of the accounts payable balances are repayable on demand except where certain accounts payable to brokerage clients represent money received from clients for their margin financing activities under normal course of business, such as margin financing and securities lending. Only the excessive amounts over the required margin deposits and cash collateral stipulated is repayable on demand.

The directors of the Company are of the opinion that the ageing analysis does not give additional value in view of the nature of these businesses. As a result, no ageing analysis is disclosed.

41 ACCRUED STAFF COSTS

	As at December 31,	
	2017	2016
Non-current portion		
Salaries, bonus and allowances	787,540	787,540
Current portion		
Salaries, bonus and allowances	4,565,385	4,635,863
Social welfare	45,819	44,152
Others	29,401	27,647
	4,640,605	4,707,662

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42 OTHER PAYABLES AND ACCRUED CHARGES

	As at December 31,	
	2017	2016
Deposits of equity return swaps ⁽¹⁾	379,034	1,036,441
Settlement payables to brokers and clearing house	1,490,465	2,395,811
Commission and handling fee payable	103,566	99,076
Futures risk reserve	65,841	55,832
Other tax payable	213,359	197,786
Interest payables	2,044,607	2,780,945
Interest payables on perpetual bond	592,196	—
Others ⁽²⁾	133,476	153,234
	5,022,544	6,719,125

- (1) As at December 31, 2017 and 2016, the balance represents deposits received from investors for equity return swaps which is refundable with the contract terms upon the expiry date. The deposit will be mature within one year from the end of the reporting period. These instruments contain non-closely related embedded derivatives as their returns are linked to the fluctuation of certain stock index or specific stock price. For those embedded derivatives with significant fair values, they are accounted for in these consolidated financial statements under note 32 after being bifurcated from their respective host contracts.
- (2) Others mainly represent payable to joint bonds underwriters, share offering cost payable, and other payables arising from normal course of business.

43 PROVISION

	As at December 31,	
	2017	2016
At the beginning of the year	—	96
Reversal for the year	—	(96)
At the end of the year	—	—

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44 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December 31,	
	2017	2016
Financial liabilities held for trading		
— Equity securities	144,290	192,538
— Debt securities	330,800	2,565,535
— Gold	2,919,784	—
— Others	62,998	38,512
Financial liabilities designated at fair value through profit or loss		
— Structured entities	2,034,637	1,643,371
	5,492,509	4,439,956

In the consolidated financial statements, the financial liabilities arising from consolidated structured entities are designated at fair value through profit or loss by the Group, as the Group has the obligation to pay other investors upon maturity dates of the structured entities based on net book value and related terms.

45 FINANCIAL ASSETS SOLD UNDER REPRCHASE AGREEMENTS

	As at December 31,	
	2017	2016
Current		
Analyzed by collateral type:		
Bonds	33,382,970	8,533,988
Rights and interests in margin loans	—	10,865,000
	33,382,970	19,398,988
Analyzed by market:		
Stock exchange	19,422,266	7,359,988
Interbank bond market	13,960,704	1,174,000
Over-the-counter	—	10,865,000
	33,382,970	19,398,988

Sales and repurchase agreements are transactions in which the Group sell a security as well as rights and interests in margin loans and simultaneous agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group are still exposed to substantially all the credit risks, market risk and rewards of those securities sold. These securities are not derecognised from the financial statements but regarded as “collateral” for the liabilities because the Group retain substantially all the risk and rewards of these securities and margin loans.

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46 SHARE CAPITAL

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

	As at December 31,	
	2017	2016
Registered, issued and fully paid ordinary shares of RMB1 each:		
— Domestic shares	5,719,009	5,719,009
— Foreign invested shares	980,400	980,400
	6,699,409	6,699,409
At beginning of the year	6,699,409	5,808,136
Issuance of shares ⁽¹⁾	—	891,273
At end of the year	6,699,409	6,699,409

- (1) The Company completed the issuance of 891,273 thousand overseas listed foreign shares (H shares) at a premium to overseas investors on October 7, 2016, and was listed on the Hong Kong Stock Exchange at a price of HK\$12 per share. The share capital increased by 891,273 thousand face value and was included in capital reserve with a net value of RMB8,130,062 thousand.

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

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47 OTHER EQUITY INSTRUMENTS

	As at December 31,	
	2017	2016
Perpetual bonds	15,000,000	—

- (1) The Company issued approximately RMB4,000,000 thousand, RMB5,000,000 thousand, RMB3,700,000 thousand, RMB2,300,000 thousand of perpetual subordinated bonds in February, March, May, June 2017 respectively. These bonds are subject to one repricing cycle for every five interest-bearing years, and the annual interest rates are 5.18%, 5.15%, 5.65%, 5.58% respectively.

For the above perpetual subordinated bonds issued by the Company, at the end of each revaluation period, the issuer has the right to extend the period of bond to one more repricing cycle (5 years), or to pay the current bonds in full.

For the above perpetual bonds issued by Company, the Company has no contractual obligation to pay cash or other financial instruments, and the redemption of the perpetual bonds are also controlled by the Company.

48 INVESTMENT REVALUATION RESERVE

The movement in the Group's investment revaluation reserve is set out as below:

	As at December 31,	
	2017	2016
At beginning of the year	(315,695)	462,366
Available-for-sale financial assets		
Net fair value changes during the year	972,730	(494,632)
Reclassification adjustment to profit or loss	(96,636)	(566,505)
Income tax impact	(228,096)	278,111
Share of fair value gain on available-for-sale financial assets of associates	(4,899)	4,965
At end of the year	327,404	(315,695)

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49 GENERAL RESERVES

General reserves include statutory reserve, general risk reserve and transaction risk reserve.

Pursuant to the Company Law of the PRC and the Company's articles of association, 10% of the net profit of the Company, as determined under the relevant accounting rules and financial regulations applicable to enterprises in the PRC, is required to be transferred to the statutory reserve until such time when this reserve reaches 50% of the share capital of the Company. The reserve appropriated can be used for expansion of business and capitalization. If the statutory reserve is capitalised into share capital, the remaining reserve is required to be no less than 25% of the Company's registered capital before capitalization.

In accordance with the Financial Rules for Financial Enterprises, the Company is required to appropriate 10% of net profit derived in accordance with PRC GAAP before distribution to shareholders as general risk reserve from retained profits.

Pursuant to the Securities Law of the PRC, the Company is required to appropriate 10% of net profit derived in accordance with PRC GAAP before distribution to shareholders as transaction risk reserve from retained profits and cannot be distributed or transferred to share capital.

The movements of the general reserves are set out below:

For the year ended December 31, 2017

	Opening	Addition	Closing
Statutory reserve	3,875,865	430,519	4,306,384
General risk reserve	3,875,865	430,519	4,306,384
Transaction risk reserve	3,747,053	430,519	4,177,572
	11,498,783	1,291,557	12,790,340

For the year ended December 31, 2016

	Opening	Addition	Closing
Statutory reserve	3,415,540	460,325	3,875,865
General risk reserve	3,415,540	460,325	3,875,865
Transaction risk reserve	3,286,727	460,326	3,747,053
	10,117,807	1,380,976	11,498,783

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50 DEFERRED INCOME

	As at December 31,	
	2017	2016
Government grant	126,000	126,000

In 2009, the Group received a government subsidy from Shenzhen Municipal Finance Bureau of approximately RMB126,000 thousand towards the cost of building including construction in progress. The amount is transferred to income over the useful lives of the relevant assets once completed.

51 LONG-TERM BORROWINGS DUE WITHIN ONE YEAR

	As at December 31,	
	2017	2016
Secured bank loans	378,134	368,596

As at December 31, 2017, the long-term borrowings due within one year was secured by the leasehold land of the Group, which was included in construction in progress. Details of the carrying amounts of pledged leasehold land were disclosed in note 18. The effective interest rate for the loan was 2% below benchmark interest rate, which was 4.655% per annum as at December 31, 2017, and is repayable within one year.

52 LONG-TERM BORROWINGS

	As at December 31,	
	2017	2016
Unsecured bank loan	1,065,786	—

The effective interest rate for the loans were 1.6% to 1.9% over the benchmark interest rate and is repayable within three years.

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53 BONDS PAYABLE DUE WITHIN ONE YEAR

	As at December 31,	
	2017	2016
Non-convertible bonds ⁽¹⁾	4,499,911	—
Subordinated bonds ⁽²⁾	15,000,000	5,000,000
	19,499,911	5,000,000

(1) The following table presents an analysis of non-convertible bonds

Name	Issue amount	Value date	Maturity date	Coupon rate
12CM01	3,000,000	2013-3-5	2018-3-5	4.45%
12CM02	1,500,000	2013-3-5	2018-3-5	4.80%

Pursuant to the approval by the CSRC, shareholders and the directors of the Company, the Company issued non-convertible corporate bonds with face value of approximately RMB10,000,000 thousand on March 5, 2013. These bonds, which are bearing fixed interest rate, comprise a 3 plus 2-year bond with a face value of approximately RMB3,000,000 thousand, coupon rate of 4.45%, a 5-year bond with a face value of approximately RMB1,500,000 thousand, coupon rate of 4.8%, and a 10-year bond with a face value approximately RMB5,500,000 thousand, coupon rate of 5.15%. These bonds were listed in Shanghai Stock Exchange on March 15, 2013. And 12CM03 was disclosed in note 54.

(2) The following table presents an analysis of subordinated bonds

Name	Issue amount	Value date	Maturity date	Coupon rate
15CM02	10,000,000	2015-3-24	2018-3-24	5.58%
15CM04	5,000,000	2015-4-13	2018-4-13	5.75%

Pursuant to the approval by year 2015 first extraordinary general meeting, the Company was authorized to issue up to approximately RMB35,000,000 thousand (inclusive) subordinated corporate bonds. The Company issued five tranches of subordinated bonds with an aggregate face value of approximately RMB35,000,000 thousand. These bonds, which are bearing fixed interest rate, comprise a 5-year subordinated bond "15CM02" with a face value of approximately RMB10,000,000 thousand, coupon rate of 5.58%, with the redemption option of the issuer at the end of the third year; and a 3-year subordinated bond "15CM04" with a face value of approximately RMB5,000,000 thousand, coupon rate of 5.75%. As at December 31, 2017, the redemption of subordinated bond – 15CM01, 15CM03, 15CM05 have been completed.

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54 BONDS PAYABLE

	As at December 31,	
	2017	2016
Non-convertible corporate bonds ⁽¹⁾	17,529,674	15,465,206
Subordinated bonds ⁽²⁾	2,200,000	30,000,000
Principal of structured note ⁽³⁾	8,000,000	—
	27,729,674	45,465,206

(1) The following table presents an analysis of non-convertible corporate bonds:

Name	Issue amount	Value date	Maturity date	Coupon rate
17CM G1	4,500,000	2017-10-13	2019-10-13	4.78%
17CM G2	1,060,000	2017-10-23	2020-10-23	4.78%
17CM G3	1,000,000	2017-10-31	2020-10-31	4.85%
12CM 03	5,500,000	2013-3-05	2023-3-5	5.15%
14CM bond	5,500,000	2015-5-26	2025-5-26	5.08%
17CM C1	2,200,000	2017-11-27	2019-11-27	5.45%

Pursuant to the approval by the CSRC, shareholders and directors of the Company, the Company issued 10-year unsecured bond with face value of approximately RMB5,500,000 thousand and coupon rate 5.08% per annum in May, 2015. The bond is listed on Shanghai Exchange on June 9, 2015.

Pursuant to the approval by the CSRC, shareholders and the directors of the Company, the Company issued three different tranches of corporate bonds with an aggregate face value of approximately RMB6,560,000 thousand in October, 2017. The face value of each tranche is approximately RMB4,500,000 thousand, RMB1,060,000 thousand and RMB1,000,000 thousand respectively, and the coupon rates are 4.78%, 4.78% and 4.85% respectively.

(2) The following table presents an analysis of subordinated corporate bonds:

Name	Issue amount	Value date	Maturity date	Coupon rate
17CM C1	2,200,000	2017-11-27	2019-11-27	5.45%

Pursuant to the approval by shareholders meeting, the Company was authorised to issue up to approximately RMB25,000,000 thousand (inclusive) subordinated corporate bonds., including a perpetual subordinated bond not exceeding approximately RMB15,000,000 thousand. The Company issued face value of approximately RMB2,200,000 thousand subordinated corporate bond with 5.45% coupon rate with maturity in 2 years in November 24, 2017.

(3) As at December 31, 2017, the amount represents principals received from investors for subscription of structured notes issued by the Company. The structured notes bear a fixed rate interest ranging from 5.60% to 6.10% per annum with maturity in year 2019 and interest was payable together with the principal upon maturity.

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55 DIVIDENDS TO THE OWNERS OF THE COMPANY AND DISTRIBUTION TO THE HOLDERS OF OTHER EQUITY INSTRUMENTS

	As at December 31,	
	2017	2016
Dividends recognised as distribution	1,266,189	2,329,062
Distribution to holders of other equity instruments	592,196	—

Pursuant to the resolution of the year 2016 shareholders meeting, the Company distributed cash dividends of RMB1.89 for every 10 shares (tax included) based on 6,699,409,329 shares held amounting to approximately RMB1,266,189 thousand in 2017.

Pursuant to the resolution of the year 2016 second temporary shareholders meeting, the Company distributed cash dividends of RMB1.54 for every 10 shares (tax included) based on 5,808,135,529 shares held amounting to approximately RMB894,452 thousand in 2016.

Pursuant to the resolution of the year 2015 shareholders meeting, the Company distributed cash dividends of RMB2.47 for every 10 shares (tax included) based on 5,808,135,529 shares held amounting to approximately RMB1,434,610 thousand in 2016.

As at December 31 2017, the Group recognised the interest payable on perpetual bond approximately RMB592,196 thousand.

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56 TRANSFER OF FINANCIAL ASSETS

Repurchase agreements

The Group entered into repurchase agreements with certain counterparties to sell Group's securities and interests in margin loans and the proceeds are presented as financial assets sold under repurchase agreements. In accordance with the terms of the repurchase agreements, the legal title of those securities and interests in margin loans are not transferred to the counterparties during the year and both parties simultaneously agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group are still exposed to substantially all the credit risks, market risks and rewards of those securities and rights and interests in margin loans sold. These securities and margin loans are not derecognised from the financial statements but regarded as "collateral" for the liabilities because the Group retain substantially all the risks and rewards of these securities and rights and interest in margin loans.

The following tables provide a summary of carrying amounts and fair values related to transferred financial assets that are not derecognised in their entirety and the associated liabilities:

As at December 31, 2017

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Rights and interests in margin loans	Securities lending arrangements	Financial assets held under resale arrangements	Total
Carrying amount of transferred assets	12,619,277	9,872,519	—	13,759,245	—	36,251,041
Carrying amount of associated liabilities	11,620,503	9,091,142	—	12,670,246	—	33,381,891
Net position	998,774	781,377	—	1,088,999	—	2,869,150

As at December 31, 2016

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Rights and interests in margin loans	Securities lending arrangements	Financial assets held under resale arrangements	Total
Carrying amount of transferred assets	1,954,340	8,031,578	13,111,476	4,409,122	—	27,506,516
Carrying amount of associated liabilities	1,158,615	4,761,459	10,865,000	2,613,914	—	19,398,988
Net position	795,725	3,270,119	2,246,476	1,795,208	—	8,107,528

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56 TRANSFER OF FINANCIAL ASSETS (Continued)

Securities lending arrangements

The Group entered into securities lending agreements with clients to lend out its financial assets classified as available-for-sale financial assets and financial assets at fair value through profit or loss with carrying amount totaling approximately RMB304,291 thousand (2016: RMB200,067 thousand) as at December 31, 2017, which are secured by client's securities and deposits held as collateral. As stipulated in the securities lending agreements, the legal ownership of these securities is transferred to the clients. Although the clients are allowed to sell these securities during the covered period, they have obligations to return these securities to the Group at specified future dates. The Group have determined that it retains substantially all the risks and rewards of these securities and therefore have not derecognized these securities in the consolidated financial statements.

Securities borrowing arrangements

The Group borrowed securities from interbank securities market platform used for the business of financial assets sold under repurchase agreements and securities short selling, and simultaneously offers debt securities classified as available-for-sale financial assets and financial assets at fair value through profit and loss as collateral to the counterparties. As at December 31, 2017 and 2016, the type and fair values of available-for-sale financial assets to the Group borrowed from banks through interbank securities market trading platform for the purpose of financial assets sold under repurchase agreements are as follows:

	As at December 31,	
	2017	2016
Treasury bonds	5,840,960	9,179,280
Local government bonds	7,401,674	—
Policy bank debt	762,388	—
	14,005,022	9,179,280

As at December 31, 2017, the above securities borrowing transactions are due before June 29, 2018 (2016: February 17, 2017).

As at December 31, 2017 and 2016, the type and fair values of securities pledged for the Group's securities borrowing arrangements are as follows:

	As at December 31,	
	2017	2016
Corporate bonds	12,029,852	8,184,024

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57 CAPITAL COMMITMENTS

	As at December 31,	
	2017	2016
Commitments contracted but not provided for in respect of		
— Construction in progress	219,854	244,923

58 OPERATING LEASE COMMITMENTS

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of renting of premises which fall due as follows:

	As at December 31,	
	2017	2016
Within one year (inclusive)	337,326	256,764
One to two years (inclusive)	234,062	195,197
Two to three years (inclusive)	171,162	117,044
Over three years	204,844	354,613
Total	947,394	923,618

Operating lease payments represent rentals payable by the Group for certain of its office properties. Lease of rented premises are negotiated with fixed lease term for 1 to 20 years.

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59 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments of directors and supervisors of the Company paid and/or payable by the Group for the years ended December 31, 2017 and 2016 are set out below:

Year ended December 31, 2017

Name	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Bonuses	Total emoluments
Executive directors:					
HUO Da ⁽¹⁾	—	3,084	165	—	3,249
WANG Yan	—	4,865	245	—	5,110
XIONG Jiantao ⁽²⁾	—	3,724	226	—	3,950
GONG Shaolin ⁽³⁾	—	2,013	109	—	2,122
	—	13,686	745	—	14,431
Non-executive directors:					
SU Min	—	—	—	—	—
XIONG Xianliang	—	—	—	—	—
SU Jian ⁽⁴⁾	—	—	—	—	—
PENG Lei	—	—	—	—	—
HUANG Jian	—	—	—	—	—
WANG Daxiong	—	—	—	—	—
CHEN Zhigang ⁽⁵⁾	—	—	—	—	—
HUA Li ⁽⁶⁾	—	—	—	—	—
GUO Jian ⁽⁷⁾	—	—	—	—	—
CAO Dong ⁽⁸⁾	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors:					
XIANG Hua ⁽⁹⁾	100	—	—	—	100
XIAO Houfa ⁽¹⁰⁾	100	—	—	—	100
XIONG Weij ⁽¹¹⁾	100	—	—	—	100
HU Honggao ⁽¹²⁾	100	—	—	—	100
YANG Jun	200	—	—	—	200
YI Xiqun ⁽¹³⁾	—	—	—	—	—
LIU Jialing ⁽¹⁴⁾	100	—	—	—	100
DING Huiping ⁽¹⁵⁾	100	—	—	—	100
ZHU Haiwu ⁽¹⁶⁾	100	—	—	—	100
	900	—	—	—	900

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59 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Year ended December 31, 2017 (Continued)

Name	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Bonuses	Total emoluments
Supervisors:					
ZHOU Linda Lei	—	3,905	211	—	4,116
LIU Chong ⁽¹⁷⁾	—	—	—	—	—
FANG Xiaobing	—	—	—	—	—
ZHANG Zehong	—	—	—	—	—
ZHU Haibin ⁽¹⁸⁾	—	—	—	—	—
HE Min	—	746	142	—	888
YI Hongyan	—	891	163	—	1,054
ZHAN Guifeng ⁽¹⁹⁾	—	400	67	—	467
XIONG Zhigang ⁽²⁰⁾	—	513	91	—	604
LI Xiaofei	—	—	—	—	—
WANG Zhangwei ⁽²¹⁾	—	—	—	—	—
MA Yunchun ⁽²²⁾	—	—	—	—	—
	—	6,455	674	—	7,129
Total	900	20,141	1,419	—	22,460

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59 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Year ended December 31, 2016

Name	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Bonuses	Total emoluments
Executive directors:					
GONG Shaolin	—	2,367	260	2,574	5,201
WANG Yan	—	2,406	242	2,574	5,222
	—	4,773	502	5,148	10,423
Non-executive directors:					
HONG Xiaoyuan ⁽²³⁾	—	—	—	—	—
GUO Jian	—	—	—	—	—
PENG Lei	—	—	—	—	—
SUN Yueying ⁽²⁴⁾	—	—	—	—	—
HUANG Jian	—	—	—	—	—
CAO Dong	—	—	—	—	—
HUA Li	—	—	—	—	—
SU Min ⁽²⁵⁾	—	—	—	—	—
WANG Daxiong ⁽²⁶⁾	—	—	—	—	—
XIONG Xianliang	—	—	—	—	—
	—	—	—	—	—
Independent non-executive directors:					
LIU Jialing	160	—	—	—	160
YANG Jun	160	—	—	—	160
YI Xiqun	—	—	—	—	—
XU Hua ⁽²⁷⁾	—	—	—	—	—
DING Huiping	160	—	—	—	160
ZHU Haiwu ⁽²⁸⁾	100	—	—	—	100
	580	—	—	—	580
Supervisors:					
ZHOU Linda Lei	—	1,905	212	2,060	4,177
LIU Chong	—	—	—	—	—
FANG Xiaobing	—	—	—	—	—
ZHANG Zehong	—	—	—	—	—
ZHU Haibin	—	—	—	—	—
HE Min	—	788	138	48	974
YI Hongyan	—	943	159	69	1,171
ZHAN Guifeng	—	881	159	54	1,094
LI Xiaofei	—	—	—	—	—
	—	4,517	668	2,231	7,416
Total	580	9,290	1,170	7,379	18,419

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59 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

- (1) HUO Da was appointed as executive director in May 2017.
- (2) XIONG Jiantao was appointed as executive director in May 2017.
- (3) GONG Shaolin resigned in May 2017.
- (4) SU Jian was appointed as non-executive director in July 2017.
- (5) CHEN Zhigang was appointed as non-executive director in July 2017.
- (6) HUA Li resigned on May 2017.
- (7) GUO Jian resigned on May 2017.
- (8) CAO Dong resigned in May 2017.
- (9) XIANG Hua was appointed as independent non-executive director in July 2017.
- (10) XIAO Houfa was appointed as independent non-executive director in July 2017.
- (11) XIONG Wei was appointed as independent non-executive director in August 2017.
- (12) HU Honggao was appointed as independent non-executive director in July 2017.
- (13) YI Xiqun was appointed as independent non-executive director in August 2013, applied for departure in November 2014, resigned in July 2017.
- (14) LIU Jialing resigned in July 2017.
- (15) DING Huiping resigned in July 2017.
- (16) ZHU Haiwu resigned in July 2017.
- (17) LIU Chong resigned in May 2017.
- (18) ZHU Haibin resigned in May 2017.
- (19) ZHAN Guifeng resigned in May 2017.
- (20) XIONG Zhigang was appointed as supervisor in May 2017.
- (21) WANG Zhangwei was appointed as supervisor in July 2017.
- (22) MA Yunchun was appointed as supervisor in May 2017.
- (23) HONG Xiaoyuan resigned in February 2016.
- (24) SUN Yueying resigned in May 2016.
- (25) SU Ming was appointed as non-executive director in June 2016.
- (26) WANG Daxiong was appointed as non-executive director in September 2016.
- (27) XU Hua was appointed as independent non-executive director in July 2013, applied for departure in January 2016, resigned in July 2016.
- (28) ZHU Haiwu was appointed as independent non-executive director in July 2016.

The total compensation packages for these directors and supervisors for the year ended December 31, 2017 had not yet been finalised in accordance with regulations of the relevant authorities in the PRC. The final compensation will be disclosed when determined.

No directors of the Company waived or agreed to waive any emolument paid by the Group during the year. No emoluments were paid by the Group to the directors of the Company as an incentive payment for joining the Group or as compensation for loss of office during the year.

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60 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2016: two) were directors of the Company. The emoluments of the remaining three individuals (2016: three) with the highest emoluments are as below:

	As at December 31,	
	2017	2016
Basic salaries and allowances	10,861	3,305
Bonuses	—	15,391
Contributions to retirement benefit scheme	693	386
	11,554	19,082

Bonus was determined with reference to results of the Group and performance of individuals. No emoluments were paid by the Group to these individuals as an incentive payment for joining the Group or as compensation for loss of office during the year.

The emoluments of the individuals with the highest emoluments are within the following bands:

	As at December 31,	
	2017	2016
Emolument bands		
Nil to HKD3,000,000	—	—
HKD3,000,001 to HKD5,000,000	3	—
HKD5,000,001 to HKD7,000,000	—	3
HKD7,000,001 to HKD9,000,000	—	—
HKD9,000,001 to HKD11,000,000	—	—
HKD11,000,001 to HKD13,000,000	—	—

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61 SIGNIFICANT RELATED PARTY TRANSACTIONS

(1) Relationship of related parties

(a) Major shareholders

Major shareholders include shareholders of the Company with 5% or above ownership.

Share percentage in the Company:

	As at December 31,	
	2017	2016
China Merchants Finance Investment Holdings Co., Ltd.	20.93%	20.93%
Shenzhen Jisheng Investment Development Co., Ltd.	19.56%	19.56%
China Ocean Shipping (Group) Company	6.25%	6.25%

(b) Principal subsidiaries of the Company

The details information of the Company's principal subsidiaries is set out in note 68.

(c) Associates of the Group

The details information of the Group's associates is set out in note 22.

(d) Other related parties

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

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61 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(2) Related parties transaction and balances

(a) *During the year ended December 31, 2017 and 2016, the Group's major transactions and balances with its associate are as below:*

Transaction between the Group and the associate:

	As at December 31,	
	2017	2016
Commission and fee income		
— Funds managed by Bosera Asset Management Co., Ltd. and China Merchants Fund Management Limited	74,634	80,758

Balance between the Group and the associate:

	As at December 31,	
	2017	2016
Commission receivables		
— Funds managed by Bosera Asset Management Co., Ltd. and China Merchants Fund Management Limited	169,810	187,584

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61 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(2) Related parties transaction and balances (Continued)

(b) *The Group's major transactions and balances with its other related parties are as below:*

Transactions between the Group and other related parties:

	As at December 31,	
	2017	2016
Commission and fee income		
— China Merchants Bank Co., Ltd.	136,291	45,098
— China Merchants Group Limited	2,562	—
— China Merchants Land Limited	—	346
— China Merchants Chongqing Communications Technology Research & Design Institute Co., Ltd.	—	456
— China Merchants Finance Investment Holdings Co., Ltd.	708	472
— China Merchants Logistics Holding Co., Ltd.	—	1,344
— China International Marine Containers (Group) Ltd.	—	472
— China Merchants Shekou Industrial Zone Holdings Co., Ltd.	676	—
— China Merchants Finance Holdings Co., Ltd.	1,976	—
— China Merchants Life Insurance Company Limited	170	—
— China Merchants Expressway Network Technology Holdings Co., Ltd.	23,585	—
Interest income		
— China Merchants Bank Co., Ltd.	393,363	538,147
Investment Income		
— Qingdao Asset Management Co., Ltd.	40,430	—
Fee and commission expenses		
— China Merchants Bank Co., Ltd.	(282,878)	(250,843)
Interest expenses		
— China Merchants Bank Co., Ltd.	(41,381)	(31,498)
Business and management income		
— China Merchants Chongqing Communications Technology Research & Design Institute Co., Ltd.	(186)	(182)
— China Merchants (Shanghai) Investment Co., Ltd*	(8,235)	(2,663)
— China Merchants Bank Co., Ltd.	(26,041)	—

* This related party does not have official English name, English translated name is for identification only.

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61 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(2) Related parties transaction and balances (Continued)

(b) *The Group's major transactions and balances with its other related parties are as below: (Continued)*

The Group also has the following balances with its other related parties.

	As at December 31,	
	2017	2016
Accounts and other receivables		
— China Merchants Land Limited	167	346
— China Merchants Chongqing Communications Technology Research & Design Institute Co., Ltd	16	16
— China Merchants (Shanghai) Investment Co., Ltd*	2,508	3,643
— Bosera Asset Management Co., Ltd	147,000	83,300
— China Merchants Fund Management Limited	—	76,996
— China Merchants Bank Co., Ltd.	9,114	—
Bank balances		
— China Merchants Bank Co., Ltd.	20,066,132	25,730,016
Interest receivable		
— China Merchants Bank Co., Ltd.	4,335	—
Borrowings		
— China Merchants Bank Co., Ltd.	796,089	645,894
Placements from banks		
— China Merchants Bank Co., Ltd.	—	500,000
Other payables and accrued charges		
— China Merchants Bank Co., Ltd.	143	567

* This related party does not have official English name, English translated name is for identification only.

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61 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(3) Key management personnel

The remuneration of the key management personnel of the Group was as below:

	As at December 31,	
	2017	2016
Short-term benefits:		
— Salaries, allowance and bonuses	35,126	37,264
Post-employment benefits:		
— Contribution to retirement schemes	2,171	2,281
	37,297	39,545

(4) Other related parties transaction

In December 2015, China Merchants Shekou Industrial Zone Holdings Co., Ltd. issued A Shares for the purpose to acquire China merchants Property Development Co., Ltd. and issued A Shares to certain specific targets for fund raising purpose. The Company, through its wholly-owned subsidiary, China Merchants Zhiyuan Capital Investment Co., Ltd. and its corporate entities to indirectly subscribed China Merchants Shekou Industrial Zone Holdings Co., Ltd. non-public offering 84,746 thousand shares. As at December 31, 2017, the fair value of the above shares, which is classified as financial assets held for trading, was approximately RMB1,657,627 thousand (2016: RMB1,388,983 thousand).

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62 SEGMENT INFORMATION

(1) Business segment

For management purposes, the Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's operating segments represents a strategic business unit that offers services which are subject to risks and returns that are different from the other operating segments. Segment information is measured in accordance with the accounting policies and measurement criteria adopted by each segment when reporting to the board of directors, which are consistent with the accounting and measurement criteria in the preparation of the consolidated financial statements. The Group's operating segments are as follows:

- (a) Brokerage and wealth management segment engages in the trading of stocks and futures contracts on behalf of clients. Moreover, the activities of providing margin financing, securities lending and selling financial products and other wealth management products are included in this segment.
- (b) Investment banking segment provides investment banking services to the Group's institutional clients, including financial advisory, equity underwriting, debt underwriting and sponsorship.
- (c) Investment management segment primarily engages in assets management, investing advisory and deal execution services. Moreover, the investment income from private equity investment management and alternative investment are included in this segment.
- (d) Investment and trading segment engages in trading equity securities, fixed-income securities, derivatives, other financial products and market maker service.
- (e) Others segment primarily includes head office operations, investment holding as well as interest income and interest expense incurred for generating working capital for general operation.

No operating segments above have been aggregated in presentation. Management monitors the operating results of the Group's business units separately for the purpose of resource allocation and other operating decisions. Segment performance is measured consistently with operating profit or loss in the consolidated financial statements. However, income taxes are managed on the Company level and are not allocated to operating segments.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
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62 SEGMENT INFORMATION (Continued)

(1) Business segment (Continued)

The operating and reportable segment information provided to the chief operating decision maker (hereinafter refer as "CODM") for the years ended December 31, 2017 and 2016 are as follows:

	Brokerage and wealth management	Investment banking	Investment management	Investment and trading	Others	Elimination	Total
For the year ended December 31, 2017							
Segment revenue and results							
Segment revenue	12,280,672	2,576,365	1,740,228	2,454,347	947,837	(653,752)	19,345,697
Segment other income and gains or losses	10,136	244	9,884	293	(107,368)	—	(86,811)
Segment revenue and other income	12,290,808	2,576,609	1,750,112	2,454,640	840,469	(653,752)	19,258,886
Segment expenses	(8,893,220)	(1,505,031)	(461,140)	(1,957,618)	(834,562)	653,752	(12,997,819)
Segment result	3,397,588	1,071,578	1,288,972	497,022	5,907	—	6,261,067
Share of results of associates	—	—	6,641	17,386	821,462	—	845,489
Profit before income tax	3,397,588	1,071,578	1,295,613	514,408	827,369	—	7,106,556
As at December 31, 2017							
Segment assets and liabilities							
Segment assets	117,688,686	1,020,885	9,164,091	144,180,000	18,390,859	(4,800,966)	285,643,555
Segment liabilities	(110,412,559)	(1,626,307)	(4,197,663)	(80,310,418)	(14,563,870)	4,800,966	(206,309,851)
Other segment information							
Amounts included in the measure of segment profit or loss or segment assets:							
Interest income	6,297,157	—	67,962	59,145	947,837	(653,752)	6,718,349
Interest expense	(3,806,176)	(11,837)	(126,560)	(1,631,042)	—	653,752	(4,921,863)
Depreciation and amortization	(168,724)	(2,901)	(1,246)	(3,814)	(21,841)	—	(198,526)
Impairment reversal (losses)	(21,726)	—	—	(18,927)	—	—	(40,653)
Capital expenditure	(247,804)	(4,025)	(2,992)	(4,716)	(8,177)	—	(267,714)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

62 SEGMENT INFORMATION (Continued)

(1) Business segment (Continued)

	Brokerage and wealth management	Investment banking	Investment management	Investment and trading	Others	Elimination	Total
For the year ended December 31, 2016							
Segment revenue and results							
Segment revenue	12,758,948	2,459,479	1,322,651	1,286,558	403,305	(62,950)	18,167,991
Segment other income and gains	722	—	—	—	383,005	—	383,727
Segment revenue and other income	12,759,670	2,459,479	1,322,651	1,286,558	786,310	(62,950)	18,551,718
Segment expenses	(9,139,145)	(1,126,736)	(505,540)	(955,441)	(1,064,209)	62,950	(12,728,121)
Segment result	3,620,525	1,332,743	817,111	331,117	(277,899)	—	5,823,597
Share of results of associates	—	—	599	—	628,724	—	629,323
Profit before income tax	3,620,525	1,332,743	817,710	331,117	350,825	—	6,452,920
As at December 31, 2016							
Segment assets and liabilities							
Segment assets	128,337,161	379,108	7,820,342	90,714,086	20,496,715	(4,688,984)	243,058,428
Segment liabilities	(109,073,344)	(1,112,938)	(6,583,650)	(47,055,471)	(24,006,970)	4,688,984	(183,143,389)
Other segment information							
Amounts included in the measure of segment profit or loss or segment assets:							
Interest income	6,096,156	—	21,036	12,859	403,305	(62,950)	6,470,406
Interest expense	(4,169,655)	—	(82,637)	(491,746)	(894,015)	62,950	(5,575,103)
Depreciation and amortization	(135,108)	(2,566)	(2,138)	(2,964)	(18,095)	—	(160,871)
Impairment reversal (losses)	41,411	—	—	(107,633)	—	—	(66,222)
Capital expenditure	(276,508)	(6,048)	(2,669)	(5,890)	(162,730)	—	(453,845)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
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62 SEGMENT INFORMATION (Continued)

(2) Geographical segments

The Group has two major geographical operation in the PRC, namely Mainland China and Hong Kong, which is also the Group's revenue from external customer and the Group's assets located. The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property and equipment, investment properties, goodwill, other intangible assets, interests in associates and other non-current assets ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property and equipment and other non-current assets, they are based on the location of operation to which they are allocated, in the case of goodwill and other intangible assets, they are based on the location of operations.

	Mainland China	Outside Mainland China	Total
For the year ended December 31, 2017			
Segment Revenue			
Revenue from external customers	18,136,813	1,208,884	19,345,697
Other income and gains or losses	(97,889)	11,078	(86,811)
	18,038,924	1,219,962	19,258,886
For the year ended December 31, 2016			
Segment Revenue			
Revenue from external customers	17,588,971	579,020	18,167,991
Other income and gains or losses	385,724	(1,997)	383,727
	17,974,695	577,023	18,551,718

Specified non-current assets

	Mainland China	Outside Mainland China	Total
As at December 31, 2017			
Specified non-current assets	9,468,173	82,578	9,550,751
As at December 31, 2016			
Specified non-current assets	7,227,722	68,104	7,295,826

(3) Information about major customers:

There were no customers (2016: no customers) for the year ended December 31, 2017 contributing over 10% of the total revenue of the Group.

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63 FINANCIAL INSTRUMENTS

Categories of financial instruments

	2017	2016
Financial assets		
Loans and receivables (including cash and cash equivalents)	167,284,125	158,988,491
Available-for-sale financial assets	33,275,354	24,722,186
Derivative financial assets	1,021,640	1,109,613
Financial assets at fair value through profit or loss	73,070,285	48,244,455
	274,651,404	233,064,745
Financial liabilities		
Derivative financial liabilities	1,584,910	1,842,803
Financial liabilities at fair value through profit or loss	5,492,509	4,439,956
Financial liabilities at amortised cost	193,088,107	170,870,149
	200,165,526	177,152,908

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64 FINANCIAL RISK MANAGEMENT

(1) Risk management structure

The Group has been engaged in developing an all around, innovative and forward-looking risk management system aligning with its operation strategy and focusing on departments at the business level since its establishment. The structure of the risk management of the Company consists of five levels, including the strategical arrangement by the Board of Directors, supervision and scrutiny by the Supervisory Committee, risk management decision-making by the senior management and the Risk Management Committee, collaboration and internal control maintained by relevant risk management departments and direct management on other departments, branches and its wholly-owned subsidiaries.

The Group adopts a three-level risk management organization structure system. First level refers to self-implementation of effective control on risk management on all departments and branches. Second level refers to risk management and internal control measures implemented by relevant risk management departments. Third level refers to supervisory follow-up supervision and evaluation by the Audit and Supervision Department.

The overall risk management duties of departments or positions under the risk management organization structure are as follows: (i) the Board of Directors and the Risk Management Committee are responsible for considering and approving the Company's risk appetite, risk tolerance and various risk limit indicators. They are also responsible for considering and approving the Company's economic capital allocation plan, convening quarterly meetings, reviewing quarterly risk reports and reviewing the Company's overall risk management; (ii) the Supervisory Committee of the Company is responsible for supervising and examining the operation of the comprehensive risk management system of the Company; (iii) the senior management comprising the president and vice presidents of the Company is responsible for the risk management of business operation, determine risk control measures and formulate risk limit indicators on a regular basis by reference to the risk evaluation reports. The Risk Management Committee set up by the senior management is the ultimate risk decision-making body. The Chief Risk Officer of the Company is responsible for establishing comprehensive risk management system, monitoring, evaluating and reporting the overall risk level of the Company and providing risk management suggestion on business decisions; (iv) the Risk Management Department, as the leading department for the management of market, credit and operational risks of the Company. It is responsible for managing market risk and credit risk, assisting and guiding all units in performing risk management work. The Finance Department is responsible for managing liquidity risk, and facilitating the establishment of the systems, rules and policies of liquidity risk management. Legal Compliance department is responsible for leading the company's legal compliance and risk management, to assist the compliance director on reviewing, supervising and scrutinizing on the compliance issues of the management and practice of the Group. Internal Audit Department is responsible for monitoring the effectiveness and implementation of the Company's risk management process toward audit review, and responsible for initiating the evaluation of the whole internal control system at least once a year; and (v) all departments, branches and wholly-owned subsidiaries of the Company are responsible for directly managing and supervising risks of their own businesses and management scopes.

Notes to the Consolidated Financial Statements

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64 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk

The Group's exposure to credit risk represents the potential economic loss that may arise from the failure of a debtor or counterparty to meet its obligation according to their contractual commitment. The Group is primarily exposed to four types of credit risk: (i) risk arising from default of customers to repay debts in businesses of margin financing and securities lending, securities-backed lending or stock repurchase; (ii) risk of losses of principal and interests for investments in debt securities, trust products and other credit products due to default of the issuer or borrower; (iii) risk arising from default of counterparty to meet its payment obligation in trading of OTC derivatives such as equity swaps, interest rate swap and OTC futures and forward; (iv) risk of losses arising from the default of customers in businesses of brokerage trading of securities, futures and other financial products after liquidation of client's accounts due to their insufficiency of funds on the settlement date.

In respect of margin financing and securities lending, securities-backed lending, stock repurchase business and other financing businesses, the Group has established a multi-level authorization system for business management and a comprehensive risk management system covering the whole process through due diligence investigation of customers, approval of credit grant, post-loan evaluation, dynamic adjustment to collaterals, mark to market system, mandatory liquidation and disposal on default.

For debt securities investment business, the Group has developed an internal credit rating mechanism to control risks of default and degradation of debt securities as well as default of counterparties. The Group sets the minimum rating requirements for various types of investments and counterparties by the business authorization system and minimises the loss arising from different types of investments and default of counterparties through the strategy of diversification.

For OTC derivatives trading business, the Group has formulated a set of management measures and rules to determine eligibility of investors, due diligence of customers, grant of credit to counterparties, discount rate of securities, effective monitoring of gearing ratio, management of collaterals and follow-up measures on default of customers, in order to strengthen the management before, during and after the transactions.

For brokerage business, the securities trading of domestic customers of whom the Group is an agent are settled by full margin. With regard to the trading of securities and other financial products for overseas customers, the Group has effectively controlled the relevant credit risk by strengthen the monitor on credit grant and margin ratio.

Notes to the Consolidated Financial Statements

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64 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

The table below sets forth the Group's maximum credit risk exposure as at the end of the reporting period, which is the carrying amount of financial assets recognised without taking into account of the effect of collaterals or other credit enhancements:

(a) Maximum credit risk exposure

	At December 31,	
	2017	2016
Available-for-sale financial assets ⁽¹⁾	24,203,799	13,814,592
Financial assets at fair value through profit or loss ⁽²⁾	36,910,713	17,710,378
Derivative financial assets	1,021,640	1,109,613
Advances to customers	59,235,426	53,351,538
Financial assets held under resale agreements	36,099,323	18,953,143
Loan receivables	84,621	64,725
Accounts and other receivables	4,006,277	5,787,264
Deposit with exchanges and non-bank financial institutions	1,224,478	540,442
Clearing settlement funds	14,010,491	19,043,469
Cash and bank balances	52,656,695	61,272,263
	229,453,463	191,647,427

- (1) Available-for-sale financial assets represent the investment in debt securities, trust products and equity securities lent to customers.
- (2) Financial assets at fair value through profit or loss subjected to credit risk represent the investment in debt securities, trust products and equity securities lent to customers.

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64 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(b) Risk concentration

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

As at December 31, 2017

	Mainland China	Outside Mainland China	Total
Available-for-sale financial assets ⁽¹⁾	24,203,799	—	24,203,799
Financial assets at fair value through profit or loss ⁽²⁾	34,653,334	2,257,379	36,910,713
Derivative financial assets	284,158	737,482	1,021,640
Advances to customers	54,374,651	4,860,775	59,235,426
Financial assets held under resale agreements	36,099,323	—	36,099,323
Loan receivables	—	84,621	84,621
Accounts and other receivables	2,719,621	1,286,656	4,006,277
Deposits with exchanges and non-bank financial Institutions	872,013	352,465	1,224,478
Clearing settlement funds	13,053,589	956,902	14,010,491
Cash and bank balances	45,523,861	7,132,834	52,656,695
	211,784,349	17,669,114	229,453,463

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
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64 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(b) Risk concentration (Continued)

As at December 31, 2016

	Mainland China	Outside Mainland China	Total
Available-for-sale financial assets ⁽¹⁾	13,814,592	—	13,814,592
Financial assets at fair value through profit or loss ⁽²⁾	15,347,505	2,362,873	17,710,378
Derivative financial assets	184,151	925,462	1,109,613
Advances to customers	50,744,636	2,606,902	53,351,538
Financial assets held under resale agreements	18,953,143	—	18,953,143
Loan receivables	—	64,725	64,725
Accounts and other receivables	2,050,061	3,737,203	5,787,264
Deposits with exchanges and non-bank financial institutions	448,430	92,012	540,442
Clearing settlement funds	19,043,469	—	19,043,469
Cash and bank balances	55,989,805	5,282,458	61,272,263
	176,575,792	15,071,635	191,647,427

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64 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(c) Credit rating analysis of financial assets

The carrying amounts of debt securities at the end of the year are categorised by rating distribution as follows:

	2017	2016
Rating		
Issuers in Mainland China		
— PRC sovereign bonds	16,745,926	8,748,217
— AAA	13,298,519	6,489,911
— AA+	6,417,574	4,529,270
— AA	1,691,688	1,861,249
— AA-	—	—
— AA- below	—	—
— A-1	547,835	—
Non-rated	19,242,217	6,983,738
Sub-total	57,943,759	28,612,385
Issuers in Hong Kong and other regions		
— A	179,278	82,669
— B	1,754,647	1,535,375
— C	—	434,703
Non-rated	323,454	310,126
Sub-total	2,257,379	2,362,873
Total	60,201,138	30,975,258

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

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

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64 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk

(a) *Origin and management of market risk*

Market risks of the Group refer to the risks of loss resulting from adverse changes in the market. Securities held by the Group are derived from the proprietary investment, market-making business and other investment activities. Movements in securities holding primarily arise from the relevant strategies of proprietary investment and market-making necessity. The securities of the Group are measured at fair value which will be fluctuated daily according to the market factors and change in the portfolios of the securities. Market risks of the Group primarily include: (i) equity price risk, which represents the exposures arise from fluctuation in the spot price, future price and volatility of indices such as stocks, equity portfolio, commodities and stock index futures; (ii) interest rate risk, which primarily represents the exposures arise from movements in the yield curve of fixed income investment, fluctuation in interest rates and credit spreads; and (iii) commodity risk, which represents exposures arise from changes in the spot price, future price and volatility of foreign currency rates of securities held; and (iv) exchange rate risk, which represents the exposures arise from changes in the spot price, future price and volatility of foreign currency rates of securities held.

The Group collectively allocates the economic capital in accordance with the risk preference and risk tolerance indicators set by the directors of the Company. By considering the risk associated with each type of investments and their interrelationship, the Group diversifies the overall risk limitation to different business departments/business lines. The front-office business departments are responsible for market risk management. The person in charge and investment manager shall utilise their extensive experience and in-depth knowledge of the markets and products to conduct risk management in trading transactions within their authorities and dynamic regulate the risk exposures to the securities held in open position by taking initiative measures to mitigate or hedge against the associated market risks. The chief risk management officer (the "CRMO") is in charge of the risk management department of the Group (the "Risk Management Department"), which is independent from other business departments. By applying professional risk management tools and methods to the investment strategies, business departments/business lines and to the whole Company, Risk Management Department aims to control, evaluate and manage market risk at different levels. Reports of evaluation and risk analysis are generated and delivered to the responsible officers of the business departments/business lines and operation management of the Company on a daily, monthly or quarterly basis to facilitate decision making. When risk level is approaching or exceeds the threshold values, the Risk Management Department will warn relevant management officers in advance and discuss with the respective business management officers. According to the opinion reached through discussions, the business departments/business lines will mitigate the exposures to a level within the limits, or the respective business departments/business lines may apply for a temporary or permanent upgrade in the limits, subject to the resolutions of the relevant committees. Risk Management Department will continuously monitor and communicate directly with the respective business departments/business lines with regard to information on risk exposures, and discuss the status of risk portfolios and the losses in extreme situations.

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64 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(b) Price risk

Value at Risk ("VaR")

The Group adopts Value at Risk ("VaR") as the risk evaluation tool for measuring the market risk of the entire securities investment portfolio which comprises various financial instruments. VaR analysis is a statistical technique that estimates the potential maximum losses that could occur on risk positions due to movements in interest rates, stock prices or currency rates over a specified time period and at a given level of confidence.

The analysis of the Group's VaR (confidence level of 95% and a holding period of one trading day) by types of risks is as follows:

	2017	2016
Market risk of equity	140,829	442,101
Market risk of interest rate	60,320	32,583
Market risk of commodity	8,260	5,178
Market risk of foreign exchange	592	829
Diversification effect	(56,575)	(37,360)
Total portfolio VaR	153,426	443,331

Highest

	2017	2016
Market risk of equity	359,699	705,178
Market risk of interest rate	28,675	55,950
Market risk of commodity	2,061	4,670
Market risk of foreign exchange	926	2,810
Diversification effect	(21,461)	(98,578)
Total portfolio VaR	369,900	670,030

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64 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(b) Price risk (Continued)

Value at Risk ("VaR") (Continued)

Lowest

	At December 31,	
	2017	2016
Market risk of equity	140,829	442,101
Market risk of interest rate	60,320	32,583
Market risk of commodity	8,260	5,178
Market risk of foreign exchange	592	829
Diversification effect	(56,575)	(37,360)
Total portfolio VaR	153,426	443,331

Average

	At December 31,	
	2017	2016
Market risk of equity	195,878	571,088
Market risk of interest rate	61,684	55,805
Market risk of commodity	5,601	6,377
Market risk of foreign exchange	518	1,358
Diversification effect	(52,378)	(66,403)
Total portfolio VaR	211,303	568,225

Note: the equity market risk VaR value includes the special directional investment added in 2015 due to market stability and the equity investment generated by the entrustment fund company. Among them, the VaR value of the entrusted fund investment refers to the simulation calculation of the volatility of the CSI 300 index.

(c) Interest rate risk

The tables below summarise the Group's interest-bearing financial assets and liabilities as at year by their remaining terms to repricing or contractual maturity date, whichever is earlier. Other financial assets and liabilities not included below are not exposed to significant interest rate risk.

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64 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(c) Interest rate risk (Continued)

	At December 31, 2017						
	Less than 1 month	More than 1 month but less than 3 months	More than 3 month but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
Financial assets							
Available-for-sale financial assets	539,512	317,166	2,594,202	19,526,776	617,060	9,680,638	33,275,354
Financial assets at fair value through profit or loss	664,283	5,734,869	13,575,819	12,048,327	4,428,900	36,618,087	73,070,285
Derivative financial assets	—	—	—	—	—	1,021,640	1,021,640
Advances to customers	7,017,679	9,641,220	42,576,527	—	—	—	59,235,426
Financial assets held under resale agreements	7,021,527	3,126,742	17,149,596	8,801,458	—	—	36,099,323
Loan receivables	—	—	84,621	—	—	—	84,621
Accounts and other receivables	—	—	—	—	—	699,544	699,544
Deposit in exchanges and non-bank financial institutions	1,224,478	—	—	—	—	—	1,224,478
Clearing settlement funds	14,010,491	—	—	—	—	—	14,010,491
Cash and bank balances	52,656,695	—	—	—	—	—	52,656,695
Sub-total	83,134,665	18,819,997	75,980,765	40,376,561	5,045,960	48,019,909	271,377,857
Financial liabilities							
Borrowings	6,611,444	—	378,134	1,065,786	—	—	8,055,364
Short-term debt instruments	1,826,190	7,484,140	37,735,340	—	—	—	47,045,670
Borrowings from other financial institutions	1,470,000	—	—	—	—	—	1,470,000
Bonds payable	—	14,499,911	5,000,000	16,760,000	10,969,674	—	47,229,585
Financial assets sold under repurchase agreements	33,363,470	19,500	—	—	—	—	33,382,970
Derivative financial liabilities	—	—	—	—	—	1,584,910	1,584,910
Financial liabilities at fair value through profit or loss	127,212	273,000	2,646,784	—	—	2,445,513	5,492,509
Accounts payable to brokerage clients	51,095,335	—	—	—	—	—	51,095,335
Other payables and accrued charges	374	—	—	—	—	2,083,092	2,083,466
Sub-total	94,494,025	22,276,551	45,760,258	17,825,786	10,969,674	6,113,515	197,439,809
Net position	(11,359,360)	(3,456,554)	30,220,507	22,550,775	(5,923,714)	41,906,394	73,938,048

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64 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(c) Interest rate risk (Continued)

	At December 31, 2016						
	Less than 1 month	More than 1 month but less than 3 months	More than 3 month but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
Financial assets							
Available-for-sale financial assets	972,824	689,490	1,519,322	8,309,948	1,970,701	11,259,901	24,722,186
Financial assets at fair value through profit or loss	759,672	1,919,665	3,835,255	8,151,351	2,581,310	30,997,202	48,244,455
Derivative financial assets	—	—	—	—	—	1,109,613	1,109,613
Advances to customers	4,503,245	6,817,636	42,030,657	—	—	—	53,351,538
Financial assets held under resale agreements	2,749,087	1,067,422	8,674,423	6,462,211	—	—	18,953,143
Loan receivables	—	—	64,725	—	—	—	64,725
Accounts and other receivables	—	—	—	—	—	660,146	660,146
Deposit in exchanges and non-bank financial institutions	540,442	—	—	—	—	—	540,442
Clearing settlement funds	19,043,469	—	—	—	—	—	19,043,469
Cash and bank balances	61,272,263	—	—	—	—	—	61,272,263
Sub-total	89,841,002	10,494,213	56,124,382	22,923,510	4,552,011	44,026,862	227,961,980
Financial liabilities							
Borrowings	2,111,469	—	1,509,097	—	—	—	3,620,566
Short-term debt instruments	9,425,290	11,318,930	1,038,110	—	—	—	21,782,330
Borrowing from other financial institutions	1,500,000	—	—	—	—	—	1,500,000
Bonds payable	—	10,000,000	10,000,000	19,499,396	10,965,810	—	50,465,206
Financial assets sold under repurchase agreements	11,498,988	500,000	7,400,000	—	—	—	19,398,988
Derivative financial liabilities	—	—	—	—	—	1,842,803	1,842,803
Financial liabilities at fair value through profit or loss	2,447,097	—	—	—	—	1,992,859	4,439,956
Accounts payable to brokerage clients	67,581,720	—	—	—	—	—	67,581,720
Other payables and accrued charges	374	—	—	—	—	3,624,376	3,624,750
Sub-total	94,564,938	21,818,930	19,947,207	19,499,396	10,965,810	7,460,038	174,256,319
Net position	(4,723,936)	(11,324,717)	36,177,175	3,424,114	(6,413,799)	36,566,824	53,705,661

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64 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(c) Interest rate risk (Continued)

Sensitivity analysis

The Group conduct sensitivity analysis on interest rates to measure the impact of a reasonably possible change in interest rates on the Group's revenue and equity, assuming all other variables were held constant. Assuming a parallel change in market interest rate and without taking into account of any possible risk management activities that may be taken by the management to reduce interest rate risks, the Group's interest rate sensitivity analysis is as follows:

Sensitivity of revenue

	2017	2016
Change in basis points		
Increase by 100bps	(541,070)	(97,865)
Decrease by 100bps	555,879	109,593

Sensitivity of equity

	2017	2016
Change in basis points		
Increase by 100bps	(1,160,980)	(406,320)
Decrease by 100bps	1,204,506	429,626

(d) Foreign currency rate risk

Foreign exchange rate risk represents the adverse changes in the financial position and cash flows of the Group due to changes in foreign exchange rates. The Group conducts sensitivity analysis on foreign exchange rates to measure its foreign exchange rate risks. The table below indicates the sensitivity analysis on exchange rate changes in currencies that the Group has significant exposure, which calculates the impacts of a reasonably possible change in the exchange rate of a foreign currency against Renminbi on the revenue and equity, assuming all other variables were held constant. A negative amount reflects a potential decrease in profit before tax or equity, and a positive amount reflects a potential increase in revenue or equity.

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64 FINANCIAL RISK MANAGEMENT (Continued)

(3) Market risk (Continued)

(d) Foreign currency rate risk (Continued)

Sensitivity analysis of exchange rate

	Sensitivity of revenue and equity	
	December 31,	
	2017	2016
Change in exchange rate		
Depreciation of USD by 3%	(73,923)	(91,058)
Depreciation of HKD by 3%	(68,007)	(42,283)

The table above indicates the impacts on the revenue and equity of a depreciation of 3% in USD and HKD against Renminbi. There will be an opposite impact with the same amount as shown in the above table if the above exchange rates appreciate by the same percentage.

(4) Operational risk

The Company's operational risks arising from imperfect on the internal processes, people and systems or external events, the operational risk factors of the Company summarised into seven categories, including: internal fraud, external fraud, employee policies and workplace safety, clients, products and business activities, physical property damage, business interruption and IT system failures, execution, settlement and process management.

The Company emphasis on balance of the business scale, profitability and risk tolerance level, adhere to carry out various operations in the context of prudent operation, and will not expense the operational risk management and control. During the year 2017, the Company continued to strengthen the operational risk management, and established a sound operational risk management system gradually, which was matched with the business nature, scale and complexity so as to improve the operation management system. Through the implementation on operational risk self-examination process and data collection tools in relation to the operational risk events and losses, the Company gradually began to set up a pilot application with key operational risk indicators in order to achieve the operational risk in the next three endogenous closed-loop management tools.

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64 FINANCIAL RISK MANAGEMENT (Continued)

(5) Liquidity risk

(a) *Origin and management of liquidity risk*

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

In order to prevent liquidity risk, the Group has established high-quality current asset reserves and minimum excess reserve quota system. The Group has formulated liquidity emergency management plans to store minimum excess reserve in the capital plan. The Group has reserved treasury bond, Central Bank bills and other high-liquid assets which can be liquidised at any time under extreme circumstances for unexpected expenses. In addition, the Company has actively developed management for financing gaps. By using management tools of cash flow gap, sensitivity analysis and stress testing, the Group can identify potential risks as early as possible to arrange financing and adjust the pace of fund usage for business purposes in advance to effectively manage the payment risk. The Group has also continuously expanded their financing channels and balanced the distribution of debt maturity, so as to avoid the payment risk caused by single financing channel or servicing debts when due. Besides, the Company has established internal risk reporting system to promptly monitor the liquidity risk in the operation of each business and at each branch. Moreover, the Company takes measures to promote the safe, sound and sustainable operation of each business and each branch.

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For the year ended December 31, 2017
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64 FINANCIAL RISK MANAGEMENT (Continued)

(5) Liquidity risk (Continued)

(b) Undiscounted cash flow by contractual maturities

	As at December 31, 2017							
	Carrying amount	On demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
Financial liabilities								
Borrowings	8,055,364	5,410,964	1,203,839	11,854	410,667	1,125,356	—	8,162,680
Short-term debt instruments	47,045,670	—	1,834,953	7,602,178	39,385,671	—	—	48,822,802
Borrowings from other financial institutions	1,470,000	—	1,471,653	—	—	—	—	1,471,653
Bonds payable	47,229,585	—	—	15,559,625	6,039,693	20,103,277	12,121,450	53,824,045
Financial assets sold under repurchase agreements	33,382,970	—	33,388,256	19,719	—	—	—	33,407,975
Derivative financial liabilities	1,584,910	1,584,910	—	—	—	—	—	1,584,910
Financial liabilities at fair value through profit or loss	5,492,509	2,584,436	—	277,996	2,831,603	—	—	5,694,035
Accounts payable to brokerage clients	51,095,335	51,095,335	—	—	—	—	—	51,095,335
Other payables and accrued charges	2,083,466	2,083,466	—	—	—	—	—	2,083,466
Total	197,439,809	62,759,111	37,898,701	23,471,372	48,667,634	21,228,633	12,121,450	206,146,901

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For the year ended December 31, 2017
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64 FINANCIAL RISK MANAGEMENT (Continued)

(5) Liquidity risk (Continued)

(b) Undiscounted cash flow by contractual maturities (Continued)

	As at December 31, 2016							
	Carrying amount	On demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
Financial liabilities								
Borrowings	3,620,566	1,047,015	1,066,773	13,175	1,544,637	—	—	3,671,600
Short-term debt instruments	21,782,330	—	9,505,928	11,624,098	1,052,996	—	—	22,183,022
Borrowings from other financial institutions	1,500,000	—	1,501,074	—	—	—	—	1,501,074
Bonds payable	50,465,206	—	—	11,594,750	11,125,400	22,801,600	12,684,100	58,205,850
Financial assets sold under repurchase agreements	19,398,988	—	11,518,085	613,236	7,891,435	—	—	20,022,756
Derivative financial liabilities	1,842,803	1,842,803	—	—	—	—	—	1,842,803
Financial liabilities at fair value through profit or loss	4,439,956	2,816,736	—	—	—	1,624,572	—	4,441,308
Accounts payable to brokerage clients	67,581,720	67,581,720	—	—	—	—	—	67,581,720
Other payables and accrued charges	3,624,750	3,624,750	—	—	—	—	—	3,624,750
Total	174,256,319	76,913,024	23,591,860	23,845,259	21,614,468	24,426,172	12,684,100	183,074,883

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
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64 FINANCIAL RISK MANAGEMENT (Continued)

(6) Capital management

The Group's objectives of capital management are:

- To ensure the Group maintain sufficient capital level to retain market competitiveness, based on the Group's strategic direction;
- Adequately manage its capital resource allocation to maximise the profit and capital return;
- To actively explore the Group's source of funding, optimise the Group's assets and debt structure to enhance the use of balance sheet financing; and
- To comply with the relevant capital requirements under the PRC, Hong Kong and overseas regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2008) (the "Administrative Measures") issued by the CSRC, the Company is required to meet the following standards for risk indicators on a continual basis:

1. The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100% ("Ratio 1");
2. The ratio of core net capital divided by total on-balance-sheet and off-balance-sheet assets shall be no less than 8% ("Ratio 2");
3. The ratio of hold high-quality liquid assets divided by net cash outflows over a 30-day stress period shall be no less than 100% ("Ratio 3");
4. The ratio of available amount of stable funding divided by required amount of stable funding shall be no less than 100% ("Ratio 4");
5. The ratio of net capital divided by net asset shall be no less than 20% ("Ratio 5");
6. The ratio of net capital divided by liabilities shall be no less than 8% ("Ratio 6");
7. The ratio of net asset divided by liabilities shall be no less than 10% ("Ratio 7");
8. The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100% ("Ratio 8"); and
9. The ratio of the value of fixed income securities held divided by net capital shall not exceed 500% ("Ratio 9").

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

In June 2016, China Securities Regulatory Commission issued 《證券公司風險控制指標管理辦法》 revised and 《證券公司風險控制指標計算標準》. The above provisions implemented since October 1, 2016. At the beginning of 2017, the risk control indexes of the Company were simulated according to the relevant regulations.

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64 FINANCIAL RISK MANAGEMENT (Continued)

(6) Capital management (Continued)

As at December 31, 2017 and 2016, the Company maintained the above ratios as follows:

	2017	2016
Net capital	54,180,987	45,524,144
Net asset value	75,177,450	56,884,319
Sum of all venture capital provisions	18,059,640	14,258,394
Total On-Balance-Sheet and Off-Balance-Sheet Assets	225,840,602	168,000,436
Ratio 1	300.01%	319.28%
Ratio 2	18.57%	24.30%
Ratio 3	392.17%	151.00%
Ratio 4	132.69%	134.94%
Ratio 5	72.07%	80.03%
Ratio 6	38.10%	43.03%
Ratio 7	52.87%	53.77%
Ratio 8	30.77%	37.01%
Ratio 9	148.89%	98.12%

The above ratios are calculated based on the underlying financial statements prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprise in the PRC.

Certain subsidiaries of the Company are also subject to capital requirements under the PRC, Hong Kong and overseas regulations, imposed by the CSRC, the Hong Kong Securities and Futures Commission and the UK Financial Conduct Authority, respectively.

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65 FAIR VALUE OF FINANCIAL INSTRUMENTS

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1: Inputs are quoted prices (unadjusted) in active market for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3: Inputs are unobservable inputs for the asset or liability.

(1) Fair value of the financial assets and financial liabilities that are not measured on a recurring basis

The fair value of financial assets and financial liabilities not measured at fair value on a recurring basis is estimated using discounted cash flow method.

The directors of the Company consider that the carrying amounts of the financial assets and financial liabilities not measured at fair value on a recurring basis (including available-for-sale financial assets and financial liabilities included in the statement of financial position of the Group at amortised cost or at cost less impairment) approximate their fair values as at December 31, 2017 and 2016.

(2) Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

Since the level 2 and level 3 of financial assets and liabilities are not quoted in an active market, valuation technique is used to estimate the fair value. When estimating fair value using valuation technique, observable inputs and data from the practical market (e.g. yield curve of interest rate products, foreign currency exchange rate, implied volatility, etc) are adopted. If the observable inputs in the market cannot be obtained, the observable input data that are calibrated as closely as possible to the market observable data are used for estimating the fair value. Meanwhile, the credit risk, volatility, correlation, etc of the Group and the counterparty are estimated by the management. The changing of these factors will affect the estimated fair value of the financial instruments, therefore there were uncertainty of accounting estimation on the level 2 and level 3 of financial assets and liabilities.

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65 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The valuation techniques and input used in the fair value measurements of financial instruments as set out below:

Financial assets/ financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2017	2016				
1) Financial assets at fair value through profit or loss						
Debt securities						
— Traded on stock exchanges	4,721,302	4,008,889	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded on inter-bank market	31,885,121	13,504,084	Level 2	Discounted cash flows with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	N/A	N/A
Equity securities						
— Traded on stock exchanges	9,830,939	7,631,195	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded National Securities Exchange and Quotation System	659,375	854,479	Level 1	Based on recent trading prices in an active market.	N/A	N/A
— Traded on stock exchange (Restricted share)	1,657,627	1,388,983	Level 2	Based on the quoted market prices with an adjustment of discount for lack of marketability.	N/A	N/A
— Unlisted	177,756	78,270	Level 3	Recent transaction prices.	Recent transaction prices	The higher the recent transaction price, the higher the fair value.
	237,622	276,528	Level 3	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	Third party valuation of underlying investment portfolio.	The higher the third party valuation, the higher the fair value.
Funds						
— Listed	2,363,564	2,547,904	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Unlisted	18,320,405	15,238,267	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
Others						
— Wealth management and trust products and others	163,262	253,743	Level 1	Quoted closing prices in an active market.	N/A	N/A
	1,498,696	1,543,113	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
	1,554,616	919,000	Level 3	Based on the net asset values of the investment, determined with reference to third party valuation of underlying investment portfolio and adjustments of related expenses.	Third party valuation of underlying investment portfolio.	The higher the third party valuation,

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65 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Financial assets/ financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2017	2016				
2) Available-for-sale financial assets						
Debt securities						
— Traded on stock exchanges	14,165,961	10,029,318	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded on inter-bank market	9,428,754	3,432,967	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
Equity securities						
— Traded on stock exchanges	132,705	1,164,766	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded National Securities Exchange and Quotation System	289,880	100,000	Level 1	Based on recent trading prices in an active market.	N/A	N/A
— Restricted share	—	190,177	Level 2	Discounted cash flows. The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.	N/A	N/A
— Traded on National Securities Exchange and Quotation System (Restricted share)	44,525	202,542	Level 2	Discounted cash flows. The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.	N/A	N/A
— Unlisted equity investment	760,000	—	Level 3	Recent transaction prices.	Recent transaction prices	The higher the recent transaction price, the higher the fair value.
Funds						
— Listed	—	3,088	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Unlisted	—	10,065	Level 1	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
Others						
— Wealth management and trust products and others	8,453,528	9,589,263	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A

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65 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Financial assets/ financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2017	2016				
3) Derivative financial instruments						
— Interest rate swap — assets	112,806	162,268	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
— Interest rate swap — liabilities	112,576	211,660	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
— Equity return swap — assets	38,633	9,393	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
— Equity return swap — liabilities	3,665	98,414	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
— Stock index future — assets (note)	—	467	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Stock index future — liabilities (note)	1,241	173	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Treasury bond futures — assets (note)	700	210	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Treasury bond futures — liabilities (note)	—	1,347	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Commodity swap — assets	262,359	105,608	Level 2	Quoted closing prices in an active market.	N/A	N/A
— Commodity swap — liabilities	—	—	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty.	N/A	N/A
— Commodity futures — assets (note)	469,952	813,111	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Commodity futures — liabilities (note)	990,684	1,475,232	Level 1	Quoted closing prices in an active market.	N/A	N/A

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65 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Financial assets/ financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2017	2016				
3) Derivative financial instruments (Continued)						
— Options — assets	32,758	9,400	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Options — liabilities	60,358	43,823	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Over-the-counter options — assets	102,822	3,056	Level 2	Option pricing model	N/A	N/A
— Over-the-counter options — liabilities	303,557	12,008	Level 2	Option pricing model	N/A	N/A
— Forward contracts — assets	1,610	132	Level 2	Discounted cash flows with future cash flows that are estimated based on future rates and contractual rates, discounted at a rate that reflects the credit risk of counterparty	N/A	N/A
	—	5,564	Level 2	Measured at fair value based on brokers quoted price — Market brokers' quoted price	N/A	N/A
— Forward — liabilities	112,829	—	Level 2	Discounted cash flows with future cash flows that are estimated based on future rates and contractual rates, discounted at a rate that reflects the credit risk of counterparty	N/A	N/A
— Credit default swap- asset	—	404	Level 2	Measured at fair value based on brokers quoted price — Market brokers' quoted price	N/A	N/A
— Credit default swap- liabilities	—	146	Level 2	Measured at fair value based on brokers quoted price — Market brokers' quoted price	N/A	N/A
4) Financial liabilities at fair value through profit or loss						
— Designated at fair value through profit or loss	2,034,637	1,643,371	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
— Financial liabilities held for trading	3,127,072	231,050	Level 1	Quoted closing prices in an active market.	N/A	N/A
	330,800	2,565,535	Level 2	Discounted cash flows with future cash flows, that are estimated based on yield curves.	N/A	N/A

Note: Under the daily mark-to-market and settlement arrangement, any gains or losses of the stock index futures, treasury bond futures, commodity futures and options were settled daily and the corresponding receipts and payments were included in "clearing settlement funds" as at December 31, 2017 and 2016. Accordingly, the net position of the stock index futures contracts was nil at the end of each reporting period.

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65 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Analysis of financial instruments, measured at fair value at the end of the year, by level in the fair value hierarchy into which the fair value measurement is categorised as follows:

	At December 31, 2017			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
— Debt securities	4,721,302	31,885,121	—	36,606,423
— Equity investments	10,490,314	1,657,627	415,378	12,563,319
— Funds	2,363,564	18,320,405	—	20,683,969
— Others	163,262	1,498,696	1,554,616	3,216,574
	17,738,442	53,361,849	1,969,994	73,070,285
Derivative financial assets	503,410	518,230	—	1,021,640
Available-for-sale financial assets				
— Debt securities	14,165,961	9,428,754	—	23,594,715
— Equity investments	422,585	44,525	760,000	1,227,110
— Others	—	8,453,528	—	8,453,528
	14,588,546	17,926,807	760,000	33,275,353
Total	32,830,398	71,806,886	2,729,994	107,367,278
Financial liabilities				
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	3,127,072	2,365,437	—	5,492,509
	1,052,283	532,627	—	1,584,910
Total	4,179,355	2,898,064	—	7,077,419

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65 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	At December 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
— Debt securities	4,008,889	13,504,084	—	17,512,973
— Equity investments	8,485,674	1,388,983	354,798	10,229,455
— Funds	2,547,904	15,238,267	—	17,786,171
— Others	253,743	1,543,113	919,000	2,715,856
	15,296,210	31,674,447	1,273,798	48,244,455
Derivative financial assets	823,188	286,425	—	1,109,613
Available-for-sale financial assets				
— Debt securities	10,029,318	3,432,967	—	13,462,285
— Equity investments	1,264,766	392,719	—	1,657,485
— Funds	3,088	10,065	—	13,153
— Others	—	9,589,263	—	9,589,263
	11,297,172	13,425,014	—	24,722,186
Total	27,416,570	45,385,886	1,273,798	74,076,254
Financial liabilities				
Financial liabilities at fair value through profit or loss	231,050	4,208,906	—	4,439,956
Derivative financial liabilities	1,520,575	322,228	—	1,842,803
Total	1,751,625	4,531,134	—	6,282,759

As of December 31, 2017 and 2016, there was no significant conversion at Level 1, Level 2 and Level 3 of the fair value hierarchy.

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65 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Level 3 fair value measurements

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
As at January 1, 2017	1,273,798	—	1,273,798
Gain or losses for the year	7,461	—	7,461
Purchases	4,987,533	760,000	5,747,533
Sales and settlements	(4,298,798)	—	(4,298,798)
As at December 31, 2017	1,969,994	760,000	2,729,994
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	7,461	—	7,461

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
As at January 1, 2016	1,649,518	—	1,649,518
Gain or losses for the year	26,846	—	26,846
Purchases	461,005	—	461,005
Sales and settlements	(863,571)	—	(863,571)
As at December 31, 2016	1,273,798	—	1,273,798
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	26,846	—	26,846

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66 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group offsets the following financial assets and financial liabilities since the Group currently has a legally enforceable right to set off the balances, and intends either to settle on a net basis, or to realise the balances simultaneously.

Under the continuous net settlement, money obligations receivable and payable with Hong Kong Securities Clearing Company Limited on the same settlement date are settled on a net basis.

Type of financial assets	December 31, 2017					
	Gross amounts of recognise financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
Advances to customers	59,235,426	—	59,235,426	(54,226,063)	(5,009,363)	—
Accounts receivable from clearing houses, brokers and dealers	183,632	(58,180)	125,452	—	—	125,452
	59,419,058	(58,180)	59,360,878	(54,226,063)	(5,009,363)	125,452

Type of financial liabilities	December 31, 2017					
	Gross amounts of recognise financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
Accounts payable to brokerage client	(125,452)	58,180	(67,272)	—	—	(67,272)
Derivatives instruments	1,662,802	(77,892)	1,584,910	—	—	1,584,910
	1,537,350	(19,712)	1,517,638	—	—	1,517,638

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66 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Type of financial assets	December 31, 2016					
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
Advances to customers	53,351,538	—	53,351,538	(46,810,545)	(6,540,993)	—
Accounts receivable from clearing houses, brokers and dealers	297,691	(284,764)	12,927	—	—	12,927
Derivatives instruments	1,140,969	(31,356)	1,109,613	—	—	1,109,613
	54,790,198	(316,120)	54,474,078	(46,810,545)	(6,540,993)	1,122,540

Type of financial liabilities	December 31, 2016					
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
Accounts payable to brokerage clients	414,376	(284,764)	129,612	—	—	129,612
Derivatives instruments	1,842,803	—	1,842,803	—	—	1,842,803
	2,257,179	(284,764)	1,972,415	—	—	1,972,415

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66 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

The Group has entered into master netting arrangements with counterparties for the derivative instruments, account receivable from dealer and broker and also with clearing house for un-settled trades.

The Group has entered into master netting arrangements with Hong Kong Securities Clearing Company Limited for un-settled trades, net receivables and payables are settled in the same settlement days as the company.

Except for the enforceable master netting arrangements and the offset-right of the financial assets under the similar agreements disclosed above, the collateral of which, such as financial assets held under resale agreement, financial assets sold under repurchase agreement, secured loan receivables and margin accounts receivable, are disclosed in the corresponding notes, which are generally not on the net basis in financial position. However, assuming the fair value of the collateral is presented on net basis, the risk exposure of the corresponding accounts will be lowered accordingly. As at December 31, 2017 and 2016, due to the fair value of the collateral is higher than the book value of the financial instruments, collateral net exposure after offset and net amount is considered non-significant.

67 CONTINGENCIES

As at December 31, 2017 and 2016, the Group were not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, the Group expect would materially adversely affect their financial position or results of operations.

68 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The following table only contains details of subsidiaries that have significant influence on the Group's performance, assets or liabilities. Unless otherwise stated, the type of shares held is Ordinary Share.

	As at December 31	
	2017	2016
Unlisted shares, at cost	6,208,019	6,108,019

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68 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation/ establishment/ date of establishment	Proportion ownership interest held by the Company		Issued and fully paid share capital	Principal Activities
		2017	2016		
China Merchants Securities International Company Limited ⁽¹⁾	HK July 14, 1999	100%	100%	HK\$1,803,627,390	Investment holding
China Merchants Securities (HK) Co., Limited	HK October 4, 1986	100%	100%	HK\$3,500,000,000	Securities brokerage
China Merchants Futures (HK) Co., Limited	HK January 19, 2001	100%	100%	HK\$200,000,000	Futures brokerage
China Merchants Securities Investment Management (HK) Co., Limited	HK September 18, 2006	100%	100%	HK\$400,000,000	Investment holding
CMS Capital (HK) Co., Limited	HK August 1, 2003	100%	100%	HK\$5,000,000	Assets management
CMS Asset Management (HK) Co., Limited	HK August 13, 2008	100%	100%	HK\$10,000,000	Assets management
China Merchants Futures Co., Ltd. ⁽¹⁾	PRC April 4, 1993	100%	100%	RMB630,000,000	Futures brokerage
China Merchants Zhiyuan Capital Investment Co., Ltd. ⁽¹⁾	PRC August 28, 2009	100%	100%	RMB1,800,000,000	Investment advisory
Shenzhen China Merchants Zhiyuan Consultancy Services Co., Ltd.	PRC July 25, 2011	100%	100%	RMB3,000,000	Consulting services
Shenzhen Yuansheng Investment Management Co., Ltd.	PRC December 20, 2012	60%	60%	RMB5,000,000	Investment management
Beijing Zhiyuan Lixin Investment Management Co., Ltd.	PRC April 23, 2013	100%	100%	RMB10,000,000	Investment management
Shenzhen China Merchants Zhiyuan Equity Investment and Funds Management Co., Ltd.	PRC May 29, 2013	70%	70%	RMB15,000,000	Investment management
Ganzhou China Merchants Zhiyuan No. 1 Fund Management Co., Ltd.	PRC June 7, 2013	100%	100%	RMB10,000,000	Investment management
Jiangxi Zhiyuan Development Investment Management Co., Ltd.	PRC July 2, 2013	51%	51%	RMB10,000,000	Investment management
Ganzhou Zhaoyuan Investment Management Co., Ltd.	PRC October 14, 2013	100%	100%	RMB10,000,000	Investment management
Anhui China Merchants Innovative Investment Management Co., Ltd.	PRC March 4, 2015	100%	100%	RMB25,000,000	Investment management
Shenzhen Zhiyuan Business Development and Funds Investment Management Co., Ltd.	PRC January 23, 2015	53.85%	53.85%	RMB10,000,000	Investment management

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68 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation/ establishment/ date of establishment	Proportion ownership interest held by the Company		Issued and fully paid share capital	Principal Activities
		2017	2016		
Qingdao Guoxin China Merchants and Business Development Investment Management Co., Ltd.	PRC February 6, 2015	65%	65%	RMB10,000,000	Investment management
Shenzhen China Merchants Business Development Investment Co., Ltd.	PRC June 24, 2015	100%	100%	RMB5,000,000	Investment management
Shenyang China Merchants Business and Development Investment Management Co., Ltd.	PRC July 10, 2015	70%	70%	RMB4,000,000	Investment management
China Merchants Securities Investment Co., Ltd. ⁽¹⁾	PRC December 2, 2013	100%	100%	RMB1,200,000,000	Investment holding
China Merchants Securities Asset Management Co., Ltd. ⁽¹⁾	PRC April 3, 2015	100%	100%	RMB1,000,000,000	Assets management
China Merchants Securities (UK) Limited	UK October 25, 2013	100%	100%	US\$22,000,000	Futures brokerage
Qingdao China Merchants Zhiyuan Investment Management Co., Ltd.	PRC January 12, 2016	100%	100%	RMB10,000,000	Venture capital, investment in fund and financial assets
Anhui Zhiyuan Smart City Fund Management Co., Ltd.	PRC March 15, 2016	100%	100%	RMB4,500,000	Equity fund management, investment advisory service, investment management, financial consultancy service
China Merchants Securities (HK) Finance Co., Limited	HK May 14, 2016	100%	100%	HK\$500,000	Investment and financing Management
China Merchants Securities Capital Investment Co., Ltd.*	PRC August 8, 2016	100%	100%	RMB200,000,000	Financial services
Shenzhen China Merchants Zhiyuan Culture Investment Management Co., Ltd.*	PRC November 16, 2016	72%	72%	RMB10,000,000	Investment management and financial consultancy
Anhui Traffic Control China Merchants Fund Management Co., Ltd. ⁽⁴⁾	PRC April 6, 2017	70%	—	RMB30,000,000	Investment management
China Merchants Securities (Korea) Co., Ltd. ⁽⁴⁾	Korea January 9, 2017	100%	—	KRW8,523,900,000	Securities brokerage, Futures brokerage

* These subsidiaries do not have official English names. English translated names are for identification only.

(1) These subsidiaries are directly held by the Company.

(2) The directors of the Company considered that none of the non-wholly owned subsidiaries is having material non-controlling interests at the end of the year, therefore there are no further information presented.

(3) None of the subsidiaries had issued any debt securities during the current and prior year.

(4) Being the subsidiaries incorporated during the year ended 2017.

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69 STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	Notes	2017	2016
Non-current assets			
Property and equipment		1,765,280	1,720,961
Other intangible assets		3,000	3,645
Investments in subsidiaries, at cost	68	6,208,019	6,108,019
Interests in associates		6,492,907	5,251,349
Available-for-sale financial assets		7,636,599	8,718,046
Financial assets held under resale agreements		8,801,458	6,462,211
Deferred tax assets		769,979	1,038,103
Other non-current assets		185,238	185,027
Total non-current assets		31,862,480	29,487,361
Current assets			
Advances to customers		54,374,650	50,744,636
Accounts and other receivables		2,616,281	1,981,422
Current tax assets		422,064	409,151
Amount due from a subsidiary		1,502,860	1,502,860
Available-for-sale financial assets		24,387,785	15,090,640
Financial assets held under resale agreements		26,797,465	12,351,029
Financial assets at fair value through profit or loss		64,165,215	38,512,887
Derivative financial assets		284,158	184,151
Deposits in exchanges and non-bank financial institutions		1,032,937	604,736
Clearing settlement funds		10,885,489	15,212,214
Cash and bank balances		40,534,612	51,334,290
Total current assets		227,003,516	187,928,016
Total assets		258,865,996	217,415,377

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69 STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

	Notes	2017	2016
Current liabilities			
Short-term debt instruments		47,065,670	21,782,330
Borrowings from other financial institutions		1,470,000	1,500,000
Accounts payable to brokerage clients		41,493,367	54,745,985
Accrued staff costs		4,255,789	4,315,034
Other payables and accrued charges		3,672,731	4,228,039
Financial liabilities at fair value through profit or loss		3,046,996	2,447,097
Derivative financial liabilities		589,265	365,905
Financial assets sold under repurchase agreements		33,382,970	19,398,988
Long-term borrowings due within one year		378,134	368,596
Bonds payable due within one year		19,499,911	5,000,000
Total current liabilities		154,854,833	114,151,974
Net current assets		72,148,683	73,776,042
Total assets less current liabilities		104,011,163	103,263,403
Equity			
Share capital	46	6,699,409	6,699,409
Other equity instruments	47	15,000,000	—
Capital reserve		27,460,042	27,460,042
Investment revaluation reserve		328,843	(517,487)
General reserves		12,790,340	11,498,783
Retained profits		12,898,816	11,743,572
Total equity		75,177,450	56,884,319
Non-current liabilities			
Accrued staff costs		787,540	787,540
Deferred tax liabilities		190,499	338
Deferred income		126,000	126,000
Bonds payable		27,729,674	45,465,206
Total non-current liabilities		28,833,713	46,379,084
Total equity and non-current liabilities		104,011,163	103,263,403

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69 STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

The movements in the Company's reserves are set out as below:

Capital reserve

For the year ended December 31, 2017

	Opening	Addition	Closing
Capital reserve	27,460,042	—	27,460,042

For the year ended December 31, 2016

	Opening	Addition	Closing
Capital reserve	19,403,877	8,056,165	27,460,042

Investment revaluation reserve

	As at December 31,	
	2017	2016
At beginning of the year	(517,487)	93,907
Available-for-sale financial assets		
Net fair value changes during the year	1,009,815	(515,122)
Reclassification adjustment to profit or loss	125,157	(306,691)
Income tax impact	(283,743)	205,453
Share of fair value gain on available-for-sale financial assets held by associates	(4,899)	4,966
At end of the year	328,843	(517,487)

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69 STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

The movements in the Company's reserves are set out as below: (Continued)

*General reserves***For the year ended December 31, 2017**

	Opening	Addition	Closing
Statutory reserve	3,875,865	430,519	4,306,384
General risk reserve	3,875,865	430,519	4,306,384
Transaction risk reserve	3,747,053	430,519	4,177,572
	11,498,783	1,291,557	12,790,340

For the year ended December 31, 2016

	Opening	Addition	Closing
Statutory reserve	3,415,540	460,325	3,875,865
General risk reserve	3,415,540	460,325	3,875,865
Transaction risk reserve	3,286,727	460,326	3,747,053
	10,117,807	1,380,976	11,498,783

Retained profits

The movements of retained profits of the Company are set out below:

	2017	2016
At the beginning of the year	11,743,572	10,850,355
Profit for the year	4,305,186	4,603,255
Appropriation to general reserves	(1,291,557)	(1,380,976)
Distribution to the holders of other equity instruments	(592,196)	—
Dividends recognised as distribution	(1,266,189)	(2,329,062)
At the end of the year	12,898,816	11,743,572

The Company's distributable profits are based on the retained profits of the Company determined under Accounting Standards of Business Enterprises and IFRSs, whichever is lower.

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70 LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Borrowings	Payable for short-term financing	Bonds Payable	Total
As at January 1, 2017	3,620,566	21,782,330	50,465,206	75,868,102
Cash flow from financing activities (Note)	4,696,786	24,588,775	(6,326,312)	22,959,249
Financing cost incurred	115,706	748,056	2,610,730	3,474,492
Change in interest payable	(2,075)	(73,491)	479,961	404,395
Exchange differences	(375,619)	—	—	(375,619)
As at December 31, 2017	8,055,364	47,045,670	47,229,585	102,330,619

Note: The cash flows represent the proceeds from and repayment of borrowings, payable for short-term financing, bond payable and interest paid in the consolidated statements of cash flows.

71 EVENTS AFTER THE REPORTING PERIOD

(1) Profit distribution

Pursuant to the board resolution on March 27, 2018, the Company's 2017 profit distribution plan was to distribute a cash dividend of RMB3.46 (including tax) for every 10 shares. The proposal still needs to be submitted to the general meeting of shareholders for consideration.

(2) Issuance and repayment of corporate bonds

From January 2018 to the date of approval of this report, the Group issued a total of RMB6.17 billion of non-public corporate bonds. The size of issuance was "18 China Merchants F1" RMB2.05 billion with durations of 180 days; "18 China Merchants F2" RMB3 billion with durations of 365 days and "18 China Merchants F3" RMB1.120 billion with durations of 180 days, the coupon rates are 5.15% p.a., 5.30% p.a. and 5.18% p.a., respectively. Public offerings of 2018 corporate bonds "18 China Merchants G1" for qualified investors is RMB19.40 billion with duration of three years, carried at coupon rate 5.35% p.a.. The 2012 corporate bonds "12 China Merchants 01" and "12 China Merchants 02" are due to repay the principal and interest, the scale is RMB3 billion and RMB1.5 billion, respectively, the interest rate is 4.45% p.a. and 4.80% p.a. respectively.

(3) Issuance and maturity redemption of subordinated bonds

From January 2018 to the date of approval of this report, the Group issued the first phase of the subordinated bonds "18 China Merchants C1" and the second phase of "18 China Merchants C2", with an issuance size of RMB1.64 billion and RMB5.150 billion, respectively. The coupon rates were 5.56% p.a. and 5.70% p.a., respectively. The redemption of the 2015 second-phase subordinated bonds "15 China Merchants 02" occurred with a scale RMB10 billion at coupon rate 5.58% p.a..

Notes to the Consolidated Financial Statements

For the year ended December 31, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

71 EVENTS AFTER THE REPORTING PERIOD (Continued)

(4) Payment of perpetual subordinated bond interest

From January 2018 to the date of approval of this report, the Group paid a total of RMB464,700 thousand in interest for the first phase issuance of perpetual subordinated bonds “17 China Merchants Y1” and the second phase issuance of perpetual subordinated bonds “17 China Merchants Y2”.

(5) Capital increase of wholly-owned subsidiaries

Pursuant to the board resolution on June 28, 2017 by China Merchants Securities Co., Ltd., and with the approval of the relevant regulatory authorities, China Merchants Securities Co., Ltd. completed the capital increase of HK\$2.3 billion to a wholly-owned subsidiary China Merchants Securities International Company Limited on March 20, 2018. China Merchants Securities International Company Limited completed the capital increase of HK\$ 2 billion to a wholly-owned subsidiary China Merchants Securities (HK) Co., Ltd., and completed the relevant registration and filing procedures as required by law on the same day.



Chapter 11: Documents Available for Inspection

Documents available for inspection	(I) Financial statements with signatures and seals of the authorized representative of the Company, person-in-charge of accounting and the head of accounting department.
Documents available for inspection	(II) Original copy of the auditor's report stamped with the seals of the accounting firm and signatures and seals of the registered accountants.
Documents available for inspection	(III) Original copies of all documents and announcements published by the Company during the Reporting Period on the designated websites of the place where the Company's securities are listed.
Documents available for inspection	(IV) Other relevant information.

Chairman of the Board: HUO Da

Submission date approved by the Board: March 27, 2018

Chapter 12: Information Disclosure of a Securities Company

I. Relevant Information on the Major Administrative Approvals of the Company

No.	Issuing authority	Title	Document No.	Date of announcement
1	Shanghai Stock Exchange	No Objection Letter for the Offer for Sale of Short-term Corporate Bonds Privately Issued by China Merchants Securities Co., Ltd.	Shang Zheng Han [2017] No. 44	January 10, 2017
2	Shanghai Stock Exchange	No Objection Letter for the Offer for Sale of Subordinated Bonds Privately Issued by China Merchants Securities Co., Ltd.	Shang Zheng Han [2017] No. 100	January 24, 2017
3	CSRC Shenzhen Office	Approval of CSRC Shenzhen Office on the Opening of 17 Branches by China Merchants Securities Co., Ltd.	Shen Zheng Ju Xu Ke Zi [2017] No. 12	February 6, 2017
4	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of HUO Da as a Chairman of a Securities Firm	Shen Zheng Ju Xu Ke Zi [2017] No. 30	May 25, 2017
5	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of WANG Zhangwei as a Supervisor of a Securities Firm	Shen Zheng Ju Xu Ke Zi [2017] No. 34	June 29, 2017
6	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of CHEN Zhigang as a Director of a Securities Firm	Shen Zheng Ju Xu Ke Zi [2017] No. 35	June 29, 2017
7	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of MA Yunchun as a Supervisor of a Securities Firm	Shen Zheng Ju Xu Ke Zi [2017] No. 36	June 29, 2017
8	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of SU Jian as a Director of a Securities Firm	Shen Zheng Ju Xu Ke Zi [2017] No. 38	June 29, 2017
9	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of XIAO Houfa as an Independent Director of a Securities Firm	Shen Zheng Ju Xu Ke Zi [2017] No. 39	July 17, 2017
10	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of HU Honggao as an Independent Director of a Securities Firm	Shen Zheng Ju Xu Ke Zi [2017] No. 42	July 18, 2017
11	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of XIANG Hua as an Independent Director of a Securities Firm	Shen Zheng Ju Xu Ke Zi [2017] No. 44	July 18, 2017
12	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of XIONG Wei as an Independent Director of a Securities Firm	Shen Zheng Ju Xu Ke Zi [2017] No. 50	August 3, 2017
13	CSRC	Approval on the Public Offering of Corporate Bonds by China Merchants Securities Co., Ltd. to Qualified Investors	Zheng Jian Xu Ke [2017] No. 1669	September 11, 2017



Chapter 12: Information Disclosure of a Securities Company

II. Classification of the Company by the Regulatory Department

Year	Results
2017	AA (Class A)
2016	AA (Class A)
2015	AA (Class A)



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