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

2018 Interim Report

Important Notice

I. The Board, the Supervisory Committee, Director(s), Supervisor(s) and Senior Management of the Company Undertake that the Information in this Interim Report is True, Accurate and Complete and Contains no False Record, Misleading Statement or Material Omission, and Assume Joint and Several Liabilities to the Information in this Report.

II. All Directors of the Company Attended the 12th Meeting of the Sixth Session of the Board Held on August 29, 2018 to Review the Group's Interim Report for the Six Months Ended June 30, 2018.

III. This Interim Report has not been Audited.

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 Interim Report are True, Accurate and Complete.

V. No Proposal on Profit Distribution or Capitalization of Common Reserve for the Reporting Period was Proposed by the Board of the Company.

VI. Risks Statement Relating to Forward-looking Statements

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

VII. There is no Appropriation of the Company's Funds by the Controlling Shareholder and Its Associates for Non-operating Purposes.

VIII. There is no Provision of Guarantee by the Company in Favour of any Third Party in Violation of the Prescribed Decision-making Procedures.

IX. The Report is Prepared in both Chinese and English. In the Event of any Discrepancy Between the Chinese and English Versions of this Report, 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 the "Potential risks and corresponding measures" in "Chapter 4 Report of the Board of Directors" 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》) as amended, supplemented or otherwise modified from time to time
"Securities Law"	the Securities Law of the PRC (《中華人民共和國證券法》) as amended, supplemented or otherwise modified from time to time
"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)

Chapter 1: Definition

Common terms and expressions	
"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 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)
"CM Steam Navigation"	China Merchants Steam Navigation Co., Ltd. (招商局輪船有限公司)
"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., Ltd. (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)

Common terms and expressions	
"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)
"Essence Securities"	Essence Securities Co., Ltd. (安信證券股份有限公司)
"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
"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
"The Reporting Period", "The current period"	from January 1,2018 to June 30, 2018
"Previous Period"	from January 1,2017 to June 30, 2017
RMB, RMB10,000, and RMB100 million	Renminbi 1 Yuan, Renminbi 10,000 Yuan and Renminbi 100 million Yuan
"AUM"	the amount of assets under management

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 of Chinese name of the Company	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 (Note)
Authorized representatives of the Company	WU Huifeng, PENG Lei

Note: On August 17, 2018, Mr. WANG Yan resigned such positions as our Executive Director, member of the Strategy Committee of the Board, member of the Risk Management Committee of the Board, member of the Nomination Committee of the Board, the President and Chief Executive Officer. Mr. WANG Yan held no position of the Company since the resignation. Mr. HUO Da, the Chairman, now serves as our President temporally.

List of Members of the Board, Supervisory Committee and Board Committees

Members of the Board

Executive Directors

Mr. HUO Da *(Chairman of the Board)*

Mr. XIONG Jiantao *(Chief Operating Officer and Vice President)*

Non-executive Directors

Ms. SU Min

Mr. XIONG Xianliang

Mr. SU Jian

Ms. PENG Lei

Mr. HUANG Jian

Mr. WANG Daxiong

Mr. CHEN Zhigang

Independent Non-executive Directors

Mr. XIANG Hua

Mr. XIAO Houfa

Mr. XIONG Wei

Mr. HU Honggao

Mr. WONG Ti

Supervisory Committee

Ms. ZHOU Linda Lei *(Chairman)*

Mr. LI Xiaofei

Mr. WANG Zhangwei

Mr. MA Yunchun

Mr. FANG Xiaobing

Mr. ZHANG Zehong

Ms. YIN Hongyan

Ms. HE Min

Mr. XIONG Zhigang

Members of Board Committees

Strategy Committee

Mr. HUO Da *(Chairman)*

Mr. XIONG Jiantao

Mr. XIONG Xianliang

Mr. WANG Daxiong

Mr. CHEN Zhigang

Mr. XIANG Hua

Risk Management Committee

Ms. SU Min *(Chairman)*

Mr. SU Jian

Ms. PENG Lei

Mr. WANG Daxiong

Mr. CHEN Zhigang

Mr. XIANG Hua

Audit Committee

Mr. XIAO Houfa *(Chairman)*

Mr. SU Jian

Mr. HUANG Jian

Mr. HU Honggao

Mr. WONG Ti

Nomination Committee

Mr. XIONG Wei *(Chairman)*

Ms. PENG Lei

Mr. XIAO Houfa

Mr. HU Honggao

Remuneration and Appraisal Committee

Mr. XIANG Hua (Chairman)

Ms. SU Min

Ms. PENG Lei

Mr. XIONG Wei

Mr. WONG Ti

Registered Capital and Net Capital of the Company

Unit: RMB Currency: RMB

	At the end of the Reporting Period	At the end of last year
Registered capital	6,699,409,329.00	6,699,409,329.00
Net capital	51,515,163,318.53	54,180,986,692.26

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	Conducting pilot cross-border businesses	the Securities and Fund Institution Supervision Department of the CSRC	April 2018
2	Core dealer of credit risk mitigation instruments	National Association of Financial Market Institutional Investors	January 2017
3	Qualification to issue credit risk mitigation certificates	National Association of Financial Market Institutional Investors	January 2017
4	Qualification to issue credit-linked notes	National Association of Financial Market Institutional Investors	January 2017
5	Non-bank member of the Shanghai Commercial Paper Exchange	The People's Bank of China	November 2016
6	Trading Authority for Access to Southbound Trading Business under Shenzhen-Hong Kong Stock Connect	Shenzhen Stock Exchange	November 2016

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

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

Number	Qualification	Approval authority	Date of approval
47	Qualification for operation of foreign shares business	CSRC	September 2002
48	Qualification for open-end securities investment fund consignment business	CSRC	August 2002
49	Qualification for online securities agency business	CSRC	February 2001
50	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	Market – making business	China Futures Association	March 2018
2	Licence for basis trading	China Futures Association	April 2017
3	Licence for pricing services	China Futures Association	April 2017
4	Licence for cooperative hedging	China Futures Association	March 2017
5	Licence for warehouse receipt services	China Futures Association	December 2016
6	Filing for entry of the interbank bond market	The People's Bank of China	July 2016
7	Licence for asset management	CSRC	March 2013
8	Licence for futures investment consulting	CSRC	August 2011
9	Licence for financial futures brokerage	CSRC	October 2007
10	Licence for commodities futures brokerage	CSRC	January 1993

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

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

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

	Joint Company Secretaries	
Name	WU Huifeng	KWONG Yin Ping Yvonne
Correspondence address	45/F, Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen	40/F, Sunlight Tower, 248 Queen's Road East, Wan Chai, Hong Kong

III. Updates on 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
Enquiry index for changes during the Reporting Period	During the Reporting Period, the Company had no registration changes. The inquiry index is: http://www.szcredit.com.cn/web/Index.aspx (Name: China Merchants Securities Co., Ltd.)

IV. Changes on Information Disclosure and Place of Document Inspection

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

Language and means of receipt of Corporation Communication

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

- to read and/or download the corporate communication published on the Company's website at http://www.newone.com.cn/public/tzzgx/en/index.html and receive written notice for the publication of the corporate communication; or
- to receive printed English version of all corporate communications only; or
- to receive printed Chinese version of all corporate communications only; or
- to receive both printed English and Chinese versions of all corporate communications.

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

- by mail: 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
- by email: chinamerchantssecurities.ecom@computershare.com.hk

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

V. 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	—

VI. Other Information

(1) Legal advisers

Legal advisers in the PRC: Jia Yuan Law Offices (F408, Ocean Plaza, 158 Fuxing Men Nei Street, Xicheng District, Beijing, the PRC)

Legal advisers in Hong Kong: King & Wood Mallesons (13/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Central Hong Kong)

(2) Accounting firms

Domestic accounting firm: Deloitte Touche Tohmatsu Certified Public Accountants LLP

Office address: 30/F, Bund Center, 222 Yan'an Road East, Shanghai, the PRC

International accounting firm: Deloitte Touche Tohmatsu

Office address: 35/F, One Pacific Place, 88 Queensway, Hong Kong

(3) Share registrars

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

Office address: 36/F, China Insurance Building, 166 Lujiazui East Road, Pudong New District, Shanghai, the PRC

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

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

VII. Key Accounting Data and Financial Indicators

(I) Key accounting data

Unit: RMB'000 Currency: RMB

Key accounting data	January to June in 2018	January to June in 2017	Change (%)
Total revenue and other income	8,297,775	8,542,017	-2.86
Net profit attributable to shareholders of the Company	1,806,617	2,552,259	-29.21
Net profit attributable to shareholders of the Company after deduction of non-recurring profit or loss	1,799,018	2,565,770	-29.88
Net cash from operating activities	12,072,120	8,401,901	43.68
Other comprehensive income	31,408	424,728	-92.61

Unit: RMB'000 Currency: RMB

	As at the end of June 2018	As at the end of 2017	Change (%)
Total assets	298,078,432	285,643,555	4.35
Total liabilities	219,645,436	206,309,851	6.46
Equity attributable to shareholders of the Company	78,350,020	79,230,149	-1.11
Total equity	78,432,996	79,333,704	-1.14

(II) Major financial indicators

Major financial indicators	The Reporting Period (January to June)	The Corresponding Period of last year	Change (%)
Basic earnings per share (RMB per share)	0.2098	0.3529	-40.55
Diluted earnings per share (RMB per share)	0.2098	0.3529	-40.55
Basic earning per share after deduction of non-recurring profit or loss (RMB per share)	0.2087	0.3549	-41.21
Weighted average return on net asset (%)	2.16	3.88	Decreased by 1.72 percentage point
Weighted average return on net asset after deduction of non-recurring profit or loss (%)	2.15	3.90	Decreased by 1.75 percentage point

(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	51,515,163,318.53	54,180,986,692.26
Net assets value	73,803,122,094.83	75,177,450,197.99
Sum of Risk Capital Provisions	17,696,416,854.68	18,059,640,452.88
Total assets on-and-off balance Sheet	235,637,680,429.85	225,840,602,361.27
Risk coverage ratio (%)	291.11	300.01
Capital leverage ratio (%)	16.21	18.57
Liquidity coverage ratio (%)	403.64	392.17
Net stable funding ratio (%)	140.38	132.69
Net capital/net assets (%)	69.80	72.07
Net capital/liabilities (%)	33.93	38.10
Net assets/liabilities (%)	48.61	52.87
Value of proprietary equity securities and its derivatives/net capital (%)	26.11	30.77
Value of proprietary non-equity securities and its derivatives/net capital (%)	178.77	148.89

VIII. Differences in Accounting Data prepared in accordance with Domestic and Overseas Accounting Standards

There was no difference between the net profit for the periods from January to June in 2018 and from January to June in 2017 and net assets as of June 30, 2018 and December 31, 2017 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.

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.

(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 RMB460.460 billion, representing a year-on-year increase of 2.35%. The CSI 300 registered a fall of 12.90%, while the ChiNext Index recorded a fall of 8.33%. As at the end of the Reporting Period, the balance of margin financing and securities lending on the SSE and the SZSE amounted to RMB919.382 billion, representing a decrease of 10.41% as compared to the end of 2017; the outstanding amount of securities-backed lending reached RMB1.58 trillion (as at the end of April, 2018), representing a decrease of 2.75% as compared to the end of 2017. The ChinaBond composite wealth (in aggregate) index rose by 3.9%. During the Reporting Period, the financing through IPO of shares on the primary stock market amounted to RMB92.2 billion, representing a year-on-year decrease of 20.96%. The equity-related refinancing (excluding share issuance for asset acquisition and exchangeable bonds) amounted to RMB325.276 billion, representing a year-on-year increase of 3.16%. The issuance of credit bonds (excluding inter-bank deposit certificates) totalled RMB4,746.2 billion, representing a year-on-year increase of 31.76%, among which the issuance of corporate bonds totalled RMB589.7 billion, representing a year-on-year increase of 42.2%.

In the first half of 2018, according to the statistics of the Securities Association of China, the industry earned a total income of RMB126.572 billion, representing a year-on-year decrease of 11.92%. The net profit amounted to RMB32.861 billion, representing a year-on-year decrease of 40.53%. As at the end of the Reporting Period, the total assets of the securities industry amounted to RMB6.38 trillion, representing an increase of 3.91% as compared to the end of 2017. The net assets amounted to RMB1.86 trillion, representing an increase of 0.61% as compared to the end of 2017. Net capital amounted to RMB1.56 trillion, representing a decrease of 0.62% as compared to the end of 2017.

II. Analysis on Core Competitiveness during the Reporting Period

(I) Market position of the Company

During the Reporting Period, the Company remained the overall competitiveness with multiple indicators ranking in the forefront of the industry. According to the statistics of Wind, the Company ranked ninth in terms of the amount of equity underwritten as a lead underwriter, ranked third in terms of the amount of bond underwritten as a lead underwriter and ranked first in terms of the amount of asset-backed securities underwritten. According to the information of the Securities Association of China, the Company ranked seventh in terms of the net revenue from agency trading and ranked fifth in terms of the scale of the Company's entrusted funds. According to the information of Asset Management Association of China, the Company ranked first in terms of the market share of products under the custody of the Company which had been filed with the authority and the scale ranked first in the industry in terms of products under custody of the mutual funds.

(II) Analysis on the Company's competitiveness

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

The Company has a full-service business platform, a balanced business structure and industry leading comprehensive strength. 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 business.

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.

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 continued to increase 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.

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.

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.

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 central state-owned enterprise directly managed by the SASAC, 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.

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 the first half of 2018, the global economy presented an unchanged trend of recovery, whereas the growth momentum diminished. The major economies experienced pressure of inflation and successively entered the period of tight monetary policy. Trade friction escalated and protectionist sentiment rose. Against the backdrop of preventing and resolving major risks at home and dealing with the Sino-US trade friction outside China, the fundamentals of Chinese macroeconomy kept basically stable. In the first half of the year, the growth rate of GDP reached 6.8%, on the same level of last year. Economic growth, inflation, and employment are relatively stable. Solid progress was made on the supply-side structural reform. Meanwhile, the securities industry encountered major changes: Firstly, financial deleveraging has intensified and the pace has accelerated. Market liquidity has tightened, and credit defaults in the bond market have begun to increase, especially for some private corporate bonds that face the risk of repayment. Secondly, the policy effect of strict regulation in the industry is fully and deeply revealed. New regulations on asset management, OTC option, stock pledge financing and other aspects were promulgated one after another. Investment bank IPO review was tightened, and IPO passing rate dramatically declined, exerting great influence on relevant businesses. Thirdly, the influence of the technology wave is deepening. The CSRC reformed the issuance and listing system, enhancing the support for "new technology, new industry, new industry formats and new model." The Hong Kong Stock Exchange has comprehensively reformed the listing system for new economic enterprises. The deepening integration of finance and technology has brought profound impact on the business model, service mode, and market structure of the securities industry.

During the Reporting Period, the SSE Composite Index and SZSE Component Index decreased by 13.90% and 15.04%, respectively since the year began. SSE SME Composite Index and SZSE ChiNext Composite Index decreased by 14.26% and 8.33% respectively, and the China Bond Composite Wealth Index (total value) increased by 3.9%. The financing through IPO of shares on the primary stock market amounted to RMB92.2 billion, representing a year-on-year decrease of 20.96%. The refinancing (excluding exchangeable bonds and share issuance for asset acquisition) amounted to RMB325.276 billion, representing a year-on-year increase of 3.16%. The financing of credit bonds (excluding inter-bank deposit certificates) totalled RMB4.75 trillion, representing a year-on-year increase of 31.76%. In the first half of the year, the operating income and net profit of the entire industry were RMB126.572 billion and RMB32.861 billion, representing a year-on-year decrease of 11.92% and 40.53%, respectively.

Facing the severe market environment, the Company adapted to the new policy orientation in time, improved the internal control structure, strived to take effective measures to guard against various risks and actively expanded marketing and income, keeping the ranking of the core competitiveness index stable in the industry. Meanwhile the Company engaged Boston Consulting Group (BCG) as a consultant and actively promoted medium and long term strategic work including quality and efficiency improvement, transformational change, and strategic layout, to build momentum for the strategic development in the next three years. While the operating income and net profit of the entire industry declined on a year-on-year basis, the Company's total revenue and other income and net profit attributable to shareholders of the Company were RMB8.298 billion and RMB1.807 billion in the first half of the year, representing a year-on-year decrease of 2.9% and 29.2% respectively. The Company attached great importance to the growth quality all along. There were no major risk compliance events and the risk loss rate remained relatively low during the Reporting Period. In July, 2018 the Company was awarded the rating of Class A "AA" by the CSRC and became one of the only two brokers in the industry to maintain "AA" rating for 11 consecutive years.

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.

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 the first half of 2018, the A-share market was in the weak pattern. The SSE Composite Index, SZSE Component Index, and SZSE ChiNext Composite Index decreased by 13.90%, 15.04%, and 8.33% respectively. The one-way transaction volume of stocks and funds amounted to RMB54.79 trillion, representing a year-on-year increase of 2.35%. The average net commission rate of the industry decreased by 8.53% to 0.332‰ as compared with the same period of last year, representing a decline at a much narrower margin.

During the Reporting Period, the Company further increased the market share of new customers by conducting in-depth cooperation with channel resources, grasping new account opening opportunities, and utilizing the special activities of key banks. Meanwhile, the Company deepened the transformation of wealth management, worked hard to develop financial technology, and actively carried out businesses such as the business of Southbound Trading. These efforts contributed to a steady rise in the main indicators of the Company's brokerage business. In the first half of 2018, the net revenue from agency trading of the Company had 4.32% market share, increased by 0.12 percentage point year-on-year and ranking 7th in the industry; the number of eligible accounts was 9.4768 million, representing a year-on-year increase of 22.24%; the Shenzhen market share under Southbound Trading ranked first and the Shanghai market share under Southbound Trading ranked 6th, possessing strong competitive advantages.

In the wealth management business, the wealth management plan continued to focus on the needs of transactional customers, unveiling "Data Cube" AI investment consulting products and short-term hotspot portfolio products. At the same time, work was done to meet the diversified asset allocation requirements of customers by continuously improving customer service capabilities, enriching product categories, strengthening product innovation and enhancing the capabilities of financial products allocation. In the first half of 2018, the sales of wealth management products amounted to RMB423.542 billion, and the net revenue from the agency sales of financial products amounted to RMB90.28 million, representing a year-on-year increase of 106.61%. The net revenue from the agency sales of financial products ranked 8th in the industry.

Major operational data of retail brokerage and wealth management business of the Company

Operating indicators	As of the first half of 2018	As of the first half of 2017	Change
Total transaction volume of stock and funds (unit: RMB100 million)	42,861.03	42,032.98	1.97%
Market share of the trading volume of stock and funds	3.91%	3.93%	Decrease by 0.02 percentage point
Market share of net revenue from agency trading	4.32%	4.2%	Increase by 0.12 percentage point
Number of eligible accounts (unit: 10,000)	947.68	775.26	22.24%
Number of new accounts opened in the year (unit: 10,000)	74.08	93.40	-20.68%
Number of branches (Note 1)	243	237	2.53%
Total trading volume under Southbound Trading (unit: RMB100 million)	848.96	369.19	129.95%
Number of wealth management advisors	845	853	-0.94%
Number of clients of wealth management plans (unit: 10,000)	259.55	248.68	4.37%
Transaction volume of wealth management plans (unit: RMB100 million)	7,784.29	8,720.64	-10.74%
Total sales of wealth management products (unit: RMB100 million) (Note 2)	4,235.42	4,263.94	-0.67%
Net revenue from the agency sales of financial products (unit: RMB10,000)	9,028.00	4,369.49	106.61%

Source: Shanghai and Shenzhen stock exchanges, Securities Association of China, and internal statistics of the Company

Note: 1. As at the end of the Reporting Period, the Company had 243 branches in operation, and another 16 branches are now under construction.

2. The wealth management products sold by the Company include mutual funds, private investment funds, and collective wealth management products of the Company (including the subscription data of the margin management product Tian Tian Li).

In the field of financial technology, the Company improved the user experience of specialized transaction by launching a PC version of Zhiyuan Yi Hu Tong (智遠一戶通) for smart online transaction and provided customers with intelligent service by integrating the version with intelligent voice assistant, natural language processing, intelligent stock selection, cloud computing, and other high-tech elements. The number of users reached 140,000 in three months after the PC version was made available. Both the PC version and app of Zhiyuan Yi Hu Tong (智遠一戶通) highlighted the overall advantages of CMS Internet terminal. In the first half of the year, the Company made new headway in the AI investment consulting system by introducing the expert online AI assistant that answers more than 70% of questions raised.

(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 the first half of 2018, against the background of macroeconomic deleveraging, the regulatory authorities further strengthened the standardized management of the stock pledge business and introduced an array of new pledge rules, focusing on the orientation of the stock pledge business at serving the real economy. In the first half of the year, a few A-share stocks underwent continuous limited down or fall dramatically, posing challenges to the operation of the capital-based intermediary business and the risk control capability of the securities industries. The scale of the margin financing and securities lending industry continued to be reduced due to the impact of market conditions. As of June 30, 2018, the balance of margin financing and securities lending of the industry amounted to RMB919.382 billion, representing a decrease of 10.41% from the end of 2017.

During the Reporting Period, the Company implemented new stock pledge rules in comprehensively way, focusing on serving the real economy. At the same time, the Company continued to carry out the capital-based intermediary business according to the goal of improving quality and efficiency. The Company provided continuous support for the capital-based intermediary business, actively followed up major customers and key projects, and responded quickly to customer requirements. It also worked to ensure the success of business risk prevention, control and early warning, conducted timely stress testing on individual stock risk events, actively communicated with customers about solutions, and judged risks in advance and resolved them effectively and in time. The risk of the margin financing and securities lending and stock pledge business is controllable on the whole.

As at the end of the Reporting Period, the balance of margin financing and securities lending was RMB47.038 billion with 5.12% market share, the maintenance coverage ratio was 273.07%, the balance of securities-backed lending was RMB54.528 billion, and the overall collateral coverage ratio was 230.97%.

Capital-based intermediary business of the Company

Operating indicators	As of the end first half of 2018	As of the end of 2017	Change
Balance of margin financing and securities lending (unit: RMB100 million)	470.38	546.99	-14.01%
Outstanding amount of securities-backed lending (unit: RMB100 million) (Note 1)	545.28	591.28	-7.78%

Source: Shanghai and Shenzhen stock exchanges and internal statistics of the Company

Notes: 1. The outstanding amount of securities-backed lending includes the asset management products of CMS Asset Management.

2. Shanghai and Shenzhen stock exchanges will not publish the balance of the margin financing and securities lending and the outstanding amount of securities-backed lending of each brokerage since May 2018.

(3) Institutional client services

The Company 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, which provides institutional clients with one-stop solutions.

① Institutional sales and research

In the first half of 2018, the Company offered differentiated and personalized research services for institutional customers as an effort to enhance the building of the capability of marketing towards institutional clients. With a keen understanding of the development trend of the industry and market hot spots, the Company gained insight into investment opportunities in advance and arranged for systematic and forward-looking research. According to the statistics of Wind, the brokerage fees received from mutual funds of the Company ranked third in the industry in 2017. In the first half of 2018, the Company kept improving its investment researches and sales services for mutual funds to consolidate its leading position in brokerage fees.

As at June 30, 2018, the Company had more than 180 researchers for researches on macroeconomic analysis, investment strategy, sector trend and company status, fixed-income products and derivatives. Share research covered more than 35 industries and over 1,190 listed companies, representing 86% of the total market capitalization of CSI 300 Index constituent stocks and 74% of the total market capitalization of ChiNext Index constituent stocks. During the Reporting Period, the Company issued a total of over 2,500 research reports; organized nearly 30 medium- and large-sized industry forums and seminars, such as Hunan Financial Power Forum, Consumer Upgrade Investment Forum, New Retail "Unicorn" Series Investment Forum, and other large-scale influential investment research activities; and arranged over 420 teleconferences for institutional investors, roadshows for 4,600 participants, and more than 700 joint researches for listed companies.

② Prime brokerage

The Company continues to take advantage of the prime brokerage service chain "sales + custody + research + PB system + funds" to provide high quality integrated financial services for prime brokerage customers including private investment funds, mutual fund subsidiaries and trust companies.

During the Reporting Period, the Company launched its self-developed "CMS Investment Master" system on the basis of improving the existing prime brokerage system, and integrated its Alpha series innovative trading platform, creating a complete prime brokerage business ecosystem. At the same time, the Company independently developed an integrated service platform that incorporates functions such as fund performance attribution analysis and research report for institutional clients.

As at June 30, 2018, the tradable securities assets under the Company's prime brokerage business reached RMB206.8 billion, an increase of 13.3% as compared with the end of 2017. During the Reporting Period, the prime brokerage trading volume of stocks and funds represented an increase of 48.9% as compared with the corresponding period of last year.

③ Custody and outsourcing

In the first half of 2018, the asset management industry faced a "leverage-lowering and de-channeling" regulatory environment, and the increase in the management scale of mutual funds and private investment funds slowed down. As at June 30, 2018, the AUM of mutual funds and private investment funds totalled RMB12.7 trillion and RMB12.6 trillion, increased 9.48% and 13.51% as compared with the end of 2017 respectively, and the compound growth rate of the mutual funds and private investment funds were 17.5% and 46% from 2015 to 2017. At the same time, the private investment fund industry continued to open wider to the outside world. In the first half of the year, 13 well-known WFOEs were successfully registered as managers of private equity investment funds.

During the Reporting Period, the Company further improved its capabilities of asset custody and fund outsourcing services. By upgrading technology systems, optimizing service processes, innovating service systems, enhancing marketing capabilities, and focusing on compliance and risk management, the Company maintained a stable scale of asset custody and fund outsourcing services. As at June 30, 2018, the Company had 17,614 custody and outsourcing products (including the products of asset management subsidiaries) with a total value of RMB2.0221 trillion, representing an increase of 7.7% and a decrease of 2.73% as compared with the end of 2017 respectively. According to the Asset Management Association of China, the market share of products under custody of the Company which had been filed with the authority reached 26.45%, ranking first in the market. The number of products under custody of WFOE managers mutual funds, the rate of coverage and the number of service products ranked first in the industry. The Company built a professional WFOE Private Fund Manager (PFM) version of the manager service platform to be geared to international standards. The Company was awarded the "Best Fund Custody Securities Firm" (最佳基金託管券商) under the "Mutual Fund in the China Fund Industry for 20 years – Ying Hua Award (英華獎)". It was also the first and the only custody and fund service institution in the industry that had passed the ISAE3402 for four years in a row (2014-2017).

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 RMB417.476 billion (excluding share issuance for asset acquisition and exchangeable bonds) in the first half of 2018, representing a year-on-year decrease of 3.35%. Affected by stricter regulatory reviews, the number of and proceeds from A Share IPOs were 62 and RMB92.2 billion, representing a year-on-year decrease of 73.84% and 20.96%. The proceeds of refinancing were RMB325.276 billion, representing a year-on-year increase of 3.16%. The difficulty in selling follow-on offerings increased. The issuance in the first half of the year amounted to RMB219.671 billion, representing a year-on-year decrease of 19.60%. Preferred stocks and convertible bonds meeting the regulatory orientation increased significantly and totalled RMB95.303 billion, representing a year-on-year increase of 191.89%.

During the Reporting Period, the Company raised the standard for undertaking IPO projects, accelerated the implementation of existing projects, and completed a series of representative projects that had market influence including IPO of Xiamen Intretech Inc. and preferred stock of Muyuan Foods CO.,Ltd. Thanks to these efforts, the Company maintained good market competitiveness. According to Wind, the Company ranked ninth 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. The Company ranked sixth in terms of the amount of IPO underwritten, fifth in terms of the number of IPO underwriting projects, ninth in terms of the amount of refinancing underwritten, and sixth in terms of the number of refinancing underwriting projects.

Meanwhile, the Company expanded high-quality IPO project reserves meeting the regulatory requirements with all its strength, and in particular visited repeatedly and waged targeted marketing campaigns targeting high-quality enterprises in the "new economy", large and medium "unicorn" enterprises, and high-quality enterprises with "hard technologies". According to the CSRC, as at the end of the Reporting Period, the number of IPO projects handled by the Company pending approval was 22 (including approved projects to be offered), ranking fourth in the industry.

Amount of equity underwriting and number of companies underwritten by the Company

	First half of 2018		First half of 2017		
Project	Underwriting amount as a lead underwriter (RMB100 million)	Number of companies	Underwriting amount as a lead underwriter (RMB100 million)	Number of companies	Year-on-year change in underwriting amount
A Share IPO	32.59	4	41.25	9	-20.99%
A Share refinancing	86.23	6	106.45	11	-18.99%
Total	**118.82**	**10**	**147.69**	**20**	**-19.55%**

Source: Wind info, using issuance dates as statistics caliber

Note: Refinancing excludes share issuance for asset acquisition and convertible bonds

(2) Bond underwriting

In the first half of 2018, the bond market structure composition changed apparently. According to Wind, the issuance of credit bonds (inter-bank deposit certificates excluded) totaled RMB4.7462 trillion, leading to a year-on-year increase of 31.76%. The issuance of corporate bonds, medium-term notes, commercial paper, and asset-backed securities (ABS) maintained a relatively strong growth momentum, while that of commercial bank bonds and tier-two capital instruments of commercial banks declined in varying degrees.

During the Reporting Period, in addition to enhancing its superior products, the Company strengthened the efforts to develop clients of a particular type and ABS projects as well as to further construct the team of professionals. The Company maintained strong market position in bond underwriting. In the first half of 2018, the bond underwriting amount as the lead underwriter (including self-issued debt securities) was RMB167.284 billion, leading to a year-on-year increase of 21.32%. According to Wind, the Company, as the lead underwriter, ranked third in terms of total bonds underwriting amount and first in terms of ABS underwriting amount; the market share reached 13.26%.

The Company is the spearhead of product innovation in the market and has successfully underwritten multiple initial offering products: the first batch of "Belt and Road (B&R)" Panda Bonds – Iowa China Offshore Holdings (Hong Kong) Limited "B&R" corporate bonds and China Merchants Port Holdings Company Limited "B&R" corporate bonds; the first long-term rental apartment mortgage-backed securities (ABS) and the first shelf-registered residential leasing-backed securities – "China Merchants Chuangrong – China Merchants Shekou long-term rental apartment special asset support plan"; the first domestic RMBS project that introduced the overseas investors through "Bond Connect (Northbound Trading)" – Jianyuan 2018-2 Residential Mortgage Backed Securities.

Amount and number of bond underwritten by the Company

	First half of 2018		First half of 2017		
Project	Underwriting amount as a lead underwriter (RMB100 million)	Number of issuance (tranche)	Underwriting amount as a lead underwriter (RMB100 million)	Number of issuance (tranche)	Year-on-year change in underwriting amount
Corporate bonds	259.44	40	116.20	19	123.27%
Financial bonds	396.5	17	510.50	20	-22.33%
Commercial paper	18.31	6	34.12	6	-46.34%
ABS bonds	891.02	108	532.91	101	67.20%
Others	107.58	63	185.14	28	-41.89%
Total	**1,672.84**	**234**	**1,378.87**	**174**	**21.32%**

Source: Wind info

(3) Financial advisory

In the first half of 2018, the degree of activity of the M&A and restructuring market weakened. According to Wind, in the first half of 2018, the amount of transactions announced by the Chinese M&A market was RMB1.22 trillion (excluding inbound and outbound M&A), representing a slight year-on-year increase of 1.67%; the number of transactions was 2,241, representing a year-on-year decrease of 47.46%; and the amount and number of transactions completed on the Chinese M&A market were RMB597.643 billion and 884, representing a year-on-year decrease of 29.50% and 67.74%, respectively. The regulatory authorities supported M&A and restructuring based on the industrial integration logic, such as horizontal integration and strategic cooperation in the industry. Industrial integration and M&A remained the most common transactions in the market.

During the Reporting Period, to serve the needs of the real economy, the Company actively brought together the transaction resources of various parties, in line with industrial integration, transformation and upgrading of economic structure, and SOE reforms. According to Wind, the Company disclosed eight M&A transactions, ranking sixth in the industry. The total M&A transaction amount as disclosed was RMB35.947 billion, ranking seventh. The Company completed a number of projects with great market influence, including the cross-border M&A of Bosch motors by Zhengzhou Coal Mining Machinery and the M&A of AMD assembly and test facilities by TongFu Microelectronics Co., Ltd. In addition, a number of large M&A and restructuring projects were being promoted in an orderly manner.

(4) OTC business

In the first half of 2018, the number of listed companies on the National Equities Exchange and Quotations (NEEQ) market dropped markedly, the number of delisted enterprises soared, and the investment and financing market remained in the doldrums. As of June 30, 2018, the number of fund-raising projects of NEEQ market was 706, representing a year-on-year decrease of 50.56%. The amount of fund raised was RMB35.747 billion, representing a year-on-year decrease of 60.46%.

In the first half of 2018, the Company sponsored 9 companies, ranking seventh in the industry. As at the end of the Reporting Period, the Company exercised continuing supervision over 368 listed companies, ranking sixth in the industry. The Company continued to promote the compliance of the targeted issuance on the NEEQ and worked hard to find more business opportunities for high-quality subjects. According to the Choice Financial Terminal (Choice 金融終端), the Company completed the targeted issuance of shares of 34 companies on the NEEQ during the Reporting Period, raising a total of RMB3.095 billion, ranking fifth and first in the industry, respectively.

3. Investment management business

The Company engages in securities asset management business and private equity investment funds 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 the first half of 2018, strict control in the asset management industry was strengthened, and the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》) (hereinafter referred to as the "New Regulations on Asset Management") was formally promulgated. Under the twin impact of market volatility and New Regulations on Asset Management, the brokerage asset management industry was experiencing a downturn. As at June 30, 2018, the business scale of the industry was RMB15.89 trillion, a decrease of 7.9% as compared with the end of 2017.

During the Reporting Period, CMS Asset Management gave the central stage to improving its active management capabilities, with the focus on products under active management. The innovative products such as selected FOF, quantitative fund, and panoramic multi-strategy were continuously hot-selling. Significant progress was made in institutional customized products, cross-border business and ABS business expanded steadily, and business performance continued to improve. In the first half of 2018, net revenue of asset management by CMS Asset Management totalled RMB545 million, representing a year-on-year increase of 10.77%. As at the end of the Reporting Period, the assets managed by the Company totalled RMB687.664 billion, a decrease of 11.74% as compared with the end of 2017; and the assets under active management was RMB138.689 billion, an increase of 9.0% as compared with the end of 2017. The net revenue of asset management ranked seventh in the industry, while the scale of asset management ranked fifth in the industry.

AUM and net revenue of securities asset management business of the Company

Category	Asset under management (RMB100 million)		Net revenue of asset management (RMB100 million)	
	June 30, 2018	December 31, 2017	First half of 2018	First half of 2017
Collective asset management	525.43	471.46	4.35	3.71
Targeted asset management	5,866.51	6,876.35	1.07	1.15
Specialized asset management	484.70	443.85	0.03	0.06
Total	**6,876.64**	**7,791.66**	**5.45**	**4.92**

Source: Internal statistics of the Company

(2) Private equity investment fund

The private equity market of China presents opportunities. The investment institutions under the financial institutions with the background and brand endorsement of central state-owned enterprises and state-owned assets are facing the key time for upward breakthrough. In respect of the fund-raising end, the Chinese market is transformed from high-net-worth individuals who pursue trend-riding and high returns to institutions that pursue stable returns, and the requirements for the professional ability of fund managers are enhanced. In respect of the investment end, equity investment has been gradually accepted by more enterprises, and the investment logic has changed from flocking together to invest in hot sectors and pursue high valuation to focusing on diversified market, value discovery and value creation. In addition, the layout and ranking of the market participants have not been finally determined, and there is still room for the improvement of middle institutions. As at June 30, 2018, 23,903 private fund managers have been registered and 73,854 funds have been filed with Asset Management Association of China, with AUM of RMB12.60 trillion. There are 14,309 registered private equity and venture capital fund managers who manage 31,576 funds, with AUM of RMB7.96 trillion.

In the first half of 2018, CMS Zhiyuan implemented overall upgrade to fully enhance the professional capacities in the "offering, investment, management and withdrawal" process, improve the operation management efficiency and expand and develop the private equity investment business; expanded the income generation channels and created a win-win investment ecosystem based on the existing business advantages and foundations and through active cooperation with China Merchants Group and the internal resources of China Merchants Securities; actively explored the inception opportunities for M&A funds, enlarged health industry funds, culture industry funds, TMT funds and venture capital funds, and completed the fund-raising intent solicitation for some funds; invested in the leading companies in the sub-sectors, such as BAK (深圳比克動力) and Krund (青島克路德機器人). As at the end of the Reporting Period, the accumulated AUM of CMS Zhiyuan exceeded RMB21 billion, and its accumulated investment amount exceeded RMB10 billion.

(3) Fund Management

① Bosera Funds

The Company holds 49% of the equity of Bosera Funds.

In the first half of 2018, Bosera Funds fully promoted the investment research, sales, product, risk control, compliance and operation works to improve capacity and quality under the guideline of "quality first, prioritizing efficiency, moderate scale and holding bottom line for risk control". Its AUM increased steadily, and it was among the first echelon in terms of industry ranking, achieving great results in investment performance, investment research, market development, product innovation and Internet businesses.

As at the end of the Reporting Period, the AUM of Bosera Funds was RMB846.1 billion (excluding the assets managed by subsidiaries), of which assets managed under mutual funds (excluding ETF-linked funds) was RMB533.5 billion. According to Wind, Bosera Funds ranked second in the industry in terms of the AUM of non-monetary mutual fund, as of June 30, 2018.

② China Merchants Fund

The Company holds 45% of the equity of China Merchants Fund.

In the first half of 2018, China Merchants Fund had a keen grasp of the product creation opportunities, actively seized the strategic opportunities for pension business, active management businesses of wealth management subsidiaries and international businesses, and achieved the continuous improvement of its core competence. The Company focused on talent pipeline development, optimized the Company structure, and insisted on value investment, long-term investment and responsible investment, with an aim to create more values for the investors.

As at the end of the Reporting Period, the AUM of China Merchants Fund was RMB487.8 billion (excluding the assets managed by subsidiaries),of which assets managed under mutual funds (excluding ETF-linked funds) was RMB381.4 billion. According to Wind, China Merchants Fund ranked 8th in the industry in terms of the AUM of non-monetary mutual funds, as of June 30, 2018.

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 the first half of 2018, due to the financial de-leveraging, trade conflict between China and USA, new regulations on asset management, return of unicorns and bonds defaults, SSE 50, CSI 300, GEM and SME indexes all dropped, and market volatility increased significantly. The market style switching was accelerated. It took less than 2 months to transit from blue-chips to GEM which represents emerging technologies. In April and May, the A-share market was weak and fluctuated at low price, due to the repeated changes in Sino-US trade war on one hand, and the bearish factors such as the financial strain under the strict financial regulation on the other hand. In mid-June, the market crashed because of the negative market sentiment, and Shanghai Composite Index dropped to the record low in the most recent year. In addition, the central bank provided liquidity to the market by means of targeted cuts to required reserve ratios and medium-term lending facility. The capital interest rate dropped, and the bonds market went strong. Interest rate bonds and high credit rating bonds had outstanding performance. In the first half of 2018, ChinaBond composite wealth (in aggregate) index rose by 3.9%.

(1) Equity investment

During the Reporting Period, the Company adhered to the value investment concept for the directional investment business, continued to optimize the position structure, and enhanced investment research. High yield was achieved for the allocations at the beginning of the year. However, in February and March, the US stock market crashed, the blue-chips in A-share market was subject to significant adjustment, and the market style was changed quietly. Besides, the market volatility was further intensified since April. As a result, the income of directional investment business had a significant year-on-year decrease. 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 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. The Company actively applied for the OTC option primary dealer qualification in the first half of the year and received the reply from the CSRC in August.

(2) FICC

During the Reporting Period, the Company bolstered macro and credit research for its proprietary bonds investment businesses, in order to strictly prevent credit risk, steadily increase the investment scale, improve the liquidity management, and develop the neutral arbitrage strategies. By establishing a better investment system and actively deploying innovative businesses, the Company aimed at improving the investment income through multi-dimensional strategies. The returns of bonds investment outperformed China Bond composite wealth index in the first half of the year.

While enhancing the existing businesses, the Company actively prepared for and boosted the development of innovative businesses, fully promoted the construction of FICC comprehensive business platform, and successfully obtained the qualification of market-maker for Bond Connect business in July. The Company expanded the trading categories for the proprietary bulk commodity derivatives business to cover energy and chemical products and non-ferrous metals, realizing the full coverage of mainstream categories. In the aspect of foreign exchange business, the Company actively applied for the foreign exchange trading business qualification from the State Administration of Foreign Exchange and CSRC, and steadily promoted the construction of business mechanism, team and system.

(3) Sale and trading of OTC products

Under the background of strict regulation, with the enactment and gradual implementation of the new regulations on asset management, higher requirements were imposed on the risk prevention of OTC financial products. In the first half of 2018, the Company adopted a two-pronged approach of "optimizing product design and improving institutional client service level" for the OTC product business, enhanced internal collaboration and orderly carried out the OTC product creation and issuance works. During the Reporting Period, the Company issued 126 structured notes, with an offering size of RMB 9.776 billion, and sold 28 private funds as an agent, with an accumulated subscription scale of RMB 1.767 billion.

In the first half of 2018, the market liquidity was further worsened, and the NEEQ market-making index dropped by 14.87%. The Company adopted contraction strategy for the market-making business, exited from the market-making of some stocks to control the risk, and actively reduced holding to recoup funds.

5. *Overseas business*

The Company operates overseas business through China Merchants Securities International Company Limited, its wholly-owned subsidiary. CMS International engaged in securities and futures contracts brokerage, nominee 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 center of operation, CMS International has obtained regulatory licenses in the UK, South Korea and other places successively, and it has cultivated some leading businesses among China-based securities firms, including overseas investment banking and global commodity business.

In the first half of 2018, the global major stock markets fluctuated violently, Hong Kong stock market presented the trend of price dropping and quantity rising. Hang Seng Index dropped by 964 points, representing a decline of approximately 3%, while the daily turnover was HKD126.6 billion, representing a year-on-year growth of 67%. The total size of Hong Kong IPO was HKD51.6 billion, representing a year-on-year decrease of 6%. Asia G3 (exclusive of Japan) bonds financing amounted to USD142.2 billion, representing a year-on-year decrease of 15%.

In the first half of 2018, CMS International Investment Bank continued to consolidate its status in the industry while focusing on new economy. During the Reporting Period, 19 equity and bond projects were completed, including 5 IPO projects, whose underwriting amount was USD 468 million, 5 M&A and financial advisor projects, whose total transaction amount was USD 4 billion, 1 placement project, for which approximately USD 400 million was raised; 8 overseas bonds offering projects, whose total underwriting amount was USD 355 million. In the first half of the year, the Company ranked eighth in Hong Kong market in terms of IPO financing scale. The typical projects included the solely sponsored IPO project of C-MER Eye. Under the new listing rules of HKEX, CMS International seized the listing opportunity for innovative company in Hong Kong and strategically enhanced the coverage over the companies in new economy, biological medicine and TMT industries, created a record high number of IPO reserve resources. As at the end of the Reporting Period, it has submitted A1 listing applications for 8 projects, ranking first in the market. Ascletis and Innovent were among the first batch of outstanding biological medicine companies applying for listing under the new listing rules of HKEX. Other listing application projects included Hope Education, Zhaogang.com, Babytree, meituan.com, Idreamsky and FINUP.

In respect of the securities business sector, thanks to the institutional clients, the brokerage and margin businesses were expanded, HK stock brokerage commission income achieved significant year-on-year growth, the daily margin balance increased significantly by 77% when compared with the same period of last year. Due to the sharp increase of US treasury bonds and the global market fluctuation, the return on investment of the fixed-income sector of the Company had a significant decline, but the return on investment of the credit bonds continued to outperform the market benchmark for the same period. We have made progress in direct investment and global commodity businesses after several years of development. The key direct investment targets include the leading enterprises in the sub-sectors in the new economic fields. We have successfully invested in several high-profile projects, with the total investment reaching HKD 2 billion. The global commodity has become an important income source of the Company. The Company has been awarded the title of outstanding international member by Shanghai Gold Exchange for 3 consecutive years. It is the only Chinese securities company with this laurel.

During the Reporting Period, China Merchants Securities (Korea) Co., Ltd started business in Seoul as the first Chinese securities company licensed by Financial Services Commission of the Korea. It is an important milestone for the international development of the Company. CMS Korea will provide Chinese and Hong Kong stocks, bonds, funds and derivatives intermediary services to the institutional investors in Korea.

(II) Analysis of financial statement

1. Analysis of the profitability of the Company during the Reporting Period

In the first half of 2018, the total revenue and other income of the Company amounted to RMB8.298 billion, representing a year-on-year decrease of 2.86%. The net profit attributable to shareholders of the listed companies amounted to RMB1.807 billion, representing a year-on-year decrease of 29.21%.

Unit: RMB'000 Currency: RMB

Item	Current period		Previous period		Change	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Fee and commission income	4,059,579	48.92%	4,522,870	52.95%	-463,291	-10.24%
Interest income	3,767,750	45.41%	3,197,799	37.44%	569,951	17.82%
Net investment gains	489,590	5.90%	862,385	10.10%	-372,795	-43.23%
Other income and gains	-19,144	-0.23%	-41,037	-0.48%	21,893	—
Total revenue and other income	**8,297,775**	**100.00%**	**8,542,017**	**100.00%**	**-244,242**	**-2.86%**

Fee and commission income recorded RMB4.06 billion, representing a year-on-year decrease of 10.24%, Due to the fee and commission income of securities and futures brokerage business recorded RMB2.476 billion, representing a slight year-on-year decrease of 0.92%. The income of underwriting and sponsorship business recorded RMB533 million, representing a year-on year decrease of 44.82% The income of financial advisory business recorded RMB154 million, representing a year-on-year decrease of 39.09%. The income of asset management business recorded RMB612 million, representing a year-on-year increase of 10.83%.

Interest income recorded RMB3.768 billion, representing a year-on-year increase of 17.82%. The interest income from deposits of the Company with Exchanges and financial institutions recorded a year-on-year increase of 12.05%. Interest income from margin financing and securities lending recorded a slight year-on-year increase of 5.96%, and as the significant growth in the business size of securities-backed lending, the interest income of securities-backed lending recorded a year-on-year increase of 64.96%.

Net investment gains recorded a year-on-year decrease of 43.23%, primarily due to a significant decrease in investment income from equity securities as a result of the significant falling indexes of the A-share market in the first half of the year.

Unit: RMB'000 Currency: RMB

Item	Current period		Previous period		Change	
	Amount	Percentage	Amount	Amount	Percentage	Amount
Depreciation and amortization	106,149	1.62%	93,348	1.58%	12,801	13.71%
Staff costs	1,626,709	24.80%	1,924,966	32.59%	-298,257	-15.49%
Fee and commission expenses	736,462	11.23%	880,609	14.91%	-144,147	-16.37%
Interest expenses	3,241,050	49.42%	2,241,063	37.94%	999,987	44.62%
Business tax and surcharges	49,386	0.75%	46,101	0.78%	3,285	7.13%
Other operating expenses	678,953	10.35%	685,130	11.60%	-6,177	-0.90%
Impairment losses	119,824	1.83%	35,063	0.59%	84,761	241.74%
Total expenses	**6,558,533**	**100%**	**5,906,280**	**100%**	**652,253**	**11.04%**

In the first half of 2018, the total expenses of the Company amounted to RMB6.559 billion, representing a year-on-year increase of 11.04%.

Fee and commission expenses amounted to RMB736 million, representing a year-on-year decrease of 16.37%, among which expenses of securities and futures brokerage business recorded a year-on-year decrease of 5.32%, expenses of underwriting and sponsorship business recorded a year-on-year decrease of 48.54%, expenses of asset management business recorded a year-on-year decrease of 56.86%, and expenses of financial advisory business recorded a year-on-year decrease of 60.82%.

Interest expenses amounted to RMB3.241 billion, representing a year-on-year increase of 44.62%, which was mainly due to increases in interest expenses for structured notes and short-term corporate bonds as a result of increases in the liabilities and financing of the Company.

Staff costs amounted to RMB1.627 billion, representing a year-on-year decrease of 15.49%, primarily due to a decrease in the remuneration paid to employees.

Other expenses mainly included depreciation and amortization, business tax and surcharges, other operating expenses and impairment losses. The year-on-year increase in depreciation and amortization was mainly due to the increase in depreciation and amortization of fixed assets related to IT and other aspects. The significant increase in impairment losses was primarily due to the impairment losses of RMB82 million and RMB38 million respectively provided for financial assets held under resale agreements and advances to customers of the Company during the year.

Unit: RMB'000 Currency: RMB

Business segment	Current period		Previous period		Change of percentage
	Amount	Percentage	Amount	Percentage	
Brokerage and wealth management	6,203,252	74.76%	5,759,068	67.42%	Increased by 7.34 percentage point
Investment banking	686,386	8.27%	1,206,528	14.12%	Decreased by 5.85 percentage point
Investment management	688,169	8.29%	931,533	10.91%	Decreased by 2.61 percentage point
Investment and trading	516,354	6.22%	556,851	6.52%	Decreased by 0.3 percentage point
Others	234,139	2.82%	118,562	1.39%	Increased by 1.43 percentage point

In relation to business segment, revenue and other income from the brokerage and wealth management recorded RMB6.203 billion, representing a year-on-year increase of 7.71%. Revenue and other income from the investment banking business recorded RMB686 million, representing a year-on-year decrease of 43.11%. Revenue and other income from the investment management business recorded RMB688 million, representing a year-on-year decrease of 26.13%. Revenue and other income from the investment and trading business recorded RMB516 million, representing a year-on-year decrease of 7.27%. Revenue and other income from other business recorded RMB234 million, representing a year-on-year increase of 97.48%.

2. *Analysis of assets and liabilities*

As of the end of June 2018, the equity attributable to shareholders of the Parent Company was RMB78.35 billion, representing a decrease of 1.11% as compared with the end of 2017, mainly attributable to distribution of dividends to shareholders of RMB2.318 billion. The net profit attributable to shareholders of the Company was RMB1.807 billion in the first half of the year.

At the end of June 2018, total assets of the Company were RMB298.078 billion, representing an increase of RMB12.435 billion as compared with the end of 2017. The total current assets amounted to RMB270.769 billion and total non-current assets amounted to RMB27.309 billion. Excluding the accounts payable to brokerage clients, the total assets amounted to RMB241.696 billion, representing an increase of RMB7.147 billion, or 3.05%, as compared with the end of 2017, mainly attributable to an increase in financial assets at fair value through profit or loss and financial assets held under resale agreements.

At the end of June 2018, the total liabilities of the Company were RMB219.645 billion, representing an increase of RMB13.336 billion, or 6.46%, as compared with the end of 2017. The current liabilities amounted to RMB186.108 billion and non-current liabilities amounted to RMB33.537 billion. Excluding the accounts payable to brokerage clients, the liabilities of the Company were RMB163.263 billion, representing an increase of RMB8.048 billion, or 5.19%, as compared with the end of 2017.

The Company has maintained satisfactory assets quality and liquidity. Net current assets at the end of June 2018 amounted to RMB84.661 billion. At the end of June 2018, the Company's cash and cash balances, clearing settlement funds, financial assets, advances to customers, financial assets held under resale agreements and long-term equity investment accounted for 24%, 39%, 18%, 14% and 3% of the total assets, respectively. The Company's financial assets sold under repurchase agreements, short-term borrowings and placements from other financial institutions in aggregate accounted for 25% of the total liabilities, while accounts payable to brokerage clients, bonds payable, and short-term financing bills accounted for 26%, 19% and 22% of the total liabilities, respectively.

As at June 30, 2018, the gearing ratio of the Company was 67.55%, increased by 1.37 percentage points as compared with the end of 2017.

3. *Cash flows*

Unit: RMB'000 Currency: RMB

Item	Current period	Previous period	Change	Percentage change
Net cash used in operating activities	12,072,120	8,401,901	3,670,219	43.68%
Net cash used in investing activities	-2,436,331	-250,574	-2,185,757	–
Net cash generated from financing activities	-9,414,941	-7,047,674	-2,367,267	–
Net increase (decrease) in cash and cash equivalents	220,848	1,103,653	-882,805	-79.99%

In the first half of 2018, the net increase in cash and cash equivalents of the Company was RMB221 million. The net cash used in operating activities amounted to RMB12.072 billion. The net cash used in investing activities amounted to -RMB2.436 billion. The net cash generated from financing activities amounted to -RMB9.415 billion.

Net cash used in operating activities amounted to RMB12.072 billion, representing an increase of RMB3.67 billion as compared to the corresponding period in 2017. The decrease was primarily due to the increase in the financial assets sold under repurchase agreements and the decrease of the advances to customers.

The net cash flow generated from investing activities was -RMB2.436 billion, a decrease of RMB2.186 billion compared to the corresponding period in 2017. The decrease was mainly due to the year-on-year increase in debt instruments purchased at fair value through other comprehensive income of the year.

Net cash generated from financing activities amounted to -RMB9.415 billion, representing a decrease of RMB2.367 billion as compared to the corresponding period in 2017, primarily due to the proceeds in the issuance of other equity instruments with a year-on-year decrease of RMB15.0 billion, a year-on-year increase of RMB11.49 billion from the issuance of bonds and short-term financial bills payable, a year-on-year decrease of RMB4.852 billion in the borrowings and a year-on-year decrease of RMB5.803 billion in the repayment of bonds and short-term debt instruments.

(III) Analysis of investment

1. *Significant equity investments*

Holding equity in financial companies

Target	Initial investment (RMB10,000)	Shareholding as at the beginning of the period (%)	Shareholding as at the end of the period (%)	Closing balance (RMB10,000)	Gain or loss during the Reporting Period (RMB10,000)	Change in equity attributable to the owner during the Reporting Period (RMB10,000)	Accounting item	Source
Bosera Asset Management Co., Limited	369,319.04	49.00	49.00	462,538.38	25,781.21	-153.47	Long-term equity investment	Acquisition
China Merchants Fund Management Co., Ltd.	85,084.45	45.00	45.00	217,853.46	18,972.16	21.98	Long-term equity investment	Promotion and acquisition
Total	**454,403.49**	**–**	**–**	**680,391.84**	**44,753.37**	**-131.49**	**–**	**–**

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.

2. *Significant non-equity investment*

Item	Amount (RMB10,000)	Progress	Amount invested during the year (RMB10,000)	Total investment paid (RMB10,000)	Return (RMB10,000)
Construction project of the China Merchants Securities Building	145,000.00	81.14%	4,406.61	117,653.81	/
Total	**145,000.00**	**/**	**4,406.61**	**117,653.81**	**/**

3. *Financial assets measured at fair value*

Unit: RMB10,000

Item	As of the end of June 2018		January to June 2018	
	Initial investment cost/nominal amount	Fair value	Investment gains	Change in fair value
Financial assets at fair value through profit or loss	8,318,483.85	8,224,996.43	64,982.48	-103,123.66
Debt instruments at fair value through other comprehensive income	2,423,791.11	2,422,706.61	38,023.01	21,569.95
Equity instruments at fair value through other comprehensive income	688,253.00	732,121.10	—	-31,538.79
Derivative financial assets	10,963,575.23	101,730.53	39,023.79	18,752.94
Derivative financial liabilities		79,930.72		
Financial liabilities at fair value through profit or loss	388,846.01	387,666.10	-10,988.14	-2,686.81
Subtotal	**—**	**—**	**131,041.14**	**-97,026.37**

(IV) 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 first half of 2018	For/as of the first half of 2017
Registered capital	100,000	100,000
Total revenue and other income	62,768	54,126
Net profit	33,621	32,058
Total assets	354,399	274,138
Net assets	309,734	238,533

(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$4.104 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 Hong Kong and overseas securities regulatory rules by establishing different subsidiaries.

Unit: HK$10,000

Item	For/as of the first half of 2018	For/as of the first half of 2017
Paid-up capital	410,363	180,363
Total revenue and other income	47,395	70,389
Net profit	-3,486	13,767
Total assets	2,315,961	2,127,950
Net assets	545,015	301,762

(3) China Merchants Futures Co., Ltd.

China Merchants Futures is a wholly-owned subsidiary of the Company with a registered capital of RMB630 million. Its principal businesses include commodity futures brokerage, financial futures brokerage, futures investment consultation and asset management. As of June 30, 2018, China Merchants Futures had four branches in Beijing, Guangzhou, Shanghai and Hangzhou as well as one wholly-owned risk management subsidiary.

Unit: RMB10,000

Item	For/as of the first half of 2018	For/as of the first half of 2017
Registered capital	63,000	63,000
Total revenue and other income	25,269	30,256
Net profit	7,390	8,831
Total assets	609,923	718,399
Net assets	137,426	122,010

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

CMS Zhiyuan is a wholly-owned subsidiary of the Company with a registered capital of RMB2.1 billion and a paid-up capital of RMB1.8 billion. CMS Zhiyuan mainly engages in private equity investment funds and related consultancy and advisory services plus other business as permitted by regulatory authorities.

Unit: RMB10,000

Item	For/as of the first half of 2018	For/as of the first half of 2017
Registered capital	210,000	170,000
Total revenue and other income	3,968	38,308
Net profit attributable to the parent company	-2,544	24,074
Total assets	640,251	579,451
Net assets attributable to the parent company	227,257	226,305

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

China Merchants Securities Investment Co., Ltd., a wholly-owned subsidiary of the Company, has a registered capital of RMB1.2 billion. Its principal business are: 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 (specific projects subject to application).

Unit: RMB10,000

Item	For/as the end of the first half of 2018	For/as the end of the first half of 2017
Registered capital	120,000	120,000
Total revenue and other income	113	333
Net profit	3,131	1,206
Total assets	129,754	124,394
Net assets	129,674	125,091

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 covers fund raising, sales of funds, asset management and other businesses approved by the CSRC.

Unit: RMB10,000

Item	For/as of the first half of 2018	For/as of the first half of 2017
Registered capital	25,000	25,000
Operating revenue	159,298	151,934
Operating profit	69,189	67,586
Net profit	52,615	51,601
Total assets	600,122	492,292
Net assets	381,431	337,521

(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 covers fund management, promotion and establishment of funds, and other businesses approved by the CSRC.

Unit: RMB10,000

Item	For/as of the first half of 2018	For/as of the first half of 2017
Registered capital	131,000	21,000
Operating revenue	133,781	129,095
Operating profit	51,674	52,857
Net profit	42,160	42,143
Total assets	710,518	436,589
Net assets	439,775	250,310

(V) Structured entities controlled by the Company

As of June 30, 2018, the Group consolidated nine 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 June 30, 2018, the total assets of the consolidated structured entities amounted to RMB4.771 billion.

III. Other Disclosure

(I) Warning and explanation for cumulative net loss expected to be recorded for the period from the beginning of the year to the end of the next reporting period or material changes of cumulative net profit as compared to the corresponding period of the previous year

There has been no material change in the Company's outlook to the Reporting Period since the publication of the 2017 annual report.

(II) 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:

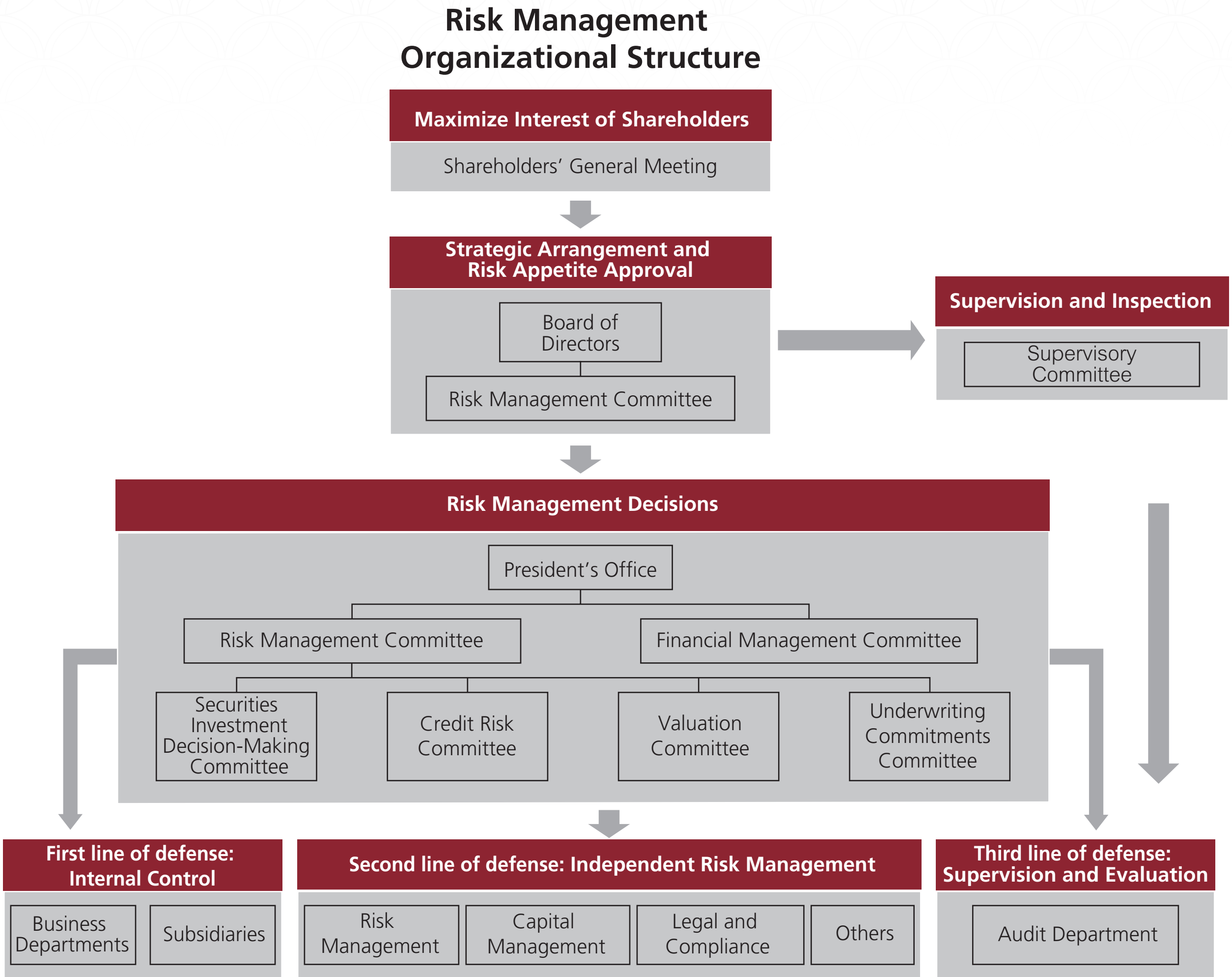
1. Risk management profile

(1) Risk management structure

Since inception, the Company has been committed to establishing an innovative and insightful risk management system that is aligned with its operation strategies and covers 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.

The chart below sets out our risk management organizational structure:



The overall risk management responsibilities at all levels in the risk management organizational structure of the Company are as follows:

① The Board and its Risk Management Committee are responsible for reviewing and approving the overall 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 assessment reports and thoroughly assessing the risk management of the Company.

② The Supervisory Committee is responsible for supervising and examining the operation of the overall risk management system of the Company.

③ The senior management is fully responsible for the risk management in the Company's business operation. They regularly review risk assessment reports, formulate risk management measures and establish risk limit indicators. A Risk Management Committee and a Financial Management Committee are set up under the senior management. The Risk Management Committee serves as the highest risk management decision-maker at the operation level. 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 and 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 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. 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.

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' practicing 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 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 is 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

Guided by the Risk Management System of CMS (《招商證券全面風險管理制度》), the Rules of Procedures for Risk Management Committee Meeting of the Board (《董事會風險管理委員會議事規則》), the Company has developed a overall risk management system that 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.

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 internal models to measure market risk and credit risk of the economic capital that are sufficiently sensitive to risk factors 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》), which specified the division of duties among departments in stress test and determined the methods and procedures of stress test. The Company conducts routine, ad hoc and comprehensive 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 maintenance of compliance baseline 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 management system covering all stages in advance of, during and after an event is incorporated in our operation to ensure the effective performance of functions of management and services 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 Company, through internal periodicals and other manners, publicizes its risk management culture, interprets and publicizes regulatory policies, offers systematic risk management trainings to all the employees on a regular basis so as to share and improve the risk management cognition. Every year, new employees are provided with risk control and compliance trainings by the Risk Management Department and the Legal and Compliance Department to promote the risk management culture.

(5) Risk management IT system

The Company fully understands the importance of IT system in the modern risk management and has significant investment in the establishment of such systems, including advanced risk management IT systems self-developed and introduced from home and abroad. A comprehensive 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 has been continuously updated to include more data and business types. An efficient and comprehensive risk monitoring and analysis have been established for all types of businesses of the parent company and its subsidiaries at home and abroad in an effort to effectively identify, measure, monitor, assess and report various risks. 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. The company has established a comprehensive risk management portal system, a market risk management system, credit risk management system, operational risk management system and an economic capital management system. Among them, the comprehensive risk management portal system has integrated the business functions of all risk management systems, therefore it can comprehensively display risk status of the Company. Market risk management system has following functions such as automatic generation of periodic reports, quota management, analysis and reporting of various risks and departmental risks. Credit risk management system has following functions including customer information management and the management for the same customer, credit management, default management, warning management, core statistics and inquiry. Operational risk management system has following functions including risk and control self-assessment (RCSA), key risk indicators (KRI), and loss data collection (LDC), etc. Economic capital management system has the functions of daily calculation and summary display of market risks, credit risks, operational risks and economic capitals.

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 market value of portfolio is measured by 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; and

④ exchange rate risk: attributable to portfolio risk exposure to changes in spot exchange rate, forward exchange rate and volatility.

(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; and

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 risks.

(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 operation management and 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.

(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.

(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, according to the specific condition, reduce risk exposures or increase risk threshold based on the authorization system.

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 existing indicators and pursuant to 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; and

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.

(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; and

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, 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, 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.

(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.

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

Unit: RMB10,000

	June 30, 2018	**December 31, 2017**
Issuers in Mainland China		
PRC sovereign bonds	3,080,364	1,674,593
AAA	2,798,671	1,329,852
AA+	671,775	641,757
AA	115,439	169,169
AA-	–	–
Below AA-	–	–
A-1	32,905	54,783
Non-rated	1,376,459	1,924,222
Sub-total	**8,075,613**	**5,794,376**

	June 30, 2018	December 31, 2017
Issuers in Hong Kong and other regions		
A	12,490	17,928
B	236,961	175,465
C	–	–
D	–	–
NR	7,803	32,345
Sub-total	**257,254**	**225,738**
Total	**8,332,867**	**6,020,114**

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~AA-, AA- 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.

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 the following categories: 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;

⑦ We promoted the systematic management for operational risks and established three major management tools for operational risks including the systematic application of the whole process of risk identification, assessment, control, monitoring and risk reporting, so as to effectively improve the efficiency and level of the Company's operational risk management;

⑧ 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 businesses and their respective risk tolerance capability; and

⑨ We paid great attention to the training and promotion of culture relating to operational risk management. 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.

(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 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; and

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.

Chapter 5: Major Events

I. Shareholders' General Meeting

Meeting	Date of meeting	Inquiry index of designated website for the publication of poll results	Date of publication
2017 Annual General Meeting	June 22, 2018	SSE website and Hong Kong Stock Exchange website	June 23, 2018 (SSE website) June 22, 2018 (Hong Kong Stock Exchange website)

II. Proposals on Profit Distribution or Conversion of Capital Reserve

(I) Profit distribution proposal and proposal for capital increase by way of conversion of capital reserve for the first half of the year

Any distribution or capital increase	Nil
Number of bonus shares for every 10 shares (share)	–
Dividends for every 10 shares (RMB) (tax inclusive)	–
Number of scrip shares for every 10 shares (share)	–
Details of profit distribution proposal or proposal for capital increase by way of conversion of capital reserve	
Nil	

No interim dividends for the six months ended June 30, 2018 was proposed by the Board of Directors of the Company. No interim dividends were paid by the Company for the corresponding period of last year.

III. Performance of Undertakings

(I) Undertakings of undertaking related parties such as de facto controller, 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 undertaking not performed in a timely manner
Undertaking related to the initial public offering	Prevention of competition	Jisheng Investment	Pursuant to the Non-competition Undertaking Letter in favor of the Company, Jisheng Investment has undertaken that it will not engage in any business which competes directly with the existing principal businesses of the Company and its subsidiaries (whether wholly-owned or not) in accordance with laws and administrative regulations.	Upon the public offering and listing of the A Shares of the Company, and as long as Jisheng Investment is a shareholder of the Company	Yes	Yes	—	—
Undertaking related to the initial public offering	Prevention of competition	China Merchants Group	Pursuant to the Non-competition Undertaking Letter in favor of the Company, China Merchants Group has undertaken that it and the legal entities beneficially controlled by it will not establish new securities companies or control other securities companies through acquisition in the PRC. For businesses of the same or similar nature to securities companies engaged by the non-securities companies controlled by China Merchants Group, it will make sufficient disclosure in accordance with laws upon the public offering and listing 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	—	—

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 undertaking not performed in a timely manner
Undertaking related to the 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	–	–
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	–	–
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	–	–

IV. Appointment and Removal of Accounting Firms

Details of the appointment and removal of accounting firms

On June 22, 2018, the 2017 Annual General Meeting of the Company considered and approved the Consideration and Approval of the Resolution on Appointment of Auditing Firms of the Company for 2018. Under the Administrative Measures on Tendering Procedures for the Election and Appointment of Accounting Firms by Financial Enterprises (Provisional) issued by the Ministry of Finance, since ShineWing Certified Public Accountants LLP has been served as the annual audit institution of the Company for over 5 years consecutively, the Company has replaced it with Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu.

V. Integrity of the Company, its Controlling Shareholders and De Facto Controller During the Reporting Period

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

VI. Share Incentive Scheme, Employee Stock Option Plan or Other Employee Incentive Plan and their influences

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

VII. Material Contracts and their Performance

(I) Custody, contracting and leasing

During the Reporting Period, the Company did not have any major custody, contracting and leasing matters.

(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	
Total guarantees provided for subsidiaries during the Reporting Period	1,660,907,000.00
Balance of guarantees for subsidiaries as at the end of the Reporting Period (B)	6,988,043,811.50
Total guarantees (including guarantees for subsidiaries)	
Total guarantees (A+B)	6,988,043,811.50
Percentage of total guarantees to the net assets of the Company (%)	8.92
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	—

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
Details of guarantees						As at the end of the Reporting Period: 1. The Company provided a counter-guarantee in a total amount of RMB1.823 billion (including HK$1.77 billion and US$50 million) to the Bank of China and Commercial Bank of China for the benefit of CMS International and China Merchants Securities (UK) Limited, both of which are wholly-owned subsidiary of the Company, to secure a foreign bank credit. 2. CMS International provided guarantees in a total amount of RMB1.665 billion (including HK$1.7 billion and US$35 million) for bank loans of China Merchants Securities (HK) Co., Limited and China Merchants Securities (UK) Limited, wholly-owned subsidiaries of the Company. 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 April 2018. 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. 5. The provision of guarantees for China Merchants Securities Investment Management (HK) Co., Limited, a wholly-owned subsidiary of the the Company, under the TBMA/ISMA Global Master Repurchase Agreement was approved by the board of directors of CMS International in May 2018. 6. On January 20, 2014, the Resolution regarding the Provision of Net Capital 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 capital guarantee of up to RMB500 million for an asset management subsidiary, CMS Asset Management. On September 27, 2016, the Resolution regarding the Increase in Commitment for Net Capital Guarantee in favour of the Asset Management Subsidiary by the Company was approved at the 42nd meeting of the fifth session of the Board, which allowed the Company to increase the net capital 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 capital guarantee within the above limit based on the actual operating condition of CMS Asset Management. As at June 30, 2018, the balance of net capital guarantee provided by the Company for CMS Asset Management amounted to RMB3.5 billion.							

VIII. Relationship with Investors during the Reporting Period

During the Reporting Period, the Company had "one-on-one" and "one-on-many" contacts with 320 domestic and foreign analysts and institutional investors on 28 occasions through 2017 performance announcements and press conference, or by giving speeches at investment strategy seminars or forums organized by domestic and foreign securities firms and by reception of visits from institutional investors. We had communicated with more than 120 investors via SSE E-Interaction, telephone, email and shareholders' general meeting.

The Company actively communicated with domestic and foreign investors on the development of innovative businesses such as OTC options, CDR and cross-border business, the Company's future internationalization strategy, risk control of stock pledge business, the impact of new accounting standards and new regulations on asset management, transformation of wealth management business and financial technology strategies, which deepened the understanding and acknowledgment of investors about the value of investments in the Company.

IX. Corporate Governance

(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 "V. Interests and Short Positions in Shares, Underlying Shares or Debentures of the Company and its Associated Corporations of the Directors, Supervisors and Chief Executives" under "Chapter 7 Directors, Supervisors, Senior Management and Employees" of this report.

(II) Overview of corporate governance

The Company, being a company listed in the PRC and Hong Kong, 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.

Since the H Shares listed, the Company strictly complied with the Corporate Governance Code under Appendix XIV of the Hong Kong Listing Rules and Corporate Governance Report (hereinafter referred to as the "Code and Report"). The Company satisfied all provisions under the Code and Report and substantially all of the recommended best practices under the Code and Report.

The Company has maintained a sound corporate governance structure in compliance with the relevant requirements of the regulatory authority in the place where the securities of the Company are listed.

X. Material Events after the Reporting Period

Please refer to "EVENTS AFTER THE REPORTING PERIOD" under "Chapter 9 Financial Report" of this report.

XI. Interim Results Reviewed by the Audit Committee

The Audit Committee of the Company has reviewed and confirmed that the interim results announcement for the six months ended June 30, 2018, the 2018 interim report and unaudited interim financial information for the six months ended June 30, 2018 were prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

Chapter 6: Changes in Ordinary Shares and Shareholders

I. Changes in Share Capital

(I) Table of changes in shares

During the Reporting Period, the total number of shares and the share capital structure of the Company have not changed.

II. Shareholders

(I) Number of shareholders

Number of holders of the ordinary shares as of the end of the Reporting Period	103,480

(II) Shareholdings of the top ten shareholders and the top ten holders 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 froze		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)	173,193,797	1,575,308,090	23.51	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)	10,200	980,014,980	14.63	—	Nil	—	Overseas legal person
China Ocean Shipping Company Limited (中國遠洋運輸有限公司)	—	418,948,014	6.25	—	Nil	—	State-owned legal person
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	76,088,277	301,914,024	4.51	—	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 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
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
Shenzhen Huaqiang New City Investment Group Co., Ltd. (深圳華強新城市投資集團有限公司)	—	53,620,700	0.80	—	Nil	—	Domestic non-state-owned legal person

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)	980,014,980	Overseas listed foreign shares	980,014,980
China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	759,999,448	RMB ordinary shares	759,999,448
China Ocean Shipping Company Limited (中國遠洋運輸有限公司)	418,948,014	RMB ordinary shares	418,948,014
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	301,914,024	RMB ordinary shares	301,914,024
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 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
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
Shenzhen Huaqiang New City Investment Group Co., Ltd. (深圳華強新城市投資集團有限公司)	53,620,700	RMB ordinary shares	53,620,700
Statement on the related relationship or concerted actions among the aforesaid shareholders	Among the above top ten shareholders, 1. CM Finance Investment, Jisheng Investment are all subsidiaries of China Merchants Group, the de facto controller of the Company; and 2. China Ocean Shipping Company Limited 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: 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.

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	2019-05-27	—	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. Changes in Controlling Shareholders or De Facto Controller

Name of new controlling shareholder	China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)
Name of new de facto controller	—
Date of change	June 25, 2018
Inquiry of index and date of designated website	Announcement dated June 27, 2018 published on the website of SSE Announcement dated June 26, 2018 published on the website of Hong Kong Stock Exchange

IV Interests and Short Positions in the Shares and Underlying Shares of Substantial Shareholders and Other Persons

As at June 30, 2018, to the knowledge of the Directors after having made reasonable enquiry, the following persons (other than Directors, Supervisors and the chief executives of the Company) 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[6]/ short positions[7]/ shares available for lending
1	China Merchants Group (招商局集團)	A Shares	Interest held by controlled corporations[1]	2,886,027,221	43.08	50.46	Long position
		H Shares	Interest held by controlled corporations[2]	67,706,400	1.01	6.91	Long position
2	China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	A Shares	Beneficial owners and interest of corporation controlled by substantial shareholders[3]	2,886,027,221	43.08	50.46	Long position
3	Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)	A Shares	Beneficial owner	1,310,719,131	19.56	22.92	Long position
4	China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司)	A Shares	Interest held by controlled corporations[4]	502,947,936	7.51	8.79	Long position
		H Shares	Interest held by controlled corporations[5]	98,150,400	1.47	10.01	Long position
5	China Ocean Shipping Company Limited (中國遠洋運輸有限公司)	A Shares	Beneficial owner	418,948,014	6.25	7.33	Long position
6	PICC Life Insurance Company Limited (中國人民人壽保險股份有限公司)	H Shares	Beneficial owner	333,300,000	4.98	34.00	Long position
7	COSCO SHIPPING Financial Holdings Co., Limited	H Shares	Beneficial owners	98,150,400	1.47	10.01	Long position
8	Best Winner Investment Limited	H Shares	Beneficial owners	67,706,400	1.01	6.91	Long position

1. China Merchants Group indirectly holds 100% of the equity interest in CM Finance Investment and Jisheng Investment, and is deemed to be interested in the same number of A shares which CM Finance Investment (23.51%) and Jisheng Investment (19.56%) are interested in under the SFO.

2. China Merchants Group indirectly holds 100% of the equity interest in Best Winner Investment Limited, and is deemed to be interested in the same number of H Shares which Best Winner Investment Limited (1.01%) is interested in under the SFO.

3. China Merchants Finance Investment Holdings Co., Ltd. directly holds 23.51% of the equity interest in the Company. During the Reporting Period, due to changes in shareholders' equity, the equity interest in Shenzhen Jisheng Investment Development Co., Ltd. held by China Merchants Finance Investment Holdings Co., Ltd. increased to 100%, and is deemed to be interested in the same number of A Shares which Shenzhen Jisheng Investment Development Co., Ltd. (19.56%) is interested in under the SFO. Thus, China Merchants Finance Investment Holdings Co., Ltd. holds, directly and indirectly, an aggregate of 43.08% of the equity interests in the Company. For details of the changes, please refer to the Company's overseas regulatory announcements disclosed on May 7, 2018, May 23, 2018, June 8, 2018, and June 26, 2018.

4. China COSCO Shipping Corporation Limited holds 100% of the equity interest in China Ocean Shipping Company Limited (中國遠洋運輸有限公司) 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 which China Ocean Shipping Company Limited (6.25%) and COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運（廣州）有限公司) (1.25%), a wholly-owned subsidiary of China Shipping (Group) Company, are interested in under the SFO.

5. 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 (1.47%), a wholly-owned subsidiary of China Shipping (Group) Company (中國海運（集團）總公司), is interested in.

6. 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

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

Save as disclosed above, as at June 30, 2018, the Company is not aware of any other persons (other than Directors, Supervisors and the chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

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

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

Chapter 7: Directors, Supervisors, Senior Management and Employees

I. Change in Shareholdings

(I) Transactions of securities by directors, supervisors and relevant employees

The Company has adopted a set of codes of conduct regarding the transactions of securities by the Directors, Supervisors and relevant employees of the Company on terms no less exacting than the required standard set out in the Model Code. Having made enquiry by the Company, all Directors and Supervisors confirmed that they had complied with the requirements set out in the Model Code above during the period from January 1, 2018 to June 30, 2018. The Company is not aware of any breach of the guidelines by any relevant employee.

(II) Share options granted to directors, supervisors and senior management during the Reporting Period

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

II. Changes in Directors, Supervisors and Senior Management

Name	Position	Change
WONG Ti	Independent Non-executive Director	Elected
YANG Jun	Independent Non-executive Director	Resigned
WANG Yan	Executive Director, President and Chief Executive Officer	Resigned

Details of changes in Directors, Supervisors and Senior Management

On May 26, 2017, the 2016 Annual General Meeting of the Company elected Mr. WONG Ti as an Independent Non-executive Director of the sixth session of Board of the Company. Mr. YANG Jun continued to perform his duties before Mr. WONG Ti obtained the qualifications of the Independent Directors approved by the securities regulatory authorities.

In January 2018, the CSRC Shenzhen Office approved the qualifications of Mr. WONG Ti as an Independent Director in a securities firm. 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.

On August 17, 2018, the Board of the Company received the written letter of resignation delivered by Mr. WANG Yan, the Executive Director, President and Chief Executive Officer. Mr. WANG Yan resigned such positions for personal reasons as our Executive Director, member of the Strategy Committee of the Board, member of the Risk Management Committee of the Board, member of the Nomination Committee of the Board, the President and Chief Executive Officer. Mr. WANG Yan held no position of the Company since the resignation. According to the Articles of Association and Working Rules of the President, the letter of resignation by Mr. WANG Yan took effect upon the date that the letter of resignation was delivered to the Board, and Mr. HUO Da, the Chairman, now serves as the President temporally. For details, please refer to the relevant announcements issued by the Company on the website of the Shanghai Stock Exchange and the website of the Hong Kong Stock Exchange on August 21, 2018 and August 20, 2018, respectively.

III. Major Changes in respect of Directors and Supervisors

During the Reporting Period, pursuant to Rule 13.51B of the Hong Kong Listing Rules, there was no other material change in relation to the Directors and Supervisors.

IV. Employees of the Parent Company and Major Subsidiaries

(I) Employees

Number of employees of the parent company	9,187
Number of employees of major subsidiaries	721
Total number of employees	9,908
Number of resigned and retired employees with expenses borne by the parent company and major subsidiaries	47

(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 Company leadership mainly according to the achievement of key performance indicators of each department, strategic tasks, objectives in terms of innovation and synergy, the use of economic capital, and as well as the market rate.

(III) Training

According to the Company's strategy, 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 in 2018, 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 28 sessions of internal themed training covering marketing, integrated operation, wealth management, key 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 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 professional skill improvement.

V. Interests and Short Positions in Shares, Underlying Shares or Debentures of the Company and its Associated Corporations of the Directors, Supervisors and Chief Executives

As at June 30, 2018, 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 interests which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

Chapter 8: Relevant Information of Corporate Bonds

I. General Information of Corporate Bonds

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

Unit: RMB100 million Currency: RMB

Name of the bond	Abbreviation	Code	Issue completion date	Date of expiry	Bond balance	Interest rate (%)	Payment of principal and interest	Trading place	Eligibility arrangements of investors
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	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 qualified 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 qualified 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 2018 Type One 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2018年公司債券(第二期)(品種一))	18 China Merchants G2 (18招商G2)	143626	June 12, 2018	June 12, 2020	20.00	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 2018 Type Two 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2018年公司債券(第二期) (品種二))	18 China Merchants G3 (18招商G3)	143627	June 12, 2018	June 12, 2021	10.00	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 2018 Type Two 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2018年公司債券(第三期)(品種二))	18 China Merchants G5 (18招商G5)	143712	July 18, 2018	July 18, 2021	25.00	4.38	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 Type One Corporate Bonds (fourth 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 (第四期)(品種一))	18 China Merchants G6 (18招商G6)	143392	August 8, 2018	August 8, 2021	30.00	3.94	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

Name of the bond	Abbreviation	Code	Issue completion date	Date of expiry	Bond balance	Interest rate (%)	Payment of principal and interest	Trading place	Eligibility arrangements of 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
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 (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 2018 Type One 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)(品種一))	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
The 2018 Type Two 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)(品種二))	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 Type One 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)(品種一))	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
The 2018 Type Two Corporate Bonds (third 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(第三期)(品種二))	18 China Merchants F6 (18招商F6)	150302	April 19, 2018	May 4, 2019	38.00	4.75	One-off payment of principal and interest upon expiry	Shanghai Stock Exchange	Private offering to qualified institutional investors
The 2018 Corporate Bonds (fourth 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(第四期))	18 China Merchants F7 (18招商F7)	150414	May 21, 2018	June 5, 2019	59.00	4.84	One-off payment of principal and interest upon expiry	Shanghai Stock Exchange	Private offering to qualified institutional investors

Note: The principals and interests for "17 China Merchants D10", "17 China Merchants D13" and "China Merchants 1708" were completely settled on July 9, 2018, August 13, 2018 (postponed to the next trading day as August 12, 2018 is Sunday) and August 27, 2018 (postponed to the next trading day as August 25, 2018 is Saturday), respectively.

Payment of interest and principal of corporate bonds

Name of the bond	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	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 (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 end of the third year)	100.00	Exercise of discretionary 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 interest and principal in full as scheduled
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	Payment of interest and principal in full as scheduled
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	Payment of interest and principal in full as scheduled
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	Payment of interest and principal in full as scheduled
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D10)	145827	October 12, 2017	July 9, 2018	29.30	Payment of interest and principal in full as scheduled
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D13)	145703	November 15, 2017	August 12, 2018	22.80	Payment of interest and principal in full as scheduled

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 semi-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
18 China Merchants G2 (18招商G2)	143626	Everbright Securities	CCXR
18 China Merchants G3 (18招商G3)	143627	Everbright Securities	CCXR
18 China Merchants G5 (18招商G5)	143712	Everbright Securities	CCXR
18 China Merchants G6 (18招商G6)	143392	Everbright Securities	CCXR
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
17 China Merchants D9 (17招商D9)	145810	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
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
18 China Merchants F6 (18招商F6)	150302	Essence Securities	CCXR
18 China Merchants F7 (18招商F7)	150414	Essence Securities	CCXR

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

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 Plaza, 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), XING Yiwei (邢一唯)
	Contact number	021-22169999、021-22169880、021-32587357
Trustee	Name	China Galaxy Securities Co., Ltd.
	Office address	Room 218, Tower C, International Corporate Square, No. 35 Finance Street, Xicheng District, Beijing
	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)

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 authorization control system and promulgated Measures on the Use and Management of Proceeds from the Issuance of Corporate Bonds to stipulate the management and use of proceeds from the issuance of corporate bonds. 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 prospectus for the corporate bonds publicly issued by the Company, namely, "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 prospectus.

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, the special account of proceeds from the issuance of corporate bonds operates well, 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 million used for debt restructuring and RMB549 million used for replenishment of working capital.

As prescribed in the prospectuses for the corporate bonds previously publicly issued by the issuer, namely, "18 China Merchants G2", "18 China Merchants G3", "18 China Merchants G5" and "18 China Merchants G6" the said proceeds from the corporate bonds are used for "replenishment of the Company's working capital". As at the date of approval for the publication of this report, the special account of proceeds from the issuance of corporate bonds operates well, all such proceeds as prescribed in accordance with relevant provisions of the prospectuses, after deducting the issuance expenses (if any), shall be used for replenishment of the Company's working capital.

As prescribed in the prospectuses for the subordinated bonds privately issued by the Company, namely, "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 "17 China Merchants D9", "17 China Merchants D10", "17 China Merchants D11" and "17 China Merchants D12", 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, the special account of proceeds from the issuance of corporate bonds operates well, 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", "18 China Merchants F3", "18 China Merchants F6" and "18 China Merchants F7", 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, the special account of proceeds from the issuance of corporate bonds operates well, 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.

On February 7, 2018, China Chengxin Securities Rating Co., Ltd. issued the "Follow-up Credit Rating Report (2018) on the 2017 Short-term Corporate Bonds (Sixth Tranche, Seventh Tranche and Eighth Tranche) of Securities Companies of China Merchants Securities Co., Ltd." (Xin Ping Wei Han Zi [2018] Follow-up No. 003), the overall credit rating of the Company remained at AAA with stable outlook, the credit ratings of the "China Merchants 1707", "China Merchants 1708" and "China Merchants 1709" remained at A-1[1].

On March 19, 2018, China Chengxin Securities Rating Co., Ltd. issued the "Follow-up Credit Rating Report (2018) on the 2017 Short-term Corporate Bonds (Ninth Tranche and Tenth Tranche) of Securities Companies of China Merchants Securities Co., Ltd." (Xin Ping Wei Han Zi [2018] Follow-up No. 007), the overall credit rating of the Company remained at AAA with stable outlook. The credit ratings of "17 China Merchants D9" and "17 China Merchants D10" remained at A-1.

On April 24, 2018, China Chengxin Securities Rating Co., Ltd. issued the "Follow-up Credit Rating Report (2018) on the 2017 Short-term Corporate Bonds (Eleventh Tranche and Twelfth Tranche and Thirteenth Tranche) of Securities Companies of China Merchants Securities Co., Ltd." (Xin Ping Wei Han Zi [2018] Follow-up No. 047), the "Follow-up Credit Rating Report (2018) on 2018 Corporate Bonds (First Tranche and Second Tranche) Privately Issued by China Merchants Securities Co., Ltd." (Xin Ping Wei Han Zi [2018] Follow-up No. 048), the "Follow-up Credit Rating Report (2018) on the 2017 Subordinated Bonds (First Tranche) and the 2018 Subordinated Bonds (First Tranche and Second Tranche) of China Merchants Securities Co., Ltd." (Xin Ping Wei Han Zi [2018] Follow-up No. 044), the "Follow-up Credit Rating Report (2018) on the 2017 Perpetual Subordinated Bonds (First Tranche, Second Tranche, Third Tranche and Fourth Tranche) of Securities Companies of China Merchants Securities Co., Ltd." (Xin Ping Wei Han Zi [2018] Follow-up No. 045), and the "Follow-up Credit Rating Report (2018) on the Public Offering of 2017 Corporate Bonds (First Tranche, Second Tranche and Third Tranche) and 2018 Corporate Bonds (First Tranche) by China Merchants Securities Co., Ltd. to Qualified Investors" (Xin Ping Wei Han Zi [2018] Follow-up No. 046). The overall credit rating of the Company remained at AAA with stable outlook, the credit ratings of "17 China Merchants D11", "17 China Merchants D12", "17 China Merchants D13", "18 China Merchants F1", "18 China Merchants F2" and "18 China Merchants F3" remained at A-1. The credit ratings of "17 China Merchants Y1", "17 China Merchants Y2", "17 China Merchants Y3", "17 China Merchants Y4", "17 China Merchants C1", "18 China Merchants C1", and "18 China Merchants C2" remained at AA+. The credit ratings of "17 China Merchants G1", "17 China Merchants G2", "17 China Merchants G3" and "18 China Merchants G1" remained at AAA.

On April 27, 2018, Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. issued the "Follow-up Credit Rating Report on the 2012 and 2014 Corporate Bonds of China Merchants Securities Co., Ltd." (Brilliance Follow-up No. [2018]100044), the overall credit rating of the Company remained at AAA with stable outlook. The credit ratings of the "12 China Merchants 03"and "14 China Merchants Bonds" remained at AAA.

[1] Please refer to the above official website for credit rating symbol and definition of China Chengxin Securities Rating Co., Ltd. and Shanghai Brilliance Credit Rating & Investors Service Co., Ltd.

During the duration of the above bonds, credit rating agencies plan to 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. For the corporate bonds with an initial issuance period of one year or less, credit rating agencies will announce the results and reports of regular follow-up rating within six months after the 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 the approval date of this report, the existing bonds were issued without any guarantees. According to the repayment plans, the existing nine tranches of corporate bonds and three 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 three tranches of short-term corporate bonds of securities companies and four tranches of non-public issuance of corporate bonds shall pay principal together with all interests on the maturity.

During the Reporting Period, compared with that stated in the prospectus, there was no change in the credit enhancement mechanism, debt repayment plans and other repayment guarantee measures of the corporate bonds. 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.

During the Reporting Period, the Company set up special account of debt repayment deposit for each tranche of bonds issued by the Company 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

There were no meetings of corporate bondholders during the Reporting Period.

VII. Duty Performance of the Trustees of Corporate Bonds

During the Reporting Period, trustees in the bonds have carried out their duties according to the requirements of relevant provisions of laws and regulations, as well as the provisions of the Bond Trusteeship Management Agreement.

Huatai United Securities, the trustee of "12 China Merchants 03" of the Company, has issued the 2017 Trust Reports on "12 China Merchants 03" on April 27, 2018.

Everbright Securities, the trustee of "14 China Merchants Bonds", "17 China Merchants G1", "17 China Merchants G2", "17 China Merchants G3" and "15 China Merchants 04" of the Company, has issued the 2017 Trust Report on "14 China Merchants Bonds" on April 27, 2018, and the 2017 Trust Report on "17 China Merchants G1", "17 China Merchants G2", "17 China Merchants G3" and "15 China Merchants 04" on June 27, 2018.

Galaxy Securities, the trustee of "China Merchants 1708", "17 China Merchants D9", "17 China Merchants D10", "17 China Merchants D11", "17 China Merchants D12", "17 China Merchants D13", "17 China Merchants C1", "17 China Merchants Y1", "17 China Merchants Y2", "17 China Merchants Y3" and "17 China Merchants Y4" of the Company, has issued the 2017 Trust Report on the above mentioned bonds on June 29, 2018.

For details, please refer to the relevant announcements published by the Company on the website of the Shanghai Stock Exchange and the website of the Shenzhen Stock Exchange.

VIII. Accounting Data and Financial Indicators as at the End of the Reporting Period and the End of Last Year (or the Reporting Period and the Corresponding Period of Last Year)

Key indicators	The end of Reporting Period	The end of last year	Increase/ decrease for the end of Reporting Period over the end of last year (%)	Reasons for the change
Current ratio	1.65	1.66	-0.23	—
Quick ratio	1.65	1.66	-0.23	—
Gearing ratio(%)	67.55	66.18	2.07	—
Loan repayment ratio(%)	100.00	100.00	—	—

	The Reporting Period (January to June)	The Corresponding Period of Last Year	Increase/ decrease for the Reporting Period over the Corresponding Period of Last Year (%)	Reasons for the change
EBITDA/interest coverage ratio	1.73	2.47	-29.96	—
Interest payment ratio(%)	100.00	100.00	—	—

IX. Overdue Debts

There were no overdue debts during the Reporting Period.

X. 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, structured notes, short-term financing bills of securities companies, relending facility of China Securities Finance Co., Ltd. and gold lease, of which all principals and interests were settled on schedule.

XI. Bank Credits of the Company during the Reporting Period

As at the end of June, 2018, the Company had available credit lines from its major lending banks amounting to RMB270.9 billion, of which RMB64.8 billion were utilized and RMB206.1 billion were unused.

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

XII. Performance of Commitments and Undertakings by the Company in Respect of Corporate Bonds according to the Prospectuses during the Reporting Period

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

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

XIII. Material Incidents of the Company and their Effects on Operation and Payment Ability

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.

TO THE BOARD OF DIRECTORS OF CHINA MERCHANTS SECURITIES CO., LTD.

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

Introduction

We have reviewed the condensed consolidated financial statements of China Merchants Securities Co., Ltd. (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 85 to 182, which comprise the condensed consolidated statement of financial position as of June 30, 2018 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standards 34 "Interim Financial Reporting" ("**IAS 34**") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Auditing and Assurance Standards Board. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

August 29, 2018

Condensed Consolidated Statement of Profit or Loss

For the six months ended June 30, 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	Six months ended June 30, 2018 (Unaudited)	Six months ended June 30, 2017 (Unaudited)
Fee and commission income	4	4,059,579	4,522,870
Interest income	5	3,767,750	3,197,799
Investment income and gains or losses (net)	6	489,590	862,385
Other income and gains or losses	7	(19,144)	(41,037)
Total revenue, gains and other income		**8,297,775**	**8,542,017**
Depreciation and amortization	8	(106,149)	(93,348)
Staff costs	9	(1,626,709)	(1,924,966)
Fee and commission expenses	10	(736,462)	(880,609)
Interest expenses	11	(3,241,050)	(2,241,063)
Tax and surcharges		(49,386)	(46,101)
Other operating expenses	12	(678,953)	(685,130)
Impairment losses, net of reversal	13	(119,824)	(35,063)
Total expenses		**(6,558,533)**	**(5,906,280)**
Share of results of associates		476,338	451,133
Profit before income tax		**2,215,580**	**3,086,870**
Income tax expenses	14	(411,098)	(539,181)
Profit for the period		**1,804,482**	**2,547,689**
Profit for the period attributable to:			
Shareholders of the Company and holders of other equity instruments		1,806,617	2,552,259
Non-controlling interests		(2,135)	(4,570)
		1,804,482	**2,547,689**
Earnings per share attributable to shareholders of the Company (Expressed in RMB per share)			
— Basic	15	0.21	0.35

The notes on pages 94 to 182 form part of this interim financial report.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Profit for the period	**1,804,482**	**2,547,689**
Other comprehensive income (expense):		
Items that will not be reclassified subsequently to profit or loss:		
Fair value gain/(loss) on:		
Investments in equity instruments designated as at fair value through other comprehensive income	(315,388)	—
Income tax relating to items that will not be reclassified to profit or loss	78,847	—
Sub-total	(236,541)	—
Items that may be reclassified subsequently to profit or loss:		
Fair value gain/(loss) on:		
Available-for-sale financial assets:		
Net fair value changes during the period	—	768,491
Reclassification adjustment to profit or loss	—	(108,283)
Income tax impact	—	(164,731)
Debt instruments in financial assets at fair value through other comprehensive income:		
Net fair value changes during the period	141,038	—
Reclassification adjustment to profit or loss upon disposal and impairment provision	74,662	—
Income tax impact	(53,925)	—
Exchange differences on translation of financial statements of foreign operations	107,489	(73,192)
Share of other comprehensive income of associates, net of related income tax	(1,315)	2,443
Sub-total	267,949	424,728
Other comprehensive income for the period (net of tax)	**31,408**	**424,728**
Total comprehensive income for the period (net of tax)	**1,835,890**	**2,972,417**
Total comprehensive income for the period attributable to:		
Shareholders of the Company and holders of other equity instruments	1,838,025	2,976,987
Non-controlling interests	(2,135)	(4,570)
	1,835,890	**2,972,417**

Condensed Consolidated Statement of Financial Position

As at June 30, 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	As at June 30, 2018 (Unaudited)	As at December 31, 2017 (Audited)
Non-current assets			
Property and equipment	16	1,864,270	1,832,087
Goodwill		9,671	9,671
Other intangible assets		21,727	21,579
Interests in associates	17	7,845,149	7,489,497
Available-for-sale financial assets	18	—	7,793,163
Equity instruments at fair value through other comprehensive income	20	7,321,211	—
Debt instruments at amortized cost	21	1,808,398	—
Financial assets held under resale agreements	23	7,018,661	8,801,458
Deferred tax assets	24	1,246,193	903,214
Other non-current assets	25	173,822	197,917
Total non-current assets		**27,309,102**	**27,048,586**
Current assets			
Advances to customers	26	52,490,008	59,235,426
Accounts and other receivables	27	4,276,766	4,081,875
Current tax assets		183,028	429,403
Available-for-sale financial assets	18	—	25,482,190
Debt instruments at fair value through other comprehensive income	19	24,227,066	—
Loans and advances at amortized cost		2,389	84,621
Financial assets at fair value through profit or loss	22	82,249,964	73,070,285
Financial assets held under resale agreements	23	33,528,085	27,297,865
Derivative financial assets	28	1,017,305	1,021,640
Deposits with exchanges and non-bank financial institutions	29	1,159,872	1,224,478
Clearing settlement funds	30	15,419,884	14,010,491
Cash and bank balances	31	56,214,963	52,656,695
Total current assets		**270,769,330**	**258,594,969**
Total assets		**298,078,432**	**285,643,555**

Condensed Consolidated Statement of Financial Position

As at June 30, 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	As at June 30, 2018 (Unaudited)	As at December 31, 2017 (Audited)
Current liabilities			
Short-term borrowings	33	4,032,204	6,611,444
Short-term debt instruments	34	49,398,500	47,045,670
Placements from banks and other financial institutions	35	3,000,000	1,470,000
Accounts payable to brokerage clients	36	56,382,849	51,095,335
Accrued staff costs	37	4,409,793	4,640,605
Other payables and accrued charges	38	7,053,981	5,022,544
Current tax liabilities		109,204	141,817
Financial liabilities at fair value through profit or loss	39	3,876,661	5,492,509
Derivative financial liabilities	28	799,307	1,584,910
Financial assets sold under repurchase agreements	40	46,929,867	33,382,970
Long-term borrowings due within one year	46	415,685	378,134
Bonds payable due within one year	48	9,700,000	19,499,911
Total current liabilities		**186,108,051**	**176,365,849**
Net current assets		**84,661,279**	**82,229,120**
Total assets less current liabilities		**111,970,381**	**109,277,706**

Condensed Consolidated Statement of Financial Position

As at June 30, 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	As at June 30, 2018 (Unaudited)	As at December 31, 2017 (Audited)
Capital and reserves			
Share capital		6,699,409	6,699,409
Other equity instruments	41	15,000,000	15,000,000
Capital reserve		27,533,939	27,533,939
Investment revaluation reserve of available-for-sale financial assets	42	—	327,404
Investment revaluation reserve of financial assets at fair value through other comprehensive income	43	322,892	—
Foreign currency translation reserve		(7,248)	(114,737)
General reserves	44	12,790,340	12,790,340
Retained profits		16,010,688	16,993,794
Equity attributable to shareholders of the Company and holders of other equity instruments		**78,350,020**	**79,230,149**
Non-controlling interests		82,976	103,555
Total equity		**78,432,996**	**79,333,704**
Non-current liabilities			
Accrued staff costs	37	787,540	787,540
Deferred tax liabilities	24	46,998	235,002
Deferred income	45	126,000	126,000
Long-term borrowings	47	1,074,953	1,065,786
Bonds payable	49	31,501,894	27,729,674
Total non-current liabilities		**33,537,385**	**29,944,002**
Total equity and non-current liabilities		**111,970,381**	**109,277,706**

Approved and authorized for issue by the board of directors on 29 August, 2018.

HUO DA
Director

XIONG JIANTAO
Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to shareholders of the Company and holders of other equity instruments										
	Share capital	Other equity instruments	Capital reserve	Investment revaluation reserve of available-for-sale financial assets	Investment revaluation reserve of financial assets at fair value through other comprehensive income	Translation reserve	General reserves	Retained profits	Sub-total	Non-controlling interests	Total
		(Note 41)		(Note 42)	(Note 43)		(Note 44)				
At December 31, 2017 (Audited)	6,699,409	15,000,000	27,533,939	327,404	–	(114,737)	12,790,340	16,993,794	79,230,149	103,555	79,333,704
Effect of adoption of IFRS 9	–	–	–	(327,404)	398,973	–	–	(70,682)	887	–	887
At January 1, 2018 (Unaudited)	6,699,409	15,000,000	27,533,939	–	398,973	(114,737)	12,790,340	16,923,112	79,231,036	103,555	79,334,591
Profit (loss) for the period	–	–	–	–	–	–	–	1,806,617	1,806,617	(2,135)	1,804,482
Other comprehensive income (expense) for the period	–	–	–	–	(76,081)	107,489	–	–	31,408	–	31,408
Total comprehensive income (expense) for the period	–	–	–	–	(76,081)	107,489	–	1,806,617	1,838,025	(2,135)	1,835,890
Capital redemption by non-controlling shareholders	–	–	–	–	–	–	–	–	–	(484)	(484)
Distribution to holders of other equity instruments (note 50)	–	–	–	–	–	–	–	(401,045)	(401,045)	–	(401,045)
Dividends recognized as distribution (note 50)	–	–	–	–	–	–	–	(2,317,996)	(2,317,996)	(17,960)	(2,335,956)
At June 30, 2018 (Unaudited)	6,699,409	15,000,000	27,533,939	–	322,892	(7,248)	12,790,340	16,010,688	78,350,020	82,976	78,432,996

	Attributable to shareholders of the Company and holders of other equity instruments										
	Share capital	Other equity instruments	Capital reserve	Investment revaluation reserve of available-for-sale financial assets	Investment revaluation reserve of financial assets at fair value through other comprehensive income	Translation reserve	General reserves	Retained profits	Sub-total	Non-controlling interests	Total
		(Note 41)		(Note 42)	(Note 43)		(Note 44)				
At January 1, 2017 (Unaudited)	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 (loss) for the period	–	–	–	–	–	–	–	2,552,259	2,552,259	(4,570)	2,547,689
Other comprehensive income (expense) for the period	–	–	–	497,920	–	(73,192)	–	–	424,728	–	424,728
Total comprehensive income (expense) for the period	–	–	–	497,920	–	(73,192)	–	2,552,259	2,976,987	(4,570)	2,972,417
Capital injection by non-controlling shareholders	–	–	–	–	–	–	–	–	–	4,500	4,500
Issuance of perpetual subordinated bond	–	15,000,000	–	–	–	–	–	–	15,000,000	–	15,000,000
Dividends recognized as distribution (note 50)	–	–	–	–	–	–	–	(1,266,188)	(1,266,188)	–	(1,266,188)
At June 30, 2017 (Unaudited)	6,699,409	15,000,000	27,533,939	182,225	–	(21,071)	11,498,783	15,643,851	76,537,136	88,632	76,625,768

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Profit before income tax	2,215,580	3,086,870
Adjustments for:		
Interest expenses	3,241,050	2,241,063
Share of results of associates	(476,338)	(451,133)
Depreciation and amortization	106,149	93,348
Impairment losses	119,824	35,063
Gains on disposal of property and equipment and other non-current assets	(288)	(668)
Foreign exchange losses, net	67,338	72,400
Net realized loss from disposal of available-for-sale financial assets	—	159,858
Net realized loss from disposal of financial assets at fair value through other comprehensive income	74,662	—
Dividend income and interest income on available-for-sale financial assets	—	(353,608)
Dividend income and interest income on financial assets at fair value through other comprehensive income	(504,646)	—
Unrealized fair value changes of financial instruments at fair value through profit or loss	870,576	(647,849)
Operating cash flows before movements in working capital	**5,713,907**	**4,235,344**

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Decrease in advances to customers	6,707,269	1,117,907
Increase in other current assets	(581,728)	(173,746)
Increase in financial assets held under resale agreements	(4,529,329)	(5,843,256)
(Increase) decrease in financial assets/liabilities at fair value through profit or loss	(9,592,680)	2,975,317
Decrease (increase) in deposit with exchanges and non-bank financial institutions	64,606	(28,502)
Decrease (increase) in pledged and restricted bank deposits	237,253	(679,704)
(Increase) decrease in clearing settlement funds	(1,546,161)	5,775,486
(Increase) decrease in cash held on behalf of customers	(3,351,283)	1,610,809
Increase (decrease) in accounts payable to brokerage clients	5,287,514	(7,677,251)
(Decrease) increase in accrued staff costs	(230,812)	212,774
Increase in other current liabilities	273,712	727,694
Increase in financial assets sold under repurchase agreements	13,546,897	7,513,187
Increase in placements from other financial institutions	1,530,000	250,000
Increase in provisions	—	29,367
Cash generated from operations	**13,529,165**	**10,045,426**
Income taxes paid	(703,713)	(648,458)
Interest paid	(753,332)	(995,067)
NET CASH FROM OPERATING ACTIVITIES	**12,072,120**	**8,401,901**
INVESTING ACTIVITIES		
Dividends and interest received from investment	599,517	353,608
Purchases of property and equipment, other intangible assets and other non-current assets	(111,745)	(72,933)
Purchases/disposals of		
— debt instruments at fair value through other comprehensive income	(2,909,513)	—
— debt instruments at amortized cost	(14,878)	—
— available for-sale financial assets	—	(532,174)
Proceeds from disposals of property and equipment, other intangible assets and other non-current assets	288	925
NET CASH USED IN INVESTING ACTIVITIES	**(2,436,331)**	**(250,574)**

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
FINANCING ACTIVITIES		
Dividends paid to shareholders and other equity instrument holders	(820,067)	—
Repayment of bonds and short-term debt instruments interest	(2,248,577)	(3,269,470)
Repayment of borrowings interests	(81,407)	(45,584)
Cash received from other equity instruments issued	—	15,000,000
Repayment of bonds and short-term debt instruments	(44,053,210)	(49,855,940)
Proceeds from bonds and short-term debt instruments	40,376,260	28,886,730
(Repayment of) proceeds from borrowings	(2,625,007)	2,226,652
Proceeds from long-term borrowings	42,551	5,438
Repayment of long-term borrowings	(5,000)	—
Capital injection from non-controlling shareholders	—	4,500
Capital redemption from non-controlling shareholders	(484)	—
NET CASH USED IN FINANCING ACTIVITIES	**(9,414,941)**	**(7,047,674)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**220,848**	**1,103,653**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**13,371,686**	**12,325,818**
Effect of foreign exchange rate changes	86,623	(272,285)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**13,679,157**	**13,157,186**

Notes to the Condensed Consolidated Financial Information

For the period ended June 30, 2018
(Expressed in thousands of Renminbi, unless otherwise stated)

1. CORPORATE INFORMATION

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

After completion of registration with Shenzhen Administration for Industry and Commerce, Guotong Securities Limited Liability Company (國通證券有限責任公司) restructured and changed its name to Guotong Securities Co., Ltd. (國通證券股份有限公司) on December 26, 2001, with The Approval to The Resolution about Managing The State-owned Shares of Guotong Securities Co., Ltd. (國通證券股份有限公司) (Cai Qi [2001] No. 723) issued by the Ministry of Finance of People's Republic of China ("PRC"), The Approval for Changing the Name of Guotong Securities Co., Ltd. (國通證券股份有限公司) (Zheng Jian Ji Gou Zi [2001] No. 285) issued by the China Securities Regulatory Commission, and The Approval for Equity Restructuring of Guotong Securities Co., Ltd. (國通證券股份有限公司) (Shen Fu Gu [2001] No. 49) issued by the Municipal Government of Shenzhen. 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 June 30, 2018, 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, the PRC. The Company and its subsidiaries (the "Group") are principally engaged in securities brokerage, securities financial advisory, financial advisory relating to securities trading and securities investment activities, securities underwriting and sponsorship, proprietary trading, asset management, margin financing and securities lending, securities investment fund distribution, intermediary services to futures company, agency sales of financial products, insurance agency and securities investment management.

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

(Expressed in thousands of Renminbi, unless otherwise stated)

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board as well as with the applicable disclosure provision of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, the following new and amendments to the IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2018 for the presentation of the Group's condensed consolidated financial statements:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014-2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

In addition, the Group has applied Amendments to IFRS 9 prepayment Features with Negative Compensation in advance of the effective date, i.e. January 2019.

The new and amendments to the IFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and disclosures described below.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments

In the current period, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and loan commitments 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognized as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognized in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

3.1.1 Key changes in accounting policies resulting from application of IFRS 9

Classification and measurement of financial assets

Accounts receivables arising from contracts with customers are initially measured in accordance with IFRS 15.

All recognized financial assets that are within the scope of IFRS 9 are subsequently measured at amortized cost or fair value, including unquoted equity investments measured at cost less impairment under IAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the 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.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the 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.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI").

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Classification and measurement of financial assets (Continued)

In addition, the Group may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, and foreign exchange gains and losses are recognized in profit or loss. All other changes in the carrying amount of these debt instruments are recognized in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowance are recognized in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognized in profit or loss are the same as the amounts that would have been recognized in profit or loss if these debt instruments had been measured at amortized cost. When these debt instruments are derecognized, the cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election on an instrument-by-instrument basis to designate investments in equity instruments which are not held for trading as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "Investment income and gains or losses (net)" line item in profit or loss.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Classification and measurement of financial assets (Continued)

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss is included in the "Investment income and gains or losses (net)" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 3.1.2.

Impairment under ECL model

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9, including accounts and other receivables, debt instruments measured at amortized cost or FVTOCI, advances to customers, financial assets held under resale agreements and loan commitments. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for accounts receivables. The ECL on accounts receivables are assessed individually for debtors with significant balances.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model (Continued)

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

For loan commitments, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 9 (Continued)

Impairment under ECL model (Continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For ECL on loan commitments for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI and loan commitments, the Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts receivables, advances to customers, and the resale agreements where the corresponding adjustment is recognized through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognized in OCI and accumulated in the FVTOCI reserve without reducing the carrying amounts of these debt instruments.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and loan commitments for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. The results of the assessment and the impact thereof are detailed as follows.

Classification and measurement of financial liabilities

For financial liabilities that are designated as at FVTPL, 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 recognized in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

(Expressed in thousands of Renminbi, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.1.2 Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Notes	Available-for-sale	Financial assets designated at FVTPL	Financial assets at FVTPL required by IAS 39/ IFRS 9	Equity instruments at FVTOCI	Debt instruments at FVTOCI	Amortized cost (previously classified as loans and receivables)	Financial liabilities at amortized cost	Deferred tax assets/ liabilities	FVTOCI reserve (previously classified as investment revaluation reserve)	Retained profits	Non-controlling interests
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Closing balance at 31 December 2017 — IAS 39		33,275,353	1,930,226	71,140,059	—	—	167,284,125	193,088,107	668,212	327,404	16,993,794	103,555
Effect arising from initial application of IFRS 9:												
Reclassification												
From available-for-sale	(a)	(33,275,353)	—	2,639,611	7,636,599	21,175,257	1,823,886	—	—	63,284	(63,284)	—
From designated at FVTPL	(b)	—	(1,930,226)	1,930,226	—	—	—	—	—	—	—	—
Remeasurement												
Impairment under ECL model	(c)	—	—	—	—	—	(2,646)	—	661	5,413	(7,398)	—
From fair value to amortized cost	(a)	—	—	—	—	—	3,828	—	(957)	2,872	—	—
Opening balance at 1 January 2018		—	—	75,709,896	7,636,599	21,175,257	169,109,193	193,088,107	667,916	398,973	16,923,112	103,555

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.1.2 Summary of effects arising from initial application of IFRS 9 (Continued)

(a) Available-for-sale investments

From AFS equity investments to FVTOCI

The Group elected to present in OCI for the fair value changes of its equity investments previously classified as available-for-sale, of which RMB7,636,599 thousand related to unquoted equity investments under IAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB7,636,599 thousand were reclassified from available-for-sale investments to equity instruments at FVTOCI. The fair value gains of RMB565,552 thousand (after tax) relating to those unquoted equity investments were adjusted to equity instruments at FVTOCI reserve as at 1 January 2018.

From AFS investments to FVTPL

At the date of initial application of IFRS 9, the Group's equity investments, funds, bonds, asset management schemes and trust products under IAS 39 amounted to RMB2,639,611 thousand were reclassified from available-for-sale investments to financial assets at FVTPL. The fair value loss of RMB63,284 thousand (after tax) relating to those investments previously carried at fair value were transferred from investment revaluation reserve of available-for-sale financial assets to retained profits.

From AFS debt investments to amortized cost

At the date of initial application of IFRS 9, certain investments in corporate bonds of RMB1,823,886 thousand were reclassified from available-for-sale to amortized cost since the Group's business model is to hold these investments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount outstanding. The carrying amounts were adjusted to amortized cost of RMB1,825,068 thousand (after tax), with corresponding reversal of fair value loss of RMB2,872 thousand (after tax) previously recognized in investment revaluation reserve and additional credit loss allowance of RMB2,646 thousand (before tax) recognized against retained profits.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.1.2 Summary of effects arising from initial application of IFRS 9 (Continued)

(a) Available-for-sale investments (Continued)

From AFS debt investments to FVTOCI

Bonds with a fair value of RMB21,175,257 thousand were reclassified from available-for-sale investments to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding. Related fair value losses of RMB170,852 thousand were transferred to FVTOCI reserve as at 1 January 2018.

(b) Financial assets at FVTPL and/or designated at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for its unlisted equity investment which is managed and its performance is evaluated on a fair value basis, as these financial assets are required to be measured at FVTPL under IFRS 9. As a result, the fair value of these investments amounting to RMB1,930,226 thousand were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

Remaining investments are equity securities held for trading which are required to be classified as FVTPL under IFRS 9. There was no impact on the amounts recognized in relation to these assets from the application of IFRS 9.

(c) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL and recognizes lifetime ECL for accounts receivables. To measure the ECL, accounts receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of pledged bank deposits, bank balances, deposits with exchanges and non-bank financial institutions, clearing settlement funds, financial assets held under resales agreements, loan receivables, advances to customer, and other receivables are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

All of the Group's debt instruments at FVTOCI are bonds that are assigned the top-notch credit rating by rating agencies. Therefore, these investments are considered to be low credit risk investments and the loss allowance is measured on 12m ECL basis.

As at 1 January 2018, the additional credit loss allowance of RMB7,398 thousand (after tax) was recognized against retained profits and FVTOCI reserve. This additional loss allowance is charged against the respective asset, except for the debt instruments which are measured at FVTOCI and the loss allowance for which is recognized against the FVTOCI reserve.

(Expressed in thousands of Renminbi, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

3.1.2 Summary of effects arising from initial application of IFRS 9 (Continued)

(c) Impairment under ECL model (Continued)

A reconciliation of impairment on financial assets which are impacted by adoption of IFRS 9 as at 31 December 2017 to the opening balance of impairment as at 1 January 2018 is as follows:

	Accounts and other receivables	Debt instruments at amortized cost	Debt instruments at fair value through other comprehensive income
	RMB'000	RMB'000	RMB'000
At 31 December 2017	5,466	—	—
IAS 39	—	—	—
Amounts remeasured through opening retained profits	1,301	1,345	—
Amounts remeasured through FVTOCI reserve	—	—	7,217
At 1 January 2018	**6,707**	**1,345**	**7,217**

3.2 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

The Group has applied IFRS 15 for the first time in the current interim period. IFRS 15 superseded IAS 18 Revenue and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognized from the date of initial application, 1 January 2018 to 30 June 2018. There is no difference at the date of initial application and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 and the related interpretations.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 15

IFRS 15 introduces a 5-step approach when recognizing revenue:

- 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: Recognize revenue when (or as) the Group satisfies a performance obligation.

Under IFRS 15, the Group recognizes 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.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 15 (Continued)

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognize revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.2 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers (Continued)

3.2.1 Key changes in accounting policies resulting from application of IFRS 15 (Continued)

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

3.2.2 Summary of effects arising from initial application of IFRS 15

There has no material impact on retained profits or condensed consolidated financial statements of the Group on 1 January 2018 from initial application of IFRS 15.

Except as described above, the application of other amendments to IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

(Expressed in thousands of Renminbi, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table show the adjustments recognized for each individual line item.

	31 December 2017	IFRS 9	1 January 2018
	(Audited)		(Restated)
Non-current assets			
Property and equipment	1,832,087	—	1,832,087
Goodwill	9,671	—	9,671
Other intangible assets	21,579	—	21,579
Interests in associates	7,489,497	—	7,489,497
Available-for-sale financial assets	7,793,163	(7,793,163)	—
Debt instruments investments at amortized cost	—	1,793,330	1,793,330
Equity instruments at fair value through other comprehensive income	—	7,636,599	7,636,599
Financial assets held under resale agreements	8,801,458	—	8,801,458
Deferred tax assets	903,214	(1,117)	902,097
Other non-current assets	197,917	—	197,917
Current assets			
Advances to customers	59,235,426	—	59,235,426
Debt instruments at fair value through other comprehensive income	—	21,175,257	21,175,257
Accounts and other receivables	4,081,875	31,738	4,113,613
Current tax assets	429,403	—	429,403
Available-for-sale financial assets	25,482,190	(25,482,190)	—
Loans and advances investments at amortised cost	84,621	—	84,621
Financial assets held under resale agreements	27,297,865	—	27,297,865
Financial assets at fair value through profit or loss	73,070,285	2,639,611	75,709,896
Derivative financial assets	1,021,640	—	1,021,640
Deposits with 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

(Expressed in thousands of Renminbi, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards (Continued)

	31 December 2017 (Audited)	IFRS 9	1 January 2018 (Restated)
Current liabilities			
Short-term borrowings	6,611,444	—	6,611,444
Short-term debt instruments	47,045,670	—	47,045,670
Placements from banks and other financial institutions	1,470,000	—	1,470,000
Accounts payable to brokerage clients	51,095,335	—	51,095,335
Accrued staff costs	4,640,605	—	4,640,605
Other payables and accrued charges	5,022,544	—	5,022,544
Current tax liabilities	141,817	—	141,817
Financial liabilities at fair value through profit or loss	5,492,509	—	5,492,509
Derivative financial liabilities	1,584,910	—	1,584,910
Financial assets sold under repurchase agreements	33,382,970	—	33,382,970
Long-term borrowings due within one year	378,134	—	378,134
Bonds payable due within one year	19,499,911	—	19,499,911
Non-current liabilities			
Accrued staff costs	787,540	—	787,540
Deferred tax liabilities	235,002	(821)	234,181
Deferred income	126,000	—	126,000
Bonds payable	27,729,674	—	27,729,674
Long-term borrowings	1,065,786	—	1,065,786
Equity			
Share capital	6,699,409	—	6,699,409
Capital reserve	27,533,939	—	27,533,939
Other equity instruments	15,000,000	—	15,000,000
Investment revaluation reserve of available-for-sale financial assets	327,404	(327,404)	—
Investment revaluation reserve of financial assets at fair value through other comprehensive income	—	398,973	398,973
Foreign currency translation reserve	(114,737)	—	(114,737)
General reserves	12,790,340	—	12,790,340
Retained profits	16,993,794	(70,682)	16,923,112
Non-controlling interests	103,555	—	103,555

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

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards (Continued)

Except for the following significant judgements/estimates, the significant judgments made by management in applying the Group's accounting policies and key sources of uncertainty were the same as those applied in the preparation of the consolidated financial statements for the year ended December 31, 2017.

Classification of financial assets

- Business model assessment: Classification and measurement of financial assets depends on the results of the solely payments of principal and interest ("SPPI") test and the business model. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortized cost or FVTOCI that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Measurement of ECL

- Significant increase of credit risk: ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.
- Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 56(2) for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Assets move from 12-month to lifetime ECLs when there is a significant increase in credit risk, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

(Expressed in thousands of Renminbi, unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

3.3 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards (Continued)

Classification of risk characteristic

- Models and assumptions used: The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of assets, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.
- Forward-looking information: When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default (PD): PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default (LGD): LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Refer to note 56(2) and note 57 for more details on ECL and fair value measurement respectively.

4. FEE AND COMMISSION INCOME

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Securities and futures brokerage business	2,476,095	2,499,153
Asset management and fund management business	612,217	552,390
Underwriting and sponsorship business	532,691	965,427
Financial advisory business	153,694	252,346
Others(i)	284,882	253,554
	4,059,579	4,522,870

(i) Others mainly comprise of custodian fee income and consultancy fee income received or receivable by the Group.

(Expressed in thousands of Renminbi, unless otherwise stated)

5. INTEREST INCOME

Interest income, other than the interest income from investments as disclosed in note 6, is as follows:

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Advances to customers and securities lending	2,026,240	1,912,301
Securities-backed lending and stock repurchase agreement	888,866	538,827
Deposits with exchanges and financial institutions	797,666	711,866
Other financial assets held under resale agreements	54,978	34,805
	3,767,750	**3,197,799**

6. INVESTMENT INCOME AND GAINS OR LOSSES (NET)

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Interest income on debt instruments at fair value through other comprehensive income	454,892	—
Interest income on debt instruments at amortized cost	49,754	—
Interest income on debt instruments at fair value through other comprehensive income and amortized cost	**504,646**	**—**
Dividend and interest income on available-for-sale financial assets	—	353,608
Dividend and interest income on financial assets at fair value through profit or loss	1,266,346	1,012,902
Net realized losses from disposals of available-for-sale financial assets	—	(159,858)
Net realized losses from disposals of debt instruments measured at fair value through other comprehensive income	(74,662)	—
Net realized losses from disposals of financial assets at fair value through profit or loss	(616,521)	(916,719)
Net realized losses from financial liabilities at fair value through profit or loss	(109,881)	(78,915)
Net realized gains from derivatives financial instruments	390,238	3,518
Unrealized fair value change of financial instruments at fair value through profit or loss		
— financial assets at fair value through profit or loss	(1,031,237)	736,533
— financial liabilities at fair value through profit or loss	(26,868)	87,065
Unrealized fair value change of derivative financial instruments	187,529	(175,749)
Net investment gains or losses	**(15,056)**	**862,385**
	489,590	**862,385**

(Expressed in thousands of Renminbi, unless otherwise stated)

7. OTHER INCOME AND GAINS OR LOSSES

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Commission from taxes withheld and remitted	30,736	13,679
Government grant	9,881	6,840
Rental income	4,615	5,038
Gains on disposals of property and equipment and other non-current assets	316	702
Foreign exchange losses, net	(67,338)	(72,400)
Others	2,646	5,104
	(19,144)	**(41,037)**

8. DEPRECIATION AND AMORTIZATION

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Depreciation of property and equipment	71,270	57,977
Amortization of other non-current assets	34,879	34,726
Amortization of other intangible assets	—	645
	106,149	**93,348**

9. STAFF COSTS

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Salaries, bonus and allowances	1,196,414	1,524,379
Contributions to retirement benefits(i)	164,883	160,965
Other social welfare(ii)	205,142	190,648
Others	60,270	48,974
	1,626,709	**1,924,966**

(i) 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 labor 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 recognized in profit or loss as expenses. These annuity schemes are defined contribution plans.

The Group also operates Mandatory Provident Fund Schemes for all qualified employees in Hong Kong. The Group contributes certain percentage of relevant payroll costs to the scheme, and the employees contribute the same percentage subject to a maximum amount for each employee. The assets of these scheme are held separately from those of the Group, and maintained in funds under the control of trustees.

(Expressed in thousands of Renminbi, unless otherwise stated)

9. STAFF COSTS (Continued)

(ii) The domestic employees of the Group in the PRC participate in state-managed social welfare plans, including social 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 recognized as expense as incurred.

10. FEE AND COMMISSION EXPENSES

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Securities and futures brokerage business	620,348	655,214
Underwriting and sponsorship business	98,519	191,452
Asset management business	6,552	15,187
Financial advisory business	5,112	13,047
Others	5,931	5,709
	736,462	**880,609**

11. INTEREST EXPENSES

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Bonds payable	1,026,674	1,131,787
Structured notes	709,434	276,084
Short-term bond payables	629,988	167,893
Financial assets sold under repurchase agreements	489,186	421,989
Margin and securities refinancing	99,389	50,728
Bank borrowings	95,009	27,965
Accounts payable to brokerage clients	88,512	94,948
Borrowings	75,996	44,071
Gold lease	20,971	23,767
Short-term financing bills payables	4,060	—
Others	1,831	1,831
	3,241,050	**2,241,063**

(Expressed in thousands of Renminbi, unless otherwise stated)

12. OTHER OPERATING EXPENSES

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Operating lease rentals in respect of rented premises	218,236	185,412
Advertising and promotion expenses	96,957	76,656
Data transmission expenses	70,707	80,362
Business travel expenses	65,664	70,643
IT expenses	60,565	56,824
Membership subscription fee	44,784	46,473
General and administrative expenses	30,793	39,109
Securities and futures investor protection funds	20,663	23,038
Sundry expenses	70,584	106,613
	678,953	**685,130**

13. IMPAIRMENT LOSSES, NET OF REVERSAL

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Impairment loss in respect of financial assets held under resale agreements (note 23)	81,906	42,019
Impairment loss (reversal of impairment) in respect of advances to customers (note 26)	38,071	(4,290)
Impairment loss (reversal of impairment) in respect of accounts receivable (note 27)	1,106	(2,666)
Reversal of impairment in respect of debt instruments at fair value through other comprehensive income (note 19)	(1,259)	—
	119,824	**35,063**

14. INCOME TAX EXPENSES

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Current tax:		
— PRC Enterprise Income Tax ("EIT")	918,598	776,381
— Hong Kong Profits Tax	2,837	9,035
	921,435	785,416
Over provision in respect of prior periods:		
— EIT	(3,960)	(272)
— Hong Kong Profits Tax	—	(6,156)
	(3,960)	(6,428)
Deferred taxation		
— Origination and reversal of temporary differences (note 24)	(506,377)	(239,807)
	411,098	539,181

15. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share attributable to shareholders of the Company is as follows:

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Earnings for the purpose of basic earnings per share:		
Profit attributable to Shareholders of the Company and holders of other equity instruments	1,806,617	2,552,259
Less: Profit attributable to holders of perpetual subordinated bonds	(401,045)	(187,854)
Sub-total	1,405,572	2,364,405
Number of shares:		
Weighted average number of shares in issue (in thousands)	6,699,409	6,699,409
Earnings per share:		
Earnings per share (Expressed in RMB per share)	0.21	0.35

For the six months ended June 30, 2018 and 2017, there were no potential dilutive shares in issue, thus no dilutive earnings per share was presented.

(Expressed in thousands of Renminbi, unless otherwise stated)

16. PROPERTY AND EQUIPMENT

	Leasehold land and buildings	Motor vehicles	Electronic and communication equipment	Office equipment	Construction in progress	Total
Unaudited						
Cost						
As at January 1, 2018	390,881	64,730	696,293	57,797	1,185,068	2,396,769
Additions	—	324	11,864	281	95,350	107,819
Disposals	—	(1,056)	(701)	(19)	—	(1,776)
Transfer	—	—	5,828	25,755	(31,583)	—
Transfer to other non-current assets (note 25)	—	—	—	—	(4,457)	(4,457)
Exchange differences	—	26	581	445	208	1,260
As at June 30, 2018	390,881	64,024	713,865	86,259	1,244,586	2,499,615
Accumulated depreciation and impairment						
As at January 1, 2018	197,550	42,973	279,152	45,007	—	564,682
Charge for the period	6,256	3,494	56,118	5,402	—	71,270
Disposals	—	(1,003)	(568)	(18)	—	(1,589)
Exchange differences	—	22	525	435	—	982
As at June 30, 2018	203,806	45,486	335,227	50,826	—	635,345
Carrying values						
As at June 30, 2018	**187,075**	**18,538**	**378,638**	**35,433**	**1,244,586**	**1,864,270**
Audited						
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 25)	—	—	—	—	(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 year	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**

(Expressed in thousands of Renminbi, unless otherwise stated)

17. INTERESTS IN ASSOCIATES

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Cost of unlisted investments in associates	5,545,940	5,545,940
Share of post-acquisition profits and other comprehensive income, net of dividends received	2,968,359	2,612,707
	8,514,299	**8,158,647**
Less: Impairment loss in respect of interests in associates	(669,150)	(669,150)
	7,845,149	**7,489,497**

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 condensed consolidated financial statements:

Name of associate	Place and date of incorporation/ establishment	Equity interest held by the Group		Principal Activities
		As at June 30, 2018	As at December 31, 2017	
Bosera Asset Management Co., Ltd.	PRC July 13, 1998	49.00%	49.00%	Fund management
China Merchants Fund Management Limited	PRC December 27, 2002	45.00%	45.00%	Fund management
Guangdong Equity Exchange Co., Ltd.	PRC October 29, 2013	32.50%	32.50%	Transaction settlement services
China Merchants Xiangjiang Industrial Investment Management Co., Ltd.	PRC March 13, 2008	40.00%	40.00%	Investment management
Qingdao Asset Management Co., Ltd*	September 21, 2015	30.00%	30.00%	Investment trading

* English translated name is for identification purpose only.

(Expressed in thousands of Renminbi, unless otherwise stated)

18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Non-current		
Measure at fair value		
— Others[i]	—	7,793,163
Current		
Measure at fair value		
— Equity investment	—	1,227,110
— Debt securities	—	23,594,715
— Others	—	660,365
	—	**25,482,190**

(i) Included in the balance is an investment in a special account managed by China Securities Finance Corporation Limited ("CSFCL"). The Company is entitled to the profit or loss derived from the special account in proportion to the funding portion contributed. The Company determined the fair value of the investment according to an evaluation report provided by the CSFCL.

19. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Current		
Government bonds	5,787,794	—
Bonds issued by policy banks	4,436,492	—
Bonds issued by commercial banks and other financial institutions	1,840,188	—
Other debt securities[i]	12,162,592	—
	24,227,066	**—**

(i) Other debt securities mainly comprise of corporate bonds, enterprise bonds and medium term notes.

(Expressed in thousands of Renminbi, unless otherwise stated)

19. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Continued)

	As at June 30, 2018		
	12 months ECL	Life time ECL	Total
Impairment allowances	(5,958)	—	(5,958)

Movements of allowances for impairment losses recognized against FVTOCI reserve is as below:

	As at June 30, 2018	As at December 31, 2017
At beginning of the period/year	7,217	—
Reversal of impairment losses	(1,259)	—
At end of the period/year	**5,958**	**—**

20. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Special accounts[(i)]	7,321,211	—

(i) Details of the special accounts as disclosed in note 18. This investment is qualified for designation as measured at FVTOCI under IFRS 9 and the Company elected this option for this item.

21. DEBT INSTRUMENTS AT AMORTIZED COST

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Non-current		
Other debt securities[(i)]	1,808,398	—

(i) Other debt securities mainly comprise of corporate bonds and medium term notes.

(Expressed in thousands of Renminbi, unless otherwise stated)

21. DEBT INSTRUMENTS AT AMORTIZED COST (Continued)

	As at June 30, 2018		
	12 months ECL	Life time ECL	Total
Impairment allowances	(1,345)	—	(1,345)

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(1) Analyzed by type

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Current		
Financial assets held-for-trading	—	71,140,059
Financial assets designated at fair value through profit or loss	—	1,930,226
Financial assets mandatorily measured at fair value through profit or loss	82,249,964	—
	82,249,964	**73,070,285**

(2) Financial assets held-for-trading

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Current		
Debt securities	—	36,606,423
Equity securities	—	12,147,941
Funds	—	20,683,969
Others	—	1,701,726
	—	**71,140,059**

(Expressed in thousands of Renminbi, unless otherwise stated)

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(3) Financial assets designated at fair value through profit or loss

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Current		
Equity investments	—	415,378
Others	—	1,514,848
	—	**1,930,226**

(4) Financial assets mandatorily measured at fair value through profit or loss

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Current		
Debt securities	57,293,207	—
Equity investments	10,353,371	—
Funds	10,971,689	—
Others[(i)]	3,631,697	—
	82,249,964	**—**

(i) Others mainly represent investments in collective asset management schemes, commodities, and wealth management products issued and managed by banks.

Fair value of the Group's financial assets at fair value through profit or loss are determined in the manner described in note 57.

As at June 30, 2018, the Group entered into securities lending arrangement with clients that resulted in the transfer of equity securities at fair value through profit or loss with total fair values of RMB252,765 thousand (December 31, 2017: RMB304,291 thousand) to clients. These securities continued to be recognized as financial assets of the Group.

(Expressed in thousands of Renminbi, unless otherwise stated)

23. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(1) Analyzed by collateral type and market of financial assets held under resale agreements:

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Non-current		
Analyzed by collateral type:		
— Stock[(i)]	7,026,257	8,835,124
Analyzed by market:		
— Stock exchanges	7,026,257	8,835,124
Less: Allowance for impairment losses	(7,596)	(33,666)
	7,018,661	**8,801,458**
Current		
Analyzed by collateral type:		
— Stock[(i)]	24,602,803	21,860,815
— Bond	9,139,894	5,543,686
	33,742,697	**27,404,501**
Analyzed by market:		
— Stock exchanges	25,924,603	23,122,759
— Interbank bond market	7,818,094	4,281,742
	33,742,697	**27,404,501**
Less: Allowance for impairment losses	(214,612)	(106,636)
	33,528,085	**27,297,865**

(i) The financial assets (pledged by stock) held under resale are those resale agreements which the qualified investors entered into with the Group with a commitment to purchasing the specified securities at a future date with an agreed price. As at June 30, 2018, the fair value of securities of the Group which have been received as collateral were RMB81,433,330 thousand (December 31, 2017: RMB78,137,257 thousand).

(2) The movements of impairment losses are as follows:

	Six months ended June 30, 2018	Year ended December 31, 2017
	(Unaudited)	(Audited)
At beginning of the period/year	140,302	87,335
Impairment losses recognized	81,906	52,967
At end of the period/year	**222,208**	**140,302**

(Expressed in thousands of Renminbi, unless otherwise stated)

24. DEFERRED TAX ASSETS (LIABILITIES)

The following is an analysis of the deferred tax balances for financial reporting purposes:

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Deferred tax assets	1,246,193	903,214
Deferred tax liabilities	(46,998)	(235,002)
	1,199,195	**668,212**

The following are the major deferred tax assets (liabilities) recognized and movements thereon in the period/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	Debt instruments at fair value through other comprehensive income	Property and equipment	Others	Total
At December 31, 2017 (Audited)	**(58,328)**	**667,892**	**31,500**	**76,075**	**(104,510)**	**–**	**(2,242)**	**57,825**	**668,212**
Effect of adoption of IFRS 9	42,784	–	–	(14,218)	104,510	(133,372)	–	–	(296)
At January 1, 2018 (unaudited)	**(15,544)**	**667,892**	**31,500**	**61,857**	**–**	**(133,372)**	**(2,242)**	**57,825**	**667,916**
Credit (charge) to profit or loss	152,912	352,436	–	29,956	–	–	(294)	(28,633)	506,377
Charge to other comprehensive income	–	–	–	–	–	24,922	–	–	24,922
Exchange difference	–	–	–	–	–	–	(20)	–	(20)
At June 30, 2018	**137,368**	**1,020,328**	**31,500**	**91,813**	**–**	**(108,450)**	**(2,556)**	**29,192**	**1,199,195**
Audited									
At January 1, 2017	**154,112**	**681,175**	**31,500**	**81,656**	**123,586**	**–**	**(545)**	**37,758**	**1,109,242**
(Charge) credit 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**

(Expressed in thousands of Renminbi, unless otherwise stated)

25. OTHER NON-CURRENT ASSETS

(1) Analyzed by nature

	As at June 30, 2018 (Unaudited)	As at December 31, 2017 (Audited)
Leasehold improvements and deferred expenses	173,822	197,917

(2) The movements of leasehold improvements and deferred expenses are as follows:

	As at June 30, 2018 (Unaudited)	As at December 31, 2017 (Audited)
At the beginning of period/year	197,917	195,050
Additions	6,327	20,465
Transfer from construction in progress (note 16)	4,457	52,612
Amortization	(34,879)	(70,210)
At the end of period/year	**173,822**	**197,917**

26. ADVANCES TO CUSTOMERS

(1) Analyzed by nature

	As at June 30, 2018 (Unaudited)	As at December 31, 2017 (Audited)
Loans to margin clients	52,611,170	59,318,439
Less: impairment loss in respect of advances to customers	(121,162)	(83,013)
	52,490,008	**59,235,426**

The credit facility limits to margin clients are determined by market value of the collateral securities with discounts acceptable 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 36, 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

26. ADVANCES TO CUSTOMERS (Continued)

(2) Analyzed by fair value of collateral of margin financing and securities lending business

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Collateral measured at fair value		
Cash	6,256,394	5,009,363
Debt securities	3,128,902	3,111,363
Equity securities	133,882,162	167,987,579
Funds	791,153	369,368
	144,058,611	**176,477,673**

(3) Movements of provision for impairment losses are as below:

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
At beginning of the period/year	83,013	111,343
Impairment losses recognized	38,071	3,154
Reversal of impairment losses	—	(31,071)
Exchange differences	78	(413)
At end of the period/year	**121,162**	**83,013**

	As at June 30, 2018		
	12 months ECL	Life time ECL	Total
Impairment allowances	(81,697)	(39,465)	(121,162)

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.

(Expressed in thousands of Renminbi, unless otherwise stated)

27. ACCOUNTS AND OTHER RECEIVABLES

(1) Analyzed by nature

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Accounts and other receivables from/related to:		
Interest receivables	2,005,935	1,894,871
Clearing houses, brokers and dealers	1,347,685	1,274,770
Commission and fee income	528,377	566,700
Other receivables	115,978	93,915
Prepayments	86,079	75,597
Others	199,284	180,188
	4,283,338	**4,086,041**
Less: Allowance for doubtful debts	(6,572)	(4,166)
	4,276,766	**4,081,875**

(2) Aged analysis

As at the end of the period/year, the aged analysis of accounts receivables (receivables from clearing houses, brokers and dealers and commission and fee income receivable) based on trade day, is as follows:

	As at June 30, 2018		As at December 31, 2017	
	Amount	Allowance for doubtful debts	Amount	Allowance for doubtful debts
Within 1 year	1,815,834	(155)	673,552	(152)
Over 1 year	60,228	(222)	27,040	(897)
	1,876,062	**(377)**	**700,592**	**(1,049)**

(Expressed in thousands of Renminbi, unless otherwise stated)

27. ACCOUNTS AND OTHER RECEIVABLES (Continued)

(3) The movements in the allowance for doubtful debts are set out below:

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
At beginning of the period/year	5,466	7,490
Impairment loss recognized	1,777	—
Reversal of impairment losses	(671)	(3,324)
At end of the period/year	**6,572**	**4,166**

28. DERIVATIVE FINANCIAL INSTRUMENTS

	As at June 30, 2018			As at December 31, 2017		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Interest derivative instrument						
Interest rate swaps	84,800,000	283,469	285,157	27,460,000	112,806	112,576
Bond futures	5,653,211	47	84	6,174,058	700	—
Equity derivative instrument						
Equity return swaps	522,077	158,472	9,335	378,703	38,633	3,665
Stock index futures	1,238,940	282	312	2,585,324	—	1,241
Options	6,581,514	84,955	142,692	8,231,934	135,580	363,915
Other derivative instrument						
Commodity futures	7,373,945	428,647	314,490	16,352,337	469,952	990,684
Commodity swaps	1,275,502	30,441	19,320	2,304,355	262,359	—
Commodity	1,156,004	30,992	11,595	—	—	—
Forward contracts	1,034,560	—	16,322	3,314,162	1,610	112,829
	109,635,753	**1,017,305**	**799,307**	**66,800,873**	**1,021,640**	**1,584,910**

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in the PRC stock index futures, treasury bond futures, commodity futures and interest rate swaps contracts were settled daily and the corresponding receipts and payments were included in "clearing settlement funds". Accordingly, the net onshore position of these contracts was nil at the period/year end date.

(Expressed in thousands of Renminbi, unless otherwise stated)

29. DEPOSITS WITH EXCHANGES AND NON-BANK FINANCIAL INSTITUTIONS

	As at June 30, 2018 (Unaudited)	As at December 31, 2017 (Audited)
Deposits in stock exchanges and clearing house:		
China Securities Depository and Clearing Corporation Limited	479,959	428,916
London Stock Exchange	337,912	265,051
Hong Kong Securities Clearing Company Limited	92,357	80,548
Shanghai Clearing House	34,763	27,380
China Beijing Equity Exchange	3,217	3,076
Hong Kong Stock Exchange	1,516	1,330
Deposits in futures and commodity exchanges and financial institutions:		
Yongan Futures Co., Ltd.	102,542	107,842
CITIC Futures Co., Ltd.	39,180	144,955
Shanghai Gold Exchange	23,956	11,769
Hong Kong Futures Exchange	15,285	—
China Financial Futures Exchange	10,058	10,057
Haitong Futures Co., Ltd.	7,056	6,279
Nanhua Futures Co., Ltd.	4,479	6,786
Huatai Futures Co., Ltd.	3,609	—
Chicago Mercantile Exchange	3,309	3,267
Jianxin Futures Co., Ltd.	—	126,553
Others	674	669
	1,159,872	**1,224,478**

30. CLEARING SETTLEMENT FUNDS

	As at June 30, 2018 (Unaudited)	As at December 31, 2017 (Audited)
Clearing settlement funds held with clearing house for:		
House accounts	3,847,035	3,983,803
Clients	11,572,849	10,026,688
	15,419,884	**14,010,491**

(Expressed in thousands of Renminbi, unless otherwise stated)

31. CASH AND BANK BALANCES

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
House accounts	9,832,122	9,387,884
Pledge and restricted bank deposits		
— Restricted bank deposit for purchase of bond and stock	505,496	742,749
Bank balances — house account	10,337,618	10,130,633
Cash held on behalf of customers	45,877,345	42,526,062
	56,214,963	**52,656,695**

32. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the followings:

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Bank balances — house accounts	10,337,618	10,130,633
Clearing settlement funds — house accounts	3,847,035	3,983,803
Less: Pledged and restricted bank deposit	(505,496)	(742,749)
	13,679,157	**13,371,687**

33. SHORT-TERM BORROWINGS

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Secured bank loans(i)	2,308,949	2,376,360
Unsecured bank loans(ii)	1,723,255	4,235,084
	4,032,204	**6,611,444**

(i) As at June 30, 2018, the Group pledged securities with market value amounting to RMB4,364.70 million (December 31, 2017: RMB4,136.41 million) for these loans. The Group's short-term secured bank loans bore floating interest rates ranging from 1.3% to 3.9% (December 31, 2017: 1.3% to 2.7%) per annum.

(ii) As at June 30, 2018, the Group's unsecured bank loans bore floating interest rates ranged from 2.3% to 4.0% (December 31, 2017: 1.6% to 2.8%) per annum.

(Expressed in thousands of Renminbi, unless otherwise stated)

34. SHORT-TERM DEBT INSTRUMENTS

	Nominal interest rate	As at January 1, 2018	Issuance/ Transfer in	Redemption	As at June 30, 2018
					(Unaudited)
Unaudited					
Short-term bond payables(i)	4.85%-5.30%	23,030,000	6,170,000	6,240,000	22,960,000
Short-term financing bill(ii)	4.28%	—	3,000,000	—	3,000,000
Principals of structured notes(iii)	4.50%-5.50%	24,015,670	17,736,040	18,313,210	23,438,500
		47,045,670	**26,906,040**	**24,553,210**	**49,398,500**

	Nominal interest rate	As at January 1, 2017	Issuance/ Transfer in	Redemption	As at December 31, 2017
					(Audited)
Audited					
Short-term bond payables(i)	4.60%-5.10%	1,000,000	38,050,000	16,020,000	23,030,000
Principals of structured notes(iii)	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**

(i) Short-term bond payables

As at June 30, 2018, the short-term bond payables bore fixed interest rate ranging from 4.85% to 5.30% with a period of 180 days to 365 days.

(ii) Short-term financing bill

As at June 30, 2018, the short-term financing bill was debt securities issued in the PRC Inter-Bank market by the Group and bore interest rates at 4.28% per annum.

(iii) Principals of structured notes

As at June 30, 2018, the amount represents principals received from investors for subscription of structured notes issued by the Group. The structured notes bore fixed rate interest ranging from 4.50%-5.50% per annum (December 31, 2017: 4.30% to 5.55%), or variable rates linked to certain stock index. The principals and interests are repayable upon maturity within one year. The structured 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 as derivatives in note 28 after being bifurcated from their respective host contracts.

(Expressed in thousands of Renminbi, unless otherwise stated)

35. PLACEMENT FROM BANK AND OTHER FINANCIAL INSTITUTIONS

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Placement from banks and other financial institutions	3,000,000	1,470,000

36. ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Clients' deposits for margin financing and securities lending	6,256,394	5,009,363
Clients' deposits for other brokerage business	50,126,455	46,085,972
	56,382,849	**51,095,335**

Accounts payable to brokerage clients represent monies received from and are 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 are 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.

(Expressed in thousands of Renminbi, unless otherwise stated)

37. ACCRUED STAFF COSTS

	As at June 30, 2018 (Unaudited)	As at December 31, 2017 (Audited)
Non-current		
Salaries, bonus and allowances	787,540	787,540
Current		
Salaries, bonus and allowances	4,385,815	4,565,385
Social welfare	783	45,819
Others	23,195	29,401
	4,409,793	**4,640,605**

38. OTHER PAYABLES AND ACCRUED CHARGES

	As at June 30, 2018 (Unaudited)	As at December 31, 2017 (Audited)
Dividends payable	2,509,130	592,196
Interest payable	2,201,140	2,044,607
Settlement payables to brokers and clearing house	1,370,952	1,490,465
Deposits of equity return swaps(i)	354,820	379,034
Other tax payable	263,613	213,359
Commission and handling fee payable	121,076	103,566
Futures risk reserve	69,641	65,841
Others(ii)	163,609	133,476
	7,053,981	**5,022,544**

(i) The balances represent deposits received from investors for equity return swaps which is refundable with the contract terms upon the expiry date. The deposit will 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 recognized as derivatives in note 28 after being bifurcated from their respective host contracts.

(ii) Others mainly represent payables of annual membership fees, investor protection fund and other payables arising from normal course of business which are non-interest bearing and are repayable within one year.

(Expressed in thousands of Renminbi, unless otherwise stated)

39. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Financial liabilities held for trading		
— Equity securities	132,230	144,290
— Debt securities	459,185	330,800
— Gold	810,691	2,919,784
— Others	61,258	62,998
Financial liabilities designated at fair value through profit or loss		
— Structured entities	2,413,297	2,034,637
	3,876,661	**5,492,509**

In these condensed consolidated financial statements, the financial liabilities arising from consolidation of 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 or on demand of the structured entities based on net book value and related terms.

40. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Current		
Analyzed by collateral type:		
Bonds	46,929,867	33,382,970
	46,929,867	**33,382,970**
Analyzed by market:		
Stock exchange	19,632,604	19,422,266
Interbank market	26,214,619	13,960,704
Over-the-counter	1,082,644	
	46,929,867	**33,382,970**

Sales and repurchase agreements are transactions in which the Group sell a security and 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 risk and rewards of those securities sold. These securities are not derecognized from the financial statements but regarded as "collateral" for the liabilities because the Group retain substantially all the risk and rewards of these securities.

(Expressed in thousands of Renminbi, unless otherwise stated)

41. OTHER EQUITY INSTRUMENTS

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Perpetual subordinated bonds	15,000,000	15,000,000

The Company issued four batches of perpetual subordinated bonds with a total principal amount of RMB4,000,000,000, RMB5,000,000,000, RMB3,700,000,000 and RMB2,300,000,000 in February, March, May and June 2017, with the initial interest rate of 5.18%, 5.15%, 5.65% and 5.58% per annum, respectively. The interest rate for perpetual subordinated bonds are repriced every five years.

The perpetual subordinated bonds are unsecured, upon the maturity of every repricing cycle, the Company has the option to extend the maturity of the bonds for another repricing cycle, or redeem the bonds entirely.

The Company has the option to defer interest payment, except in the event of mandatory interest payments, so that at each interest payment date, the Company may choose to defer the interest payment to the next payment date for the current period as well as all interests and accreted interest already deferred, without being subject to any limitation with respect to the number of deferrals. Of which, mandatory interest payment events are limited to dividend distributions to ordinary shareholders of the Company and reductions of registered capital.

The perpetual subordinated bonds issued by the Company are classified as equity instruments and presented under equity in the condensed consolidated statement of financial position.

42. INVESTMENT REVALUATION RESERVE OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

The movement in the Group's investment revaluation reserve of available-for-sale financial assets is set out below:

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
At beginning of the period/year	—	(315,695)
Available-for-sale financial assets		
Net fair value changes during the period/year	—	972,730
Reclassification adjustment to profit or loss	—	(96,636)
Income tax impact	—	(228,096)
Share of fair value gain on available-for-sale financial assets of associates	—	(4,899)
At end of the period/year	**—**	**327,404**

(Expressed in thousands of Renminbi, unless otherwise stated)

43. FVTOCI RESERVE

The movement in the Group's FVTOCI reserve is set out below:

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
At the end of the prior period/year	—	—
Effect arising from initial application	398,973	—
At the beginning of the period/year	398,973	—
Debt instruments at fair value through other comprehensive income		
Net fair value changes during the period/year	141,038	—
Reclassification adjustment to profit or loss	74,662	—
Income tax impact	(53,925)	—
Equity instruments at fair value through other comprehensive income		
Net fair value changes during the period/year	(315,388)	—
Income tax impact	78,847	—
Share of fair value gain on financial assets at fair value through other comprehensive income of associates	(1,315)	—
At the end of the period/year	**322,892**	**—**

(Expressed in thousands of Renminbi, unless otherwise stated)

44. GENERAL RESERVES

General reserves include statutory reserve, reserve for general risk and transaction risk reserve.

Pursuant to the Company Law of the PRC and the Company's articles of association, 10% of the net profit of the Company, as determined under the relevant accounting rules and financial regulations applicable to enterprises in the PRC, is required to be transferred to the statutory reserve until such time when this reserve reaches 50% of the share capital of the Company. The reserve appropriated can be used for expansion of business and capitalization. If the statutory reserve is capitalized 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 generally accepted accounting principal in PRC ("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 exhibited at condensed consolidated statement of changes in equity for the six months ended June 30, 2018.

45. DEFERRED INCOME

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Government grant(i)	126,000	126,000

(i) In 2009, the Group received a government subsidy from Shenzhen Municipal Finance Bureau amounting to RMB126,000 thousand towards the cost of building construction in progress. The amount will be transferred to profit or loss over the useful lives of the related assets once the construction is completed.

46. LONG-TERM BORROWINGS DUE WITHIN ONE YEAR

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Secured bank loan	415,685	378,134

As at June 30, 2018, the Group's secured long-term bank loans bore floating interest rates ranging from 4.35% to 4.655% (December 31, 2017: 4.655%).

(Expressed in thousands of Renminbi, unless otherwise stated)

47. LONG-TERM BORROWINGS

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Unsecured bank loan	1,074,953	1,065,786

As at June 30, 2018, the Group's unsecured long-term bank loans bore floating interest rates ranging from 2.90% to 3.65% (December 31,2017: 2.67% to 2.87%). The loans are repayable upon maturity within three years.

48. BONDS PAYABLE DUE WITHIN ONE YEAR

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Non-convertible bonds[(i)]	9,700,000	4,499,911
Subordinated bonds	—	15,000,000
	9,700,000	**19,499,911**

(i) The details of non-convertible bonds are as follows:

As at June 30, 2018 (unaudited):

Name	Issue amount	Value date	Maturity date	Coupon rate
18CM F6	3,800,000	19/04/2018	04/05/2019	4.75%
18CM F7	5,900,000	21/05/2018	05/06/2019	4.84%

As at December 31, 2017 (audited):

Name	Issue amount	Value date	Maturity date	Coupon rate
12CM01	3,000,000	05/03/2013	05/03/2018	4.45%
12CM02	1,500,000	05/03/2013	05/03/2018	4.80%

(Expressed in thousands of Renminbi, unless otherwise stated)

49. BONDS PAYABLE

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Non-convertible corporate bonds(i)	22,471,674	17,529,674
Subordinated bonds(ii)	8,990,000	2,200,000
Principal of structured note	40,220	8,000,000
	31,501,894	**27,729,674**

(i) The details of non-convertible corporate bonds are as follows:

As at June 30, 2018 (unaudited):

Name	Issue amount	Value date	Maturity date	Coupon rate
12CM03	5,500,000	05/03/2013	05/03/2023	5.15%
14CM bond	5,500,000	26/05/2015	26/05/2025	5.08%
17CM G1	4,500,000	13/10/2017	13/10/2019	4.78%
17CM G2	1,060,000	23/10/2017	23/10/2020	4.78%
17CM G3	1,000,000	31/10/2017	31/10/2020	4.85%
18CM G1	1,940,000	05/02/2018	05/02/2021	5.35%
18CM G2	2,000,000	12/06/2018	12/06/2020	4.78%
18CM G3	1,000,000	12/06/2018	12/06/2021	4.78%

As at December 31, 2017 (audited):

Name	Issue amount	Value date	Maturity date	Coupon rate
12CM03	5,500,000	05/03/2013	05/03/2023	5.15%
14CM bond	5,500,000	26/05/2015	26/05/2025	5.08%
17CM G1	4,500,000	13/10/2017	13/10/2019	4.78%
17CM G2	1,060,000	23/10/2017	23/10/2020	4.78%
17CM G3	1,000,000	31/10/2017	31/10/2020	4.85%

(ii) The details of subordinated bonds are as follows:

As at June 30, 2018 (unaudited):

Name	Issue amount	Value date	Maturity date	Coupon rate
17CM C1	2,200,000	27/11/2017	27/11/2019	5.45%
18CM C1	1,640,000	12/01/2018	12/01/2020	5.56%
18CM C2	5,150,000	22/01/2018	22/01/2020	5.70%

As at December 31, 2017 (audited):

Name	Issue amount	Value date	Maturity date	Coupon rate
17CM C1	2,200,000	27/11/2017	27/11/2019	5.45%

(Expressed in thousands of Renminbi, unless otherwise stated)

50. DIVIDENDS

	For the six months June 30, 2018	For the six months June 30, 2017
	(Unaudited)	(Unaudited)
Dividend recognized as distribution	2,317,996	1,266,188
Distribution to holders of other equity instruments	401,045	—

During the current period, dividend of the Group on perpetual subordinated bonds amounted to RMB401,045 thousand.

Pursuant to the resolution of the shareholders meeting held on June 22 2018, the Company distributed cash dividends of RMB3.46 for every 10 shares (tax included) based on 6,699,409,329 shares held amounting to RMB2,317,996 thousand in total for the year ended December 31 2017.

Pursuant to the resolution of the shareholders meeting held on May 26 2017, the Company distributed cash dividends of RMB1.89 for every 10 shares (tax included) based on 6,699,409,329 shares held amounting to RMB1,266,188 thousand in total for the year ended December 31 2016.

(Expressed in thousands of Renminbi, unless otherwise stated)

51. COMMITMENTS

(1) Capital commitments

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Commitments contracted but not provided for in respect of		
— Construction in progress	196,237	219,854

(2) Operating lease commitments

The Group as lessee

At the end of the period/year, 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 June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Within one year (inclusive)	312,453	337,326
One to five years (inclusive)	607,228	590,435
Over five years	33,186	19,633
	952,867	**947,394**

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 14 years.

52. INTERESTS IN CONSOLIDATED STRUCTURED ENTITIES

Structured entities consolidated by the Group are asset management schemes, limited partnership and investment funds where the Group involves as a manager and also as an 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 asset management products to a level of such significance that it indicates that the Group is a principal.

As at June 30, 2018, the Group consolidated 9 structured entities (December 31, 2017: 8 structured entities). The total assets of the consolidated structured entities were RMB4,770,807 thousand (December 31, 2017: RMB5,497,332 thousand) among which were RMB3,819,507 thousand (December 31, 2017: RMB3,789,261 thousand) of investments were accounted for financial assets at fair value through profit or loss.

53. 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 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 collected from the structured entities managed by the Group.

As at June 30, 2018, the total assets of these unconsolidated structured entities managed by the Group amounted to RMB715,126,891 thousand (December 31, 2017: RMB784,148,000 thousand).

The amount of investments and fee income from interests in these unconsolidated structured entities held or managed by the Group were not significant.

(Expressed in thousands of Renminbi, unless otherwise stated)

53. 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 returns 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 condensed 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 June 30, 2018 and December 31, 2017, which are set out below:

	As at June 30, 2018 (Unaudited)		
	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
Funds	—	10,971,689	10,971,689
Trust schemes	—	314,590	314,590
Wealth management products	—	893,535	893,535
Others	7,321,211	—	7,321,211
	7,321,211	**12,179,814**	**19,501,025**

	As at December 31, 2017 (Audited)		
	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**

(Expressed in thousands of Renminbi, unless otherwise stated)

54. SIGNIFICANT RELATED PARTY TRANSACTIONS

(1) Relationship of related parties

(a) Major shareholders

Major shareholders include shareholders of the Company with 5% or above ownership.

Shareholding percentage in the Company:

	As at June 30, 2018	As at December 31, 2017
China Merchants Finance Investment Holdings Co., Ltd.	23.51%	20.93%
Shenzhen Jisheng Investment Development Co., Ltd.	19.56%	19.56%
China Ocean Shipping Co., Ltd.	6.25%	6.25%

(b) Other related parties

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

(2) Related parties transaction and balances

(a) During the period/year, the Group's major transactions and balances with its associate are as below:

Transactions between the Group and the associates:

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Commission and fee income		
— Funds managed by Bosera Asset Management Co., Ltd. and China Merchants Fund Management Limited	51,904	44,777

(Expressed in thousands of Renminbi, unless otherwise stated)

54. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(2) Related parties transaction and balances (Continued)

(a) During the period/year, the Group's major transactions and balances with its associate are as below: (Continued)

Balance between the Group and the associates:

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Accounts receivables		
— Fund managed by Bosera Asset Management Co., Ltd. and China Merchants Fund Management Limited	22,968	22,810
Dividend receivables		
— Bosera Asset Management Co., Ltd.	171,500	14,700

(b) The Group's major transactions and balances with its other related parties are as below:

Transactions between the Group and other related parties:

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Commission and fee income		
— China Merchants Bank Co., Ltd.	76,007	27,435
— China Merchants Group Limited	345	—
— China Merchants Finance Investment Holdings Co., Ltd.	—	283
— China Merchants Shekou Industrial Zone Holdings Co., Ltd.	925	557
— China Merchants Port Holding Co., Ltd	—	1,226
— China Merchants Life Insurance Company Limited	93	—
— China Merchants Expressway Network Technology Holdings Co., Ltd.	—	6,604
Interest income		
— China Merchants Bank Co., Ltd.	200,543	197,869
Fee and commission expenses		
— China Merchants Bank Co., Ltd.	(176,567)	(154,754)
Interest expenses		
— China Merchants Bank Co., Ltd.	(24,866)	(13,762)
Rental expenses		
— China Merchants Chongqing Communications Technology Research & Design Institute Co., Ltd.	(96)	(96)
— China Merchants (Shanghai) Investment Co., Ltd*	(4,128)	(4,312)
— China Merchants Bank Co., Ltd.	(26,041)	—

* English name translated is for identification purpose only.

(Expressed in thousands of Renminbi, unless otherwise stated)

54. 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)

Other than disclosed elsewhere, at the end of the period/year, the Group has the following balances with CM Group.

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Accounts and other receivables		
— China Merchants Land Limited	169	167
— China Merchants Chongqing Communications Technology Research & Design Institute Co., Ltd	16	16
— China Merchants (Shanghai) Investment Co., Ltd	2,508	2,508
— China Merchants Bank Co., Ltd.	10,110	13,449
Bank balances		
— China Merchants Bank Co., Ltd.	19,304,077	20,066,132
Borrowings		
— China Merchants Bank Co., Ltd.	415,685	796,089
Other payables and accrued charges		
— China Merchants Bank Co., Ltd.	—	143

(3) Key management personnel

The remuneration of the key management personnel of the Group is as below:

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Unaudited)
Short-term benefits:		
— Salaries, allowance and bonuses	6,628	7,114
Post-employment benefits:		
— Contribution to retirement schemes	948	1,092
	7,576	**8,206**

54. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(4) Other related party transactions

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 subscribed 84,746 thousand of the non-public offering of China Merchants Shekou Industrial Zone Holdings Co., Ltd. through the structured entity controlled by China Merchants Zhiyuan Capital Investment Co., Ltd., a subsidiary of the Group. As at June 30, 2018, the fair value of the above shares was amounting to RMB1,614,407 thousand.

55. 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 condensed 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 sales of financial products and other wealth management products are included in this segment.

(b) Investment banking segment provides investment banking services to the Group's 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, 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 condensed consolidated financial statements. However, income taxes are not allocated to operating segments.

(Expressed in thousands of Renminbi, unless otherwise stated)

55. SEGMENT INFORMATION (Continued)

(1) Business segment (Continued)

The operating and reportable segment information provided to the chief operating decision maker for the six months ended June 30, 2018 and 2017 is as follows:

	Brokerage and wealth management	Investment banking	Investment management	Investment and trading	Others	Elimination	Total
Unaudited							
For the six months ended June 30, 2018							
Segment revenue	6,194,550	686,385	686,197	516,354	263,958	(30,525)	8,316,919
Segment other income and gains or losses	8,702	1	1,972	–	(29,819)	–	(19,144)
Segment revenue and other income, gains or losses	6,203,252	686,386	688,169	516,354	234,139	(30,525)	8,297,775
Segment expenses	(4,324,107)	(548,842)	(252,973)	(1,290,823)	(172,313)	30,525	(6,558,533)
Segment result	1,879,145	137,544	435,196	(774,469)	61,826	–	1,739,242
Share of results of associates	–	–	(2)	28,907	447,433	–	476,338
Profit (loss) before income tax	1,879,145	137,544	435,194	(745,562)	509,259	–	2,215,580
Unaudited							
As at June 30, 2018							
Segment assets and liabilities							
Segment assets	146,147,387	321,056	9,951,373	127,228,552	20,255,148	(5,825,084)	298,078,432
Segment liabilities	(109,179,407)	(1,660,781)	(4,775,846)	(91,479,173)	(18,375,313)	5,825,084	(219,645,436)
Other segment information							
Amounts included in the measure of segment profit or loss or segment assets:							
Interest income	3,433,573	–	46,451	54,293	263,958	(30,525)	3,767,750
Interest expense	(1,998,645)	(8,711)	(67,540)	(1,196,679)	–	30,525	(3,241,050)
Capital expenditure	(50,463)	(303)	(4,985)	(470)	(55,661)	–	(111,882)
Depreciation and amortization	(89,089)	(1,164)	(892)	(1,703)	(13,301)	–	(106,149)
Impairment losses recognized	(121,082)	–	–	1,258	–	–	(119,824)
Unaudited							
For the six months ended June 30, 2017							
Segment revenue	5,752,699	1,206,528	931,533	556,851	165,968	(30,525)	8,583,054
Segment other income and gains or Losses	6,369	–	–	–	(47,406)	–	(41,037)
Segment revenue and other income, gains or losses	5,759,068	1,206,528	931,533	556,851	118,562	(30,525)	8,542,017
Segment expenses	(4,050,949)	(759,131)	(179,466)	(358,335)	(588,924)	30,525	(5,906,280)
Segment result	1,708,119	447,397	752,067	198,516	(470,362)	–	2,635,737
Share of results of associates	–	–	339	8,716	442,078	–	451,133

(Expressed in thousands of Renminbi, unless otherwise stated)

55. SEGMENT INFORMATION (Continued)

(1) Business segment (Continued)

	Brokerage and wealth management	Investment banking	Investment management	Investment and trading	Others	Elimination	Total
Profit/(loss) before income tax	1,708,119	447,397	752,406	207,232	(28,284)	–	3,086,870
Audited							
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)
Unaudited							
For the six months ended June 30, 2017							
Other segment information							
Amounts included in the measure of segment profit or loss or segment assets:							
Interest income	2,999,992	–	27,539	34,825	165,968	(30,525)	3,197,799
Interest expense	(1,545,736)	–	(32,357)	(239,468)	(454,027)	30,525	(2,241,063)
Capital expenditure	(48,553)	(587)	(317)	(893)	(22,081)	–	(72,431)
Depreciation and amortization	(78,154)	(1,041)	(1,111)	(1,626)	(11,416)	–	(93,348)
Impairment losses recognized	(35,063)	–	–	–	–	–	(35,063)

(2) Geographical segments

The Group has two major geographical operations in the PRC, namely Mainland China and Hong Kong, which is also the Group's revenue from external customers 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 or operation location of the asset: in the case of property and equipment and other non-current assets, they are based on the physical location, in the case of goodwill and other intangible assets, they are based on the location of operations.

(Expressed in thousands of Renminbi, unless otherwise stated)

55. SEGMENT INFORMATION (Continued)

(2) Geographical segments (Continued)

	Mainland China	Outside Mainland China	Total
For the six months ended June 30, 2018 (Unaudited)			
Revenue from external customers	7,915,681	401,238	8,316,919
Other income and gains or losses	(15,789)	(3,355)	(19,144)
	7,899,892	**397,883**	**8,297,775**
For the six months ended June 30, 2017 (Unaudited)			
Revenue from external customers	7,964,542	618,512	8,583,054
Other income and gains or losses	(42,804)	1,767	(41,037)
	7,921,738	**620,279**	**8,542,017**

Specific non-current assets

	Mainland China	Outside Mainland China	Total
As at June 30, 2018 (Unaudited)			
Specified non-current assets	9,817,624	97,015	9,914,639
As at December 31, 2017 (Audited)			
Specified non-current assets	9,468,173	82,578	9,550,751

(3) Information about major customers:

There were no customers for each of the six months period ended June 30, 2018 and 2017 contributed over 10% of the total revenue of the Group.

56. FINANCIAL RISK MANAGEMENT

(1) Risk management structure

Since its establishment, the Group has been developing an all-around, innovative and forward looking risk management system, which is aligned with its business strategy and focuses on its frontier departments at the business level. 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, or decision-making by the senior management and the Risk Management Committee, check-and-balance and internal controls maintained by relevant risk management departments and direct management of other departments, branches and its wholly-owned subsidiaries.

The Group adopts a three-level risk management organization structure system: the first level refers to implementation of effective controls on risk management by all departments and branches themselves; the second level refers to risk management and internal control measures implemented by relevant risk management departments; the third level refers to post-event supervision and evaluation by the Audit and Supervision Department.

The overall risk management duties of departments or posts under the risk management organization structure are as follows: (i) the Board of Directors and Risk Management Committee are responsible for considering and approving the Group's risk appetite, risk tolerance and various risk limit indicators. They are also responsible for considering and approving the Group's economic capital allocation plan, convening quarterly meetings, reviewing quarterly risk reports and reviewing the Group's overall risk management; (ii) the Supervisory Committee of the Group is responsible for supervising and examining the operations of the comprehensive risk management system of the Group; (iii) the senior management comprising the president and vice presidents of the Group is responsible for the risk management of business operations, determining risk control measures and formulating 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 at operational level. The Chief Risk Officer of the Group is responsible for establishing comprehensive risk management system, monitoring, evaluating and reporting the overall risk level of the Group and providing risk management suggestion on business decisions; (iv) Risk Management Department is the leading department in respect of management of market, credit and operational risks of the Group. It is also responsible for managing market risk and credit risk, assisting and guiding all units in performing risk management. The Finance Department is responsible for managing liquidity risk, and facilitating the establishment of the systems, rules and policies of liquidity risk management. Legal and Compliance Department is responsible for leading the Group's legal and compliance risk management, and assisting in the compliance director on reviewing, supervising and scrutinizing compliance issues of the Group. Internal Audit Department is responsible for monitoring the effectiveness and implementation of the Group's risk management process by audits, and responsible for initiating evaluation of the entire internal control system at least once a year and (v) all departments, branches and wholly-owned subsidiaries of the Group are responsible for directly managing and supervising risks of their own businesses and areas under their management.

56. FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk

(i) General situation

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: (a) risk arising from default of customers to repay debts in businesses of margin financing and securities lending, securities-backed lending or stock repurchases; (b) risk of losses of principal and interests for investments in debt securities, trust products and other credit products due to default of the issuers or borrowers; (c) risk arising from default of counterparty to meet its payment obligation in trading of over the counter ("OTC") derivatives such as equity swaps, interest rate swap and OTC futures; (d) risk of losses arising from the default of customers in brokerage business in respect of trading of securities, futures and other financial products, when there was shortfall of funds after liquidation of client's accounts due to their insufficiency of funds on settlement dates.

(ii) Management approach towards credit risks

To effectively control credit risks, the Group adopts the following approach:

- Establishing a prudent and proactive credit risk management culture;
- Implementing a system that covers the entire process, and a risk policy system with credit limits as the core control measure;
- Using leading-edge quantitative tools in the industry for credit risk management;
- Establishing an internal credit rating system incorporating the best practices in the industry;
- Perform comprehensive reviews on the substances of credit risks.

The Company uses a variety of management approach to mitigate credit risks, such as credit risk limits, internal credit rating, quantitative management for collaterals, and credit risk measurement models, etc., details are as follows:

a. Credit risk limits

The Group adopts multi-level credit risk limits to mitigate the exposure of credit risks. Within the risk appetite and risk tolerance levels approved by the Board and according to the characteristics of each credit business, the Group has developed credit limit indicators (including the limits for different business scale, the proportion of investments for low-grade bonds, the fund raising scale of a single client, and the percentage of the market value of a single collateral relative to the total market value of securities issued, etc.), and will make corresponding adjustments in responses to market situation, business development needs and the Group's risk status. Furthermore, the risk management department will monitor, report and provide early warning for the implementation of the credit limits.

56. FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(ii) Management approach towards credit risks (Continued)

b. Internal credit rating

The Group has developed a number of internal credit rating models and functional internal credit rating systems based on the characteristics of different industries and target customer bases. Such models and systems perform corporate rating and debt rating for borrowers or bond issuers, and gradually apply the internal credit rating results to business authorization, limit measurement, quota approval, risk monitoring, asset quality management and etc., which have become important tools for decision-making and risk management in credit business.

c. Quantitative management for collaterals

The Group focuses on using collaterals to safeguard the Group's right against its debtors. Taking collaterals as a key element of management, the Group establishes a mechanism of negative collateral lists, models on discount rate classification, regularly adjusts the acceptable scope and discount rates of collaterals. The adjustment mechanism of discount rate is divided into basic adjustment and market factor adjustment. The basic adjustments are reflected in the financial statements; and market factors adjustments include the consideration of market price fluctuations and rises. The Group has also established a centralized monitoring mechanism for collaterals, and collateral assessment of items require special attention.

d. Credit risk measurement models

On the basis of credit rating of counterparties, qualification assessment on borrowers, and the quantitative management of collaterals, the Group fully considers the customer portfolio of each credit related transaction, the amount of a single debt, the term of borrowing, the maintenance of collateral ratio and the degree of collateral concentration, etc., and makes sure the above factors are reflected in parameters such as probability of default (PD), loss given default (LGD) and maturity (M) of borrowers. The potential default losses of credit business are measured on a transaction-to-transaction basis, then the Group's overall credit risk exposure are aggregated, with stress tests and sensitivity analysis as supplement to measurement of credit risks.

As stated in Note 3, the Group uses expected credit loss model to measure the expected credit losses for applicable financial assets. Factors considered in the assessment using the expected credit loss model mainly includes asset categories, probability of default, loss given default, exposure, discount rate and adjustment factors, whether there are significant increase in credit risks and judgment on low risk assets, and the loss provision in respect of fixed-income financial assets are determined on the basis of the projected future cash inflow.

56. FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(ii) Management approach towards credit risks (Continued)

d. Credit risk measurement models (Continued)

The probability of default will be adjusted in the light of macroeconomic environment and the specific situation of bonds, and determined after considering prospective adjustment factors and adjustment factors of specific bonds. The prospective adjustment factors are evaluated mainly based on analyzing the relationship between the default rate and the long-term average default rate under different economic environments (or macroeconomic factors) in China and other countries, and determined through forecasting economic environment; the adjustment factors in respect of bonds are dependent on different industries, specific bonds and risk mitigation measures, which will be adjusted based on specific situations or the need of change.

The loss given default is estimated based on historical data and subject to a prospective adjustment.

The Group uses the following criteria to determine significant increase in credit risks:

(a) The credit rating of foreign bonds is lowered to a level below BBB- (not included), the credit rating of domestic bonds is lowered to a level below AA (not included), or the original debt rating is below AA but has not yet been identified as there was a significant increase in credit risks, but there is an external rating downgrade.

(b) Other events being identified as significant increase in credit risks, for example:

- The significant adverse changes in the industry or policies environment, geographical environment of issuers, or deterioration of the issuers' own business operations;
- The consolidated financial statements of issuers exhibit significant adverse changes in main operations or financial indicators as reflected in the consolidated financial statements of issuers;
- The significant adverse changes (if any) in the effectiveness of credit enhancement measures;
- The issuers and the entities that provide credit enhancement institutions are discredited by environmental protection or safety production bureau, or other important situations or occurrence of any events that may affect debt repayment ability have occurred; the entities provide credit enhancement are delinquent or refused to bear the liability arising from credit enhancement in other debts;
- Other significant events identified by the Group.

56. FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(ii) Management approach towards credit risks (Continued)

d. Credit risk measurement models (Continued)

According to the Guidance on Impairment of Financial Instruments of Securities Companies issued by the China Securities Regulatory Commission (CSRC), criteria for of low credit risks are as follows:

- The debt rating of domestic bond investment is rated as a level above BBB-(inclusive) of domestic external rating;
- The debt rating of domestic bond investment is rated as a level above AA (inclusive) of domestic external rating;

(iii) Management responsibility of credit risks

The risk management committee set up by the Group's Board of Directors is responsible for reviewing and approving credit risk preference. The Group's risk management committee is responsible for reviewing the overall risk management of the Group's credit business as a whole, and deciding whether to conduct innovative credit business with significant risks. The risk management committee of the Group and its credit risk subcommittee are responsible for developing the policies on credit businesses and approving high-risk credit businesses. Various business departments of the Group are responsible for the specific development, management and monitoring of credit risks related business. The Group's risk management department examines and establishes a company-wide credit risk management system, formulates the credit risk appetite and tolerance levels, develops the policies for the Group's credit business as a whole, and independently monitors and provides early warning for credit risks.

(iv) Credit risk management of major business

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 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 down-grading of debt securities as well as default of counterparties. The Group sets minimum rating requirements for various types of investments and counterparties by business authorization system and minimizing loss arising from different types of investments and default of counterparties through diversification strategy.

(Expressed in thousands of Renminbi, unless otherwise stated)

56. FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(iv) Credit risk management of major business (Continued)

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 collateral and follow-up measures on default of customers, in order to strengthen the management before, during and after the transactions.

For brokerage business, the securities trading of domestic customers of whom the Group is an agent are settled by full margin. With regard to the trading of securities and other financial products for overseas customers, the Group has effectively controlled the relevant credit risk by strengthen the monitor on credit grant and margin ratio.

The table below sets forth the Group's maximum credit risk exposure as at the end of the reporting period, which is the carrying amount of financial assets recognized without taking into account of the effect of collaterals or other credit enhancements:

(a) Maximum credit risk exposure

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Available-for-sale financial assets[1]	—	24,203,799
Debt instruments at fair value through other comprehensive income[2]	24,227,066	—
Debt instruments investment at amortized cost	1,808,398	—
Financial assets at fair value through profit or loss[3]	57,860,562	36,910,713
Derivative financial assets	1,017,305	1,021,640
Advances to customers	52,490,008	59,235,426
Financial assets held under resale agreements	40,546,746	36,099,323
Loans and advances investments at amortized cost	2,389	84,621
Accounts and other receivables	4,150,669	4,006,277
Deposit with exchanges and non-bank financial institutions	1,159,872	1,224,478
Clearing settlement funds	15,419,884	14,010,491
Cash and bank balances	56,214,963	52,656,695
Maximum credit risk exposure	**254,897,862**	**229,453,463**

(Expressed in thousands of Renminbi, unless otherwise stated)

56. FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(iv) Credit risk management of major business (Continued)

(a) Maximum credit risk exposure (Continued)

(1) Available-for-sale financial assets represent the investment in debt securities, trust products and equity securities lent to customers.

(2) Debt instruments at fair value through other comprehensive income subject to credit risk represent investments in debt securities.

(3) Financial assets at fair value through profit or loss subject to credit risk represent investments in debt securities, trust products and equity securities lent to customers.

(b) Risk concentration

The Group's maximum credit risk exposure without taking account of any collaterals and other credit enhancements are categorized by geographical area as follows:

As at June 30, 2018 (Unaudited)

	Mainland China	Outside Mainland China	Total (Unaudited)
Debt instruments at fair value through other comprehensive income	24,227,066	—	24,227,066
Debt instruments investment at amortized cost	1,808,398	—	1,808,398
Financial assets at fair value through profit or loss	54,823,254	3,037,308	57,860,562
Derivative financial assets	527,632	489,673	1,017,305
Advances to customers	46,701,942	5,788,066	52,490,008
Financial assets held under resale agreements	40,546,746	—	40,546,746
Loans and advances investments at amortized cost	—	2,389	2,389
Accounts and other receivables	2,743,619	1,407,050	4,150,669
Deposit with exchanges and non-bank financial institutions	696,885	462,987	1,159,872
Clearing settlement funds	15,108,053	311,831	15,419,884
Cash and bank balances	49,066,267	7,148,696	56,214,963
	236,714,628	**18,183,234**	**254,897,862**

(Expressed in thousands of Renminbi, unless otherwise stated)

56. FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(iv) Credit risk management of major business (Continued)

(b) Risk concentration (Continued)

As at December 31, 2017 (Audited)

	Mainland China	Outside Mainland China	Total (Audited)
Available-for-sale financial assets	24,203,799	—	24,203,799
Financial assets at fair value through profit or loss	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
Loans and advances investments at amortized cost	—	84,621	84,621
Accounts and other receivables	2,719,621	1,286,656	4,006,277
Deposit 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**

(Expressed in thousands of Renminbi, unless otherwise stated)

56. FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(iv) Credit risk management of major business (Continued)

(c) Credit rating analysis of financial assets

The carrying amounts of debt securities at the end of the period/year categorized by rating distribution are as follows:

	As at June 30, 2018 (Unaudited)	As at December 31, 2017 (Audited)
Rating		
Issuers in Mainland China		
— PRC sovereign bonds	30,803,638	16,745,926
— AAA	27,986,706	13,298,519
— AA+	6,717,754	6,417,574
— AA	1,154,388	1,691,688
— AA-	—	—
— AA- below	—	—
— A-1	329,050	547,835
Non-rated	13,764,593	19,242,217
Sub-total	80,756,129	57,943,759
Issuers in Hong Kong and other regions		
— A	124,903	179,278
— B	2,369,608	1,754,647
Non-rated	78,031	323,454
Sub-total	2,572,542	2,257,379
Total	**83,328,671**	**60,201,138**

Note: PRC sovereign bonds represent the rating of bonds issued by the government of PRC. AAA~AA-, below AA- rating represents rating on bonds with maturity over 1 year, among which AAA rating represents the highest rating. A-1 rating represents rating on bonds with maturity within 1 year. Non-rated represents bonds which are not rated by any independent rating agency.

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. Included 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; included in B rating are bonds comprising A1~Baa3 rating of Moody's, A+~BBB- rating of Standard & Poor's and A+~BBB- rating of Fitch; included in C rating are bonds comprising Ba1~B3 rating of Moody's, BB+~B- rating of Standard & Poor's and BB+~B- rating of Fitch; and included in 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.

56. FINANCIAL RISK MANAGEMENT (Continued)

(3) Liquidity risk

(a) Origin and management of market 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 funding needs for normal business operation. If there is material and adverse changes in the operating condition of the Group in the future and the Group is not able to maintain their gearing ratio at a reasonable level, and the operations of the Group experiences unusual changes, the Group 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 funding plan. The Group has reserved treasury bond, PBOC bills and other highly-liquid assets which can be liquidated at any time under extreme circumstances for unexpected expenses. In addition, the Group has actively developed management for funding 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 advance to effectively manage payment risk. The Group has also continuously expanded their financing channels and has a balanced distribution of debt maturities, so as to avoid the payment risk caused by single financing channel or servicing debts when due. Besides, the Group has established internal risk reporting system to promptly monitor the liquidity risk in the operation of each business and at each branch. Moreover, the Group takes measures to promote the safe, sound and sustainable operation of each business and each branch.

(Expressed in thousands of Renminbi, unless otherwise stated)

56. FINANCIAL RISK MANAGEMENT (Continued)

(3) Liquidity risk (Continued)

(b) Undiscounted cash flow by contractual maturities

As at June 30, 2018 (Unaudited)

	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	5,522,842	3,252,079	1,200,183	6,014	29,076	1,129,600	—	5,616,952
Short-term debt instruments	49,398,500	—	6,698,203	18,248,432	26,700,620	—	—	51,647,255
Placements from banks and other financial institutions	3,000,000	—	—	3,077,350	—	—	—	3,077,350
Bonds payable	41,201,894	—	—	—	11,813,955	29,591,266	6,039,666	47,444,887
Financial assets sold under repurchase agreements	46,929,867	—	45,932,241	1,023,139	56,770	—	—	47,012,150
Derivative financial liabilities	799,307	799,307	—	—	—	—	—	799,307
Financial liabilities at fair value through profit or loss	3,876,661	2,952,131	187,978	477,585	280,078	—	—	3,897,772
Accounts payable to brokerage clients	56,382,849	56,382,849	—	—	—	—	—	56,382,849
Other payable and accrued charges	1,950,491	1,950,491	—	—	—	—	—	1,950,491
Total	**209,062,411**	**65,336,857**	**54,018,605**	**22,832,520**	**38,880,499**	**30,720,866**	**6,039,666**	**217,829,013**

(Expressed in thousands of Renminbi, unless otherwise stated)

56. FINANCIAL RISK MANAGEMENT (Continued)

(3) Liquidity risk (Continued)

(b) Undiscounted cash flow by contractual maturities (Continued)

As at December 31, 2017 (Audited)

	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 payable to brokerage clients	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**

56. FINANCIAL RISK MANAGEMENT (Continued)

(4) 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 proprietary investments, market-making business and other investment activities. Movements in securities holding primarily arise from the relevant strategies of proprietary investments and needs of market-making. The securities of the Group are measured at fair values which fluctuate 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 prices, future prices and the relevant volatility; and (iv) exchange rate risk, which represents the exposures arise from changes in the spot rates, future rates and volatility of foreign currency exchange rates.

The Group collectively allocates economic capital in accordance with the risk preference and risk tolerance indicators set by the directors of the Group. By considering the risk associated with each type of investments and their interrelationship, the Group allocates the overall risk limits to different business departments/business lines. The front-office business departments are responsible for market risk management at the frontiers. The person in charge and investment manager shall utilize their extensive experience and in-depth knowledge of the markets and products to conduct risk management in trading transactions within their authorities and dynamically manages risk exposures to the securities held in open position by taking initiative measures to mitigate or hedging these risks. Risk Management Department is independent from other business departments and reports to Chief Risk Officer. By applying professional risk management tools and methods, Risk Management Department aims to independently monitor, measure and manage market risk at different levels, including investment strategies, business units/lines and the entire Group. Reports of evaluation and risk analysis are generated and delivered to the responsible officers of the business departments/business lines and management of the Group on a daily, monthly or quarterly basis to facilitate decision making. When risk level is approaching or exceeds the threshold values, Risk Management Department will warn against relevant management officers promptly, and the respective business departments/business lines will implement measures according to the resolutions of the relevant committees.

Risk Management Department continuously and directly communicate with the respective business departments/business lines with regard to latest market situation, the status of risk portfolios and the losses in extreme situations.

(Expressed in thousands of Renminbi, unless otherwise stated)

56. FINANCIAL RISK MANAGEMENT (Continued)

(4) 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:

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Market risk of equity price	229,792	140,829
Market risk of interest rate	46,863	60,320
Market risk of commodity price	2,198	8,260
Market risk of foreign exchange	408	592
Diversification effect	(58,362)	(56,575)
Total portfolio VaR	**220,899**	**153,426**

Note: The VaR of market risk of equities included the specific directional investment for 2015 market stabilization measures and specific accounts in China Securities Finance Corporations Var of these investments are calculated based on CSI 300 Index volatilities.

(c) Interest rate risk

The tables below summarize the Group's interest-bearing financial assets and liabilities as at the end of the period/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.

(Expressed in thousands of Renminbi, unless otherwise stated)

56. FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk (Continued)

(c) *Interest rate risk (Continued)*

	At June 30, 2018 (Unaudited)						
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
Financial assets							
Debt instruments at fair value through other comprehensive income	73,775	522,760	2,740,489	19,859,756	1,030,286	—	24,227,066
Equity instruments at fair value through other comprehensive income	—	—	—	—	—	7,321,211	7,321,211
Debt instruments investments at amortized cost	—	—	—	1,808,398	—	—	1,808,398
Financial assets at fair value through profit or loss	955,126	6,074,365	15,933,179	25,126,549	9,091,410	25,069,336	82,249,965
Derivative financial assets	—	—	—	—	—	1,017,305	1,017,305
Advances to customers	8,552,564	8,690,097	35,247,347	—	—	—	52,490,008
Financial assets held under resale agreements	11,597,769	2,426,888	19,503,428	7,018,661	—	—	40,546,746
Loans and advances investments at amortized cost	—	—	2,389	—	—	—	2,389
Accounts and other receivables	—	—	—	—	—	1,875,685	1,875,685
Deposit with exchanges and non-bank financial institutions	1,159,872	—	—	—	—	—	1,159,872
Clearing settlement funds	15,419,884	—	—	—	—	—	15,419,884
Cash and bank balances	56,214,963	—	—	—	—	—	56,214,963
Sub-total	**93,973,953**	**17,714,110**	**73,426,832**	**53,813,364**	**10,121,696**	**35,283,537**	**284,333,492**

(Expressed in thousands of Renminbi, unless otherwise stated)

56. FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk (Continued)

(c) Interest rate risk (Continued)

	At June 30, 2018 (Unaudited)						
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
Financial liabilities							
Borrowings	4,869,439	653,403	–	–	–	–	5,522,842
Short-term debt instruments	6,492,170	17,650,240	25,256,090	–	–	–	49,398,500
Placements from other financial institutions	–	3,000,000	–	–	–	–	3,000,000
Bonds payable	–	–	9,700,000	26,021,028	5,480,866	–	41,201,894
Financial assets sold under repurchase agreements	45,869,066	1,005,101	55,700	–	–	–	46,929,867
Derivative financial liabilities	–	–	–	–	–	799,307	799,307
Financial liabilities at fair value through profit or loss	185,759	471,391	272,806	44,236	–	2,902,469	3,876,661
Accounts payable to brokerage clients	56,382,849	–	–	–	–	–	56,382,849
Other payables and accrued charges	507	–	–	–	–	1,949,984	1,950,491
Sub-total	113,799,790	22,780,135	35,284,596	26,065,264	5,480,866	5,651,760	209,062,411
Net position	**(19,825,837)**	**(5,066,026)**	**38,142,236**	**27,748,100**	**4,640,830**	**29,631,777**	**75,271,081**

(Expressed in thousands of Renminbi, unless otherwise stated)

56. FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk (Continued)

(c) Interest rate risk (Continued)

	At December 31, 2017 (Audited)						
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	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 with 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
Placements 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

(Expressed in thousands of Renminbi, unless otherwise stated)

56. FINANCIAL RISK MANAGEMENT (Continued)

(4) 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 profit and equity, assuming all other variables were held constant. Assuming a parallel change in market interest rate and without taking into account of any possible risk management activities that may be taken by the management to reduce interest rate risks, the Group's interest rate sensitivity analysis is as follows:

Sensitivity to profit

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Audited)
Change in basis points		
Increase by 100bps	(1,464,409)	(474,167)
Decrease by 100bps	1,535,622	507,880

Sensitivity to equity

	Six months ended June 30,	
	2018	2017
	(Unaudited)	(Audited)
Change in basis points		
Increase by 100bps	(2,017,156)	(882,792)
Decrease by 100bps	2,108,542	934,730

(d) Foreign currency rate risk

Foreign exchange rate risk represents the adverse changes in the financial position 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 equity, assuming all other variables were held constant. A negative amount reflects a potential decrease in equity, and a positive amount reflects a potential increase in equity.

(Expressed in thousands of Renminbi, unless otherwise stated)

56. FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk (Continued)

(d) Foreign currency rate risk (Continued)

Sensitivity analysis of exchange rate

	As at June 30, 2018	As at December 31, 2017
	(Unaudited)	(Audited)
Change in exchange rate		
Depreciation of USD by 3%	(75,915)	(73,923)
Depreciation of HKD by 3%	(64,766)	(68,007)

The table above indicates the impacts on the 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.

(5) Operational risk

The Group's operational risks arise from imperfection or problematic internal processes, people and systems or external events. The operational risk factors of the Group summarized 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 Group emphasize balance of business scale, profitability and risk tolerance level, adhering to carrying out various operations with prudence, and will not sacrifice operational risk management and controls. During the six months ended June 30, 2018, the Group continued to strengthen operational risk management, and established a sound operational risk management system gradually, which was commensurate with the business nature, scale and complexity of the Group. When operational risk self-evaluation process and data collection tools in relation to the operational risk events and losses were implemented, the Group gradually began to set up operational risk indicators system; in view of information technology became more importantly in securities industry, the Group launched speedy trading platform examination and enhancement of settlement systems; enhance profession investment systems; follow-up of operational risks of innovative and traditional business in order to effectively raise the level of operational risk management.

56. FINANCIAL RISK MANAGEMENT (Continued)

(6) Capital Management

The Group's objectives of capital management are:

- To ensure the Group maintains sufficient capital level to retain market competitiveness, based on the Group's strategic direction;
- Adequately manage its capital resource allocation to maximize profit and capital return;
- To actively explore the Group's source of funding, optimize the Group's assets and liability structure to enhance the use of balance sheet financing; and
- To comply with the relevant capital requirements under the PRC, Hong Kong and overseas regulations.

The Company is required to meet the following standards for risk indicators on a continual basis:

- The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100% ("Ratio 1");
- The ratio of core net capital divided by on balance sheet and off balance sheet assets shall be no less than 8% ("Ratio 2");
- The ratio of high quality liquidity assets divided by net cash outflows for the next 30 days shall be no less than 100% ("Ratio 3");
- The ratio of available stable funds divided by required stable funds shall be no less than 100% ("Ratio 4");
- The ratio of net capital divided by net assets shall be no less than 20% ("Ratio 5");
- The ratio of net capital divided by liabilities shall be no less than 8% ("Ratio 6");
- The ratio of net assets divided by liabilities shall be no less than 10% ("Ratio 7");
- The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100% ("Ratio 8"); and
- The ratio of the value of non-equity securities and derivatives 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.

During the reporting period, both of the Company's net capital and other risk control indicators, comply with "Securities Company Management Guidelines" and "Securities Company Control Indicators Management Guidelines".

(Expressed in thousands of Renminbi, unless otherwise stated)

56. FINANCIAL RISK MANAGEMENT (Continued)

(6) Capital Management (Continued)

As at June 30, 2018 and December 31, 2017, the Company maintained the above ratios as follows:

	As at June 30, 2018	As at December 31, 2017
Net Capital	51,515,163	54,180,987
Net Asset Value	73,803,122	75,177,450
Sum of Risk Base Capital Provisions	17,696,417	18,059,640
On Balance Sheet and Off Balance Sheet Total Assets	235,637,680	225,840,602
Ratio 1	291.11%	300.01%
Ratio 2	16.21%	18.57%
Ratio 3	403.64%	392.17%
Ratio 4	140.38%	132.69%
Ratio 5	69.80%	72.07%
Ratio 6	33.93%	38.10%
Ratio 7	48.61%	52.87%
Ratio 8	26.11%	30.77%
Ratio 9	178.77%	148.89%

The above ratios are calculated based on the underlying consolidated financial statements prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises in the PRC.

Certain subsidiaries of the Group 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.

57. FAIR VALUE OF FINANCIAL INSTRUMENTS

For financial reporting purposes, fair value measurements are categorized 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.

57. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(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 approximate their fair values as at June 30, 2018 and December 31, 2017.

(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.

(Expressed in thousands of Renminbi, unless otherwise stated)

57. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(2) Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

The valuation techniques and input used in the fair value measurements of financial instruments as set out below:

Financial assets/financial liabilities	Fair value as at June 30, 2018	Fair value as at December 31, 2017	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	(Unaudited)	(Audited)				
1) Financial assets at fair value through profit or loss						
Debt securities						
— Traded on stock exchanges	17,045,759	4,721,302	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded on interbank market	38,546,673	31,885,121	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
— Unlisted	1,700,775	—	Level 3	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.	Credit risk spread	The higher the credit risk spread, the lower the fair value.
Equity investment						
— Traded on stock exchanges	6,387,313	9,830,939	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded National Securities Exchange and Quotation System	—	659,375	Level 1	Based on recent trading prices in an active market.	N/A	N/A
— Traded on stock exchanges (inactive)	163,844	—	Level 2	Adjusted quoted closing prices for stocks suspended for trading.	N/A	N/A
— Traded National Securities Exchange and Quotation System	658,355	—	Level 2	Bid prices made by market dealers.	N/A	N/A
— Traded on stock exchange (Restricted share)	1,614,408	1,657,627	Level 2	Adjusted quoted prices.	N/A	N/A
— Traded on National Securities Exchange and Quotation System (Restricted share)	44,525	44,525	Level 2	Adjusted quoted prices.	N/A	N/A

(Expressed in thousands of Renminbi, unless otherwise stated)

57. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(2) Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/financial liabilities	Fair value as at June 30, 2018 (Unaudited)	Fair value as at December 31, 2017 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
— Traded National Securities Exchange and Quotation System	141,727	—	Level 3	Adjusted quoted prices.	Discount for lack of marketability	The higher the discount, the lower the fair value.
— Unlisted	1,114,223	177,756	Level 3	Adjusted recent transaction prices.	Discount for lack of marketability	The higher the discount, the lower the fair value.
	228,976	237,622	Level 3	Based on the net asset values of the underlying investment portfolio and adjustments of related expenses.	Third party valuation.	The higher the third party valuation, the higher the fair value.
Funds						
— Listed	1,234,030	2,363,564	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Unlisted	9,737,659	18,320,405	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
Other investment						
— Wealth management and trust products and others	151,711	163,262	Level 1	Quoted closing prices in an active market.	N/A	N/A
	1,932,925	1,498,696	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
	1,547,061	1,554,616	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, the higher the fair value.

(Expressed in thousands of Renminbi, unless otherwise stated)

57. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(2) Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/financial liabilities	Fair value as at June 30, 2018	Fair value as at December 31, 2017	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	(Unaudited)	(Audited)				
2) Available-for-sale financial assets						
Debt securities						
— Traded on stock exchanges	—	14,165,961	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded on interbank market	—	9,428,754	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
Equity investment						
— Traded on stock exchanges	—	132,705	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded on National Securities Exchange and Quotation System	—	289,880	Level 1	Based on recent trading prices in an active market	N/A	N/A
— Traded on National Securities Exchange and Quotation System (Restricted share)	—	44,525	Level 2	Based on quoted market prices with an adjustment of discount for lack of marketability.	N/A	N/A
— Unlisted equity investment	—	760,000	Level 3	Adjusted recent transaction prices.	Recent transaction prices	The higher the recent transaction price, the higher the fair value.
Others	—	8,453,528	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
3) Debt instruments at fair value through other comprehensive income						
Debt securities						
— Traded on stock exchanges	11,197,556	—	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded on interbank market	13,029,510	—	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A

(Expressed in thousands of Renminbi, unless otherwise stated)

57. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(2) Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/financial liabilities	Fair value as at June 30, 2018	Fair value as at December 31, 2017	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	(Unaudited)	(Audited)				
4) Equity instruments at fair value through other comprehensive income						
— Special accounts	7,321,211	—	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
5) Derivative financial instruments						
— Interest rate swap — assets	283,469	112,806	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	285,157	112,576	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	158,472	38,633	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 counter party.	N/A	N/A
— Equity return swap — liabilities	9,335	3,665	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 counter party.	N/A	N/A
— Stock index future — assets (note)	282	—	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Stock index future — liabilities (note)	312	1,241	Level 1	Quoted closing prices in an active market.	N/A	N/A

(Expressed in thousands of Renminbi, unless otherwise stated)

57. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(2) Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/financial liabilities	Fair value as at June 30, 2018	Fair value as at December 31, 2017	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	(Unaudited)	(Audited)				
— Treasury bond futures — assets (note)	47	700	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Treasury bond futures — liabilities (note)	84	—	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Commodity swap — assets	30,441	262,359	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 swap — liabilities	19,320	—	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)	428,647	469,952	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Commodity futures — liabilities (note)	314,490	990,684	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Options — assets	53,828	32,758	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Options — liabilities	97,316	60,358	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Over-the-counter options — assets	31,127	102,822	Level 2	Option pricing model	N/A	N/A
— Over-the-counter options — liabilities	45,376	303,557	Level 2	Option pricing model	N/A	N/A
— Forward contracts — assets	—	1,610	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
— Forward contracts — liabilities	16,322	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

(Expressed in thousands of Renminbi, unless otherwise stated)

57. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(2) Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets/financial liabilities	Fair value as at June 30, 2018 (Unaudited)	Fair value as at December 31, 2017 (Audited)	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
— Commodity — assets	30,992	—	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 — liabilities	11,595	—	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
6) Financial liabilities at fair value through profit or loss						
— Designated at fair value through profit or loss	2,413,297	2,034,637	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						
— Equity securities	132,230	144,290	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Debt securities	64,586	—	Level 1	Quoted closing prices in an active market.	N/A	N/A
	394,599	330,800	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
— Gold	810,691	2,919,784	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Others	61,258	62,998	Level 1	Quoted closing prices in an active market.	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 interest rate swaps contracts in PRC were settled daily and the corresponding receipts and payments were included in "clearing settlement funds" as at June 30, 2018 and December 31, 2017. Accordingly, the net position of these contracts was nil at the end of each reporting period.

(Expressed in thousands of Renminbi, unless otherwise stated)

57. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(2) Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Analysis of financial instruments, measured at fair value at the end of the period/year, by level in the fair value hierarchy into which the fair value measurement is categorized as follows:

	At June 30, 2018 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss	24,818,813	52,698,389	4,732,762	82,249,964
— Debt securities	17,045,759	38,546,673	1,700,775	57,293,207
— Equity investments	6,387,313	2,481,132	1,484,926	10,353,371
— Funds	1,234,030	9,737,659	—	10,971,689
— Others	151,711	1,932,925	1,547,061	3,631,697
Derivative financial assets	482,804	534,501	—	1,017,305
Debt instruments at fair value through other comprehensive income	11,197,556	13,029,510	—	24,227,066
Equity instruments at fair value through other comprehensive income	—	7,321,211	—	7,321,211
Total	**36,499,173**	**73,583,611**	**4,732,762**	**114,815,546**
Financial liabilities				
Financial liabilities at fair value through profit or loss	1,068,765	2,807,896	—	3,876,661
Derivative financial liabilities	412,202	387,105	—	799,307
Total	**1,480,967**	**3,195,001**	**—**	**4,675,968**

(Expressed in thousands of Renminbi, unless otherwise stated)

57. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(2) Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

	At December 31, 2017 (Audited)			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss	17,738,442	53,361,849	1,969,994	73,070,285
— 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
Derivative financial assets	503,410	518,230	—	1,021,640
Available-for-sale financial assets	14,588,546	17,926,807	760,000	33,275,353
— Debt securities	14,165,961	9,428,754	—	23,594,715
— Equity investments	422,585	44,525	760,000	1,227,110
— Funds	—	—	—	—
— Others	—	8,453,528	—	8,453,528
Total	**32,830,398**	**71,806,886**	**2,729,994**	**107,367,278**
Financial liabilities				
Financial liabilities at fair value through profit or loss	3,127,072	2,365,437	—	5,492,509
Derivative financial liabilities	1,052,283	532,627	—	1,584,910
Total	**4,179,355**	**2,898,064**	**—**	**7,077,419**

There were no significant transfers between Level 1, 2 and 3 during the period/year.

(Expressed in thousands of Renminbi, unless otherwise stated)

57. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(2) Fair value of the financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Reconciliation of Level 3 fair value measurements

	Financial assets at fair value through profit or loss
	Unaudited
As at January 1, 2018	4,475,354
Gain or losses for the period	(24,845)
Purchases	411,184
Sales and settlements	(120,872)
Transfers into level 3	10,145
Transfers out of level 3	(18,204)
As at June 30, 2018	4,732,762
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	**(27,795)**

	Financial assets at fair value through profit or loss	Available for-sale financial assets	Total
		(Audited)	
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**

58. CONTINGENCIES

As at June 30, 2018, the Group was not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, the Group expect would materially adversely affect its financial position or results of operations.

59. EVENTS AFTER THE REPORTING PERIOD

On 17 July 2018, the Company issued a 3-year corporate bond named 18CMG5 (security code: 143712) with an amount of RMB2.50 billion and annual interest rate of 4.38%.

On 8 August 2018, the Company issued a 3-year corporate bond named 18CMG6 (security code: 143392) with an amount of RMB3.00 billion and annual interest rate of 3.94%.

Pursuant to the resolution of the shareholders meeting held on June 22 2018, the Company distributed cash dividends of RMB3.46 for every 10 shares (tax included). As at 17 August, 2018, the Group distributed all dividends declared totaling RMB2,317,996 thousand (tax included).

60. COMPARATIVE FIGURES

Some of the comparative figures may not be comparable due to the application of IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs, as disclosed in Note 3.

Chapter 10: 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.
	(II)	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.
	(III)	Other relevant information.

Chairman of the Board: HUO Da

Submission date approved by the Board: August 29, 2018

Chapter 11: Information Disclosure of a Securities Company

I. Relevant Information on the Major Administrative Approvals of the Company

No.	Issuing authority	Title	Document No.	Date of announcement
1	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of WONG Ti as an Independent Director of a Securities Firm	Shen Zheng Ju Xu Ke Zi [2018] No. 12	January 29, 2018
2	CSRC	Reply to the opinions on Capital Increase from China Merchants Securities Co., Ltd. to China Merchants Securities International Co., Ltd.	Ji Gou Bu Han [2018] No. 194	January 24, 2018
3	Shanghai Stock Exchange	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	February 6, 2018
4	CSRC	Reply on Matters in Relation to Conducting Pilot Cross-border Businesses by China Merchants Securities Co., Ltd.	Ji Gou Bu Han [2018] No. 943	April 24, 2018
5	PBOC	Notice of the PBOC on Approving the Maximum Outstanding Balance of Short-term Financing Bonds of China Merchants Securities Co., Ltd.	Yin Fa [2018] No. 137	May 28, 2018
6	CSRC Shenzhen Office	Approval of CSRC Shenzhen Office on the Opening of 16 Branches by China Merchants Securities Co., Ltd.	Shen Zheng Ju Xu Ke Zi [2018] No. 43	June 6, 2018
7	CSRC Shenzhen Office	Approval of CSRC Shenzhen Office on the Changes of Important Articles in the Articles Association of China Merchants Securities Co., Ltd.	Shen Zheng Ju Xu Ke Zi [2018] No. 53	June 14, 2018

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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