CICC
中金公司

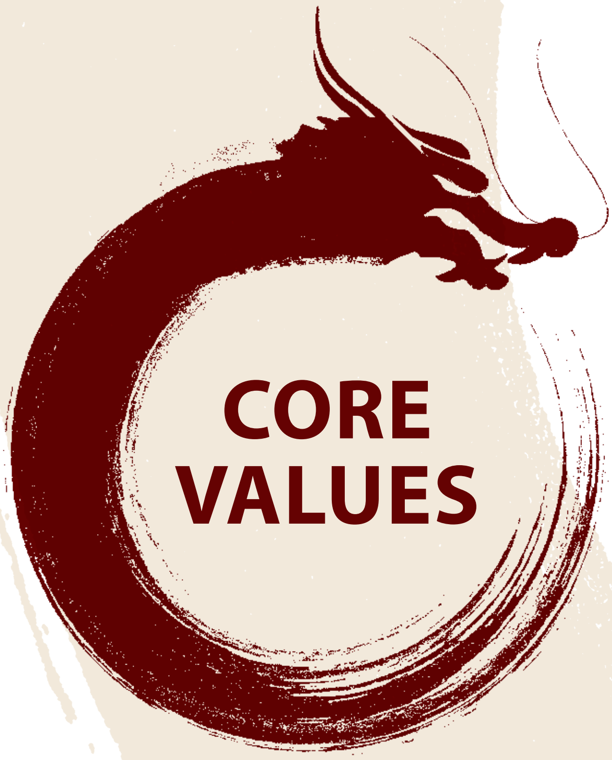
China International Capital Corporation Limited

(a joint stock limited company incorporated in the People's Republic of China)
Stock code: 3908

ANNUAL REPORT

2018

CORE VALUES



By the People and For the Nation
以人為本，以國為懷

People are our most valuable assets. We strive to attract, cultivate and retain the best people. Since inception, CICC has positioned itself as a China-based investment bank with international perspectives. It is our mission to serve the nation by promoting economic reform and long-term development of the capital markets.

Client First
客戶至上

We always put our clients first. We develop and maintain long-term relationships of trust with our clients by truly safeguarding their interests and satisfying their needs.

Professionalism and Diligence
勤奮專業

We develop our businesses up to the highest professional standards, and nurture a high-caliber team of financial professionals, who boast international visions, diligently perform their duties and share our corporate values.

Integrity
至誠至信

We build our franchise upon the utmost professional integrity and highest ethical standards. We value our franchise and never compromise on integrity.

Chinese Roots and International Reach
植根中國，融通世界

As a China-based global investment bank, we are proud of our Chinese roots and of our international DNA. We bridge China and the world by providing best-in-class services to clients at home and abroad.

Innovation and Entrepreneurship
積極進取

Innovation is the lasting force that drives CICC forward. Blessed with deep industry knowhow, visionary leadership, close relationship with clients, and abundant execution experiences, CICC is always prepared to embrace change and continue to deliver innovative products and quality services to our clients.

Content

Important Notes

The Directors, Supervisors and senior management of our Company undertake that there are no misrepresentation, misleading statement or material omission in this report and they are severally and jointly liable for the authenticity, accuracy and completeness of the information contained in this annual report.

The financial statements for 2018 was prepared by our Company according to International Financial Reporting Standards ("IFRSs"), which has been audited by KPMG and KPMG has issued auditors' report with unqualified opinions. Unless otherwise stated, the amounts in this report are presented in RMB.

The forward-looking statements such as future plans, development strategies contained in this report do not constitute substantive undertakings by our Company to investors who are advised to be cautious about investment risks.

Message from Our CEO

MR. BI MINGJIAN
Chief Executive Officer

VIEWS ON THE ECONOMY AND THE MARKET

The Chinese economy remained stable in 2018 but was also facing many issues, especially challenges arising from a complex global environment. As a result, the growth momentum of the economy had shown signs of slowing down. Meanwhile, the global economic growth was on diverse paths. Despite the Federal Reserve's consecutive interest rate hikes, the US economy remained relatively strong due to tax cuts and other supportive factors. Economic growth was moderate in Japan and Europe, but China and other emerging markets faced headwinds again. Decelerating economic growth and rising uncertainty also weighed on risk assets, such as stocks and commodities while the bond market remained relatively stable. Significant corrections were seen in both A-shares and Hong Kong stocks.

China's economic growth decelerated in 2018 due to both domestic and global factors. Externally, the on-going US-China trade friction and global economic slowdown resulted in higher uncertainty in external demand. On the domestic side, total social financing saw decelerated growth alongside tightened financial conditions, and at the same time corporate earnings growth was also slowing down. As 2018 marked the 40th anniversary of reform and opening-up and the first year following the 19th CPC National Congress, changing domestic and global landscapes were pressing for China to pursue further reforms in order to unleash the country's potentials, and to enhance its economic vitality and efficiency.

2019 marks the 70th anniversary of the founding of the People's Republic of China, and is a critical year in the building of "a moderately prosperous society in all aspects". However, China's economic growth continued to face uncertainty even though the government had been rolling out stabilization measures since mid-2018. We therefore anticipate that China will put in place additional counter-cyclical adjustment policies. Aside from tax and fee cuts, there is room for further adjustment to monetary, fiscal and other policies. In 2019, China's reform and opening-up is expected to proceed forward, while reforms on the fiscal, tax and financial systems, state-owned enterprises, the social security system, as well as reforms of the rural area will remain the focal points of attention.

We project that the Chinese government will take the following measures in 2019:

- The launch of more intensive counter-cyclical macroeconomic policies, and the continued implementation of proactive fiscal policies and prudent monetary policies. We believe that the government will fine-tune policies on a timely and proactive basis to stabilize aggregate demand.

- The moving forward of structural supply-side reforms to eliminate excess production capacity in certain industries, and the adoption of means to reduce costs of conducting business as well as further enhancement of relatively under-developed infrastructures and facilities to bolster areas of weaknesses. Other than facilitating larger scale of taxes and fees cuts, we believe that the Chinese government will continue to fine-tune local taxation systems and regulate governmental debt-issuance and financing mechanisms. As the US-China trade talks continue, we expect that both countries may reach certain consensus.

Message from Our CEO

- The improvement of financial supervision to prevent abnormal financial market fluctuations and volatility contagion across various markets. We believe that China will further develop its capital markets and accelerate the opening-up of its financial industry to foreign players. The Shanghai Stock Exchange is going to launch a "science and technology innovation board" and introduce a registration-based IPO system for that board on a trial basis.

INDUSTRY OUTLOOK

Although uncertainties in the macro economy and the general market are expected to persist in the short term, we believe that the Chinese economy would remain stable along an upward direction. The overall state of national development remains and will remain in the critical period of strategic opportunities in the long term. We expect that the acceleration of opening-up and the promotion of substantive reforms will take the center stage in the next phase of development. These approaches would serve to ease external pressures, and at the same time transform pressures into momentum for change.

With respect to the securities industry, we see the following megatrends:

- The capital market will inevitably play a more prominent role in the financial system. With the launch of the science and technology innovation board and the piloting of the registration-based IPO system, and the rolling out of a series of key policies such as the expedited introduction of long-term investors, significant structural transformation is to be expected in the financial system. The proportion of direct financing is expected to be further increased.

- The capital market is in an accelerating process of internationalization and institutionalisation. These trends will play key roles in fine-tuning the Chinese capital market, promoting institutional changes and improving market efficiency and sophistication.

- Following the implementation of new asset management regulations, the general market would focus on two developments: the offering of NAV-based products and the removal of return guarantees. The asset management and wealth management businesses and related institutions are undergoing profound transformation and reshuffling, while they are exploring reconstruction of the financial ecology under the new competitive and cooperative landscape.

- Digitization accelerates rapidly, and its impacts on the economy and the industrial ecology are increasingly recognised. The evolution of technical concepts such as "digital twins" and "universal interconnection" will probably deconstruct the business model of the traditional financial industry and foster a new industrial value chain.

In view of the current macro-economic transformation and strengthened reform and opening-up, our Group and the industry may tap into a vast pool of opportunities, while concurrently facing challenges that are always associated with these opportunities. On the one hand, reforms in the key areas such as SOEs, private economy, capital market and fiscal and taxation system, as well as internationalization and digitization, are likely to bring along high-growth opportunities. At the same time, uncertainties presented in both internal and external macro-economic environment and market trends pose higher requirements for the resilience of institutions.

We believe that as long as our Group is able to take solid and steady steps forward according to our medium- and long-term strategic plan, the Company will be able to achieve significant corporate development and accelerate the establishment of a world-class investment bank.

REVIEW OF OUR PERFORMANCE

In 2018, in the face of a challenging macro-economic environment and market conditions, our Group managed to cope well with new circumstances and changes on all fronts by leveraging our advantageous and strategic position and further strengthen our business capabilities, thanks to the support from staff at all levels. Our Group was also able to improve its management and mid-and-back office functions. These efforts served to deliver results over and above industry average. All in all, we believe our Group delivered satisfactory results in serving our customers, contributing to the society and creating value for our shareholders. We also strived to play an active role in helping to prevent and resolve risks in the financial system and in fostering the "Belt and Road" initiative.

Financial Performance

As at the end of 2018, the total assets of the Group amounted to RMB275,420.5 million, representing an increase of 15.8% compared with the end of 2017; net assets (note) amounted to RMB42,183.5 million, representing an increase of 14.9% compared with the end of 2017. Our Group recorded total revenue and other income(note) of RMB18,539.7 million, increasing by 21.5% year on year; and net profit(note) of RMB3,492.2 million, increasing by 26.2% year on year, with a weighted average return on net assets of 8.8%.

Business Achievements

Maintaining a Market Leading Position in Institutional Business

The franchise of our investment banking business further enhanced. Our Group's investment banking business completed a number of milestone deals such as China Tower and Foxconn Industrial Internet. These deals set new market records, and our Group managed to gain new ground in strategic industries such as TMT, healthcare, high-end manufacturing and consumption and as a result further consolidated its leading franchise. The M&A business has been increasingly diversified by covering a wide range of industries in both domestic and overseas markets. On the other hand, our Group's bond and structured financing business provided support in furthering our strategy of deeper regional penetration, which resulted in the launch of a number of compelling product offerings. with increasingly sophisticated comprehensive solution and risk management capabilities. By leveraging on the customer base of the investment banking business, our Group strengthened its capability to provide integrated services to its customers through cross-departmental cooperation and regional synergy, and continuously explored new sources of income.

Note: Our Group has included CISC in our consolidated financial statements since March 31, 2017, and therefore the Group's operating results for 2017 consolidate the corresponding amount of CISC for the period from April 1, 2017 to December 31, 2017, and its operating results for 2018 consolidate the corresponding amount of CISC for the year from January 1, 2018 to December 31, 2018.

Net assets refer to total equity attributable to shareholders of the Company and holders of other equity instruments. Net profit refers to profit for the year attributable to shareholders of the Company and holders of other equity instruments.

Message from Our CEO

The equities business upgrading its operation by riding the wave of institutionalisation, with a focus on product and cross-border capabilities. The equities business made headways in pushing forward its "institutionalisation focus" while maintaining coverage of key clients in areas such as mutual funds, insurance, QFII and leading private funds. These results contributed to an increased market share of the brokerage business and a constant leading position in the Connect business. In addition, our Group has been actively pursuing its "product focus" strategy, and the PB business sought to diversify its products and innovative business solutions through tapping into cross-border businesses. In terms of the derivatives business, our Group was among the first players to acquire the qualification of first-class dealer in OTC options, and proactively adapted to the new regulations of the OTC option business so as to effectively control risks; our Group also at the same time strengthened its fund evaluation and capital introduction and market-making capabilities in multiple products to enhance customer stickiness. Good progress was made in cross-border business as we continued to expand client coverage and develop new service offerings. Our Group was also in the progress of preparing for the Shanghai-London Stock Connect business and took the lead in obtaining relevant qualifications and further expanded its overseas business platform; the proportion of the overseas business income in the equities business exceeded 50% for the first time in 2018.

Remarkable results achieved in the FICC business. After several years of development, FICC has evolved into a comprehensive platform with capabilities in risk-taking and hedging, client trading, product design and distribution and cross-border execution, covering all asset categories including fixed income, foreign exchange, commodities and derivatives. In 2018, the client business managed to sustain high growth and the asset securitization business achieved significant breakthroughs. The trading business continued to demonstrate excellent trading and risk control capabilities, and actively leveraged market opportunities to achieve sound returns. FICC also became an important market maker in both domestic and overseas markets.

Significant improvements made in investment and asset allocation capabilities in the asset management business. In 2018, our Group further strengthened its core investment and research team, and achieved notable breakthrough in developing a macro asset allocation team. As a result, we were able to further streamline the investment decision-making process and build more vigor and discipline into the management system. These efforts allowed our Group to outperform the market in terms of investment performances. Regarding the pension business, our Group won a number of bids for investment management of the annuity schemes of state-owned enterprises and provincial enterprises. In addition, our Group proactively promoted new businesses including Manager of Managers (MoM) to help its key institutional customers to adapt to the new asset management regulations. In terms of the cross-border business, progress was made in its product line along with steady upgrade of cross-border asset allocation services and active management capabilities. On the mutual fund business, CICC Fund Management gained breakthroughs in the expansion of distribution channels by sticking closely to its positioning as a key platform in serving the mass retail market, and launched a number of compelling product packages with long-term allocation values, and gradually made its presence in instrument-type product lines as represented by index-enhanced products.

Private equity becoming an important platform for offering converged investment banking and investment services. Based on CICC Capital as a unified brand, our Group's private equity business has been established as a comprehensive platform with significant scale and market influence. It has since entered a new stage of development with centralized resources and management synergies internally and as an open platform ecosystem externally. In 2018, CICC Capital launched a series of innovative products in the areas of regional funds, industrial cooperation funds, cross-border cooperation funds and much more, including working with key financial institutions to set up macro equity asset allocation fund of funds to tap the synergies between funds in the primary and secondary markets. These efforts served to expand the product mix and cover a wide range of strategic industries including new generation information technology, biomedicine, culture and consumption and high-end equipment manufacturing. As a result, we were able to continue to increase our AUM despite significant headwinds.

Steady Progress in the Transformation of Wealth Management Business

Effective promotion of deep integration with CISC. In 2018, our Group had achieved meaningful progress in its integration with CISC in areas such as businesses, IT systems and middle and back offices. Both parties closely cooperated in four areas of the wealth management business, namely products, investment and research, training, and marketing, and developed effective coordination mechanisms and work procedures. By incorporating the research resources of CISC, the Research Department of CICC established Research Department II. This department focuses on providing high-quality investment advisory services to wealth management customers. Furthermore, good progress has been made in business cooperation. For middle and back offices, CISC was fully integrated into the comprehensive risk management system of CICC with the implementation of unified balance sheet management, and as a result improvements were seen in the capital utilization rate. On the state of IT applications, a preliminary system integration plan was developed and a unified reporting and resource sharing mechanism was established.

Continuous enhancement of key capabilities in wealth management. The Wealth Service Center (WSC) developed the capabilities in providing full-scope, one-stop solutions by integrating platform resources, and in particular devoted considerable efforts into macro asset allocation, products selection and wealth planning. Various business lines actively developed diversified financial products suitable for wealth management and retail customers. In 2018, value of the Group's total product sales amounted to more than RMB90 billion, with considerable advancement in investment consultants' asset allocation capabilities, which reflected solid results for the transformation of our business model. The overseas wealth management business achieved an explosive growth and developed preliminary capabilities in international wealth management service and global asset allocation. In addition, our Group carried out extensive cooperation and exploration with Tencent in areas including client experience, customer profiling, information research, products, and online and offline marketing initiatives.

Getting ready for accelerating the expansion of the wealth management business. Taking note of domestic and overseas advanced practices, our Group established the Private Wealth Management (PWM) division so as to step up its transformation into a wealth management business model with wealth planning and asset allocation as its core. In line with the process of integration and transformation of wealth management, our Group officially launched Global Wealth Management System and continuously worked to diversify its online product and service offerings. Our Group also commenced its study for developing a digital wealth management platform in order to further improve user experience and system function. Meanwhile, our Group launched new and creative trials in marketing and increased its efforts in acquiring customers through online and offline marketing activities. We believe the wealth management business will become a key pillar for the growth of our Group in the next stage.

Message from Our CEO

Paving the Foundation for Long-Term Growth through Institutional Development

Further improvement of our middle and back offices capabilities. In 2018, facing market fluctuations, tightening regulatory policies and business diversities and complexities, all middle and back offices proactively upgraded their capabilities and fulfilled their respective functions in control and support, and effectively safeguarded the smooth and orderly operation of our Group as well as guaranteed a smooth implementation of business plans. The IT department launched several new business systems and implemented integration projects by expanding existing systems into a consolidated platform which enabled comprehensive, integrated and large-scale business support. The quality of risk control and compliance management was overall sound and effective, which served to prevent major risk events and substantial losses, and withstood challenges from a severe market environment. The risk control and compliance department also worked closely with business departments to push forward the implementation of each regulatory requirement and support the development of new businesses and new products. Furthermore, our Group officially formed the Asset and Liability Management Committee (ALCO) to unify decision-making in the management and deployment of the Group's assets, capital, financing and other financial resources, aiming to optimize balance sheet allocation efficiency and improve the ability of active liability management.

Enhancing medium- and long-term incentive and corporate culture. With strong board support, our Group officially launched the Participating Managing Director (PMD) Program and identified the first batch of PMDs. This initiative aims to foster a partnership culture. At the same time, our Group organized regular communication, discussion and study events so as to build the PMD Program into an effective platform for key staff of our Group to share opinions, enhance communication and cooperation, and resolve major corporate issues, and into a key foundation in our Group's successor planning and talent pool development effort. Our Group officially established the CICC Institute to promote our corporate culture and nurture talents at different levels. To this end, our Group organized different kinds of cultural exchange activities including photography contest, charitable walking and CICC alumni meetings. These activities served to strengthen corporate integration and cohesion.

Active participation in poverty alleviation initiatives and fulfilment of our social responsibilities. Our Group attached great importance to the fulfilment of social responsibilities, actively participated in the tough battle against poverty, adhered to the corporate culture of "For the Nation" and formulated the working ethics for poverty alleviation in practice, namely taking poverty alleviation through finance as the focus, poverty alleviation through education as the entry point and targeted poverty alleviation as the orientation. With the support and assistance of the Company and its subsidiaries, Yuexi County, Anhui, Kaizhou District, Chongqing, and Qilian County, Qinghai declared to be out of poverty, while Fengjie County, Chongqing is close to getting rid of poverty. At present, our Group is playing an active role in helping Huining County, Gansu and Guzhang County, Hunan overcome poverty as soon as possible. There are poverty alleviation projects of our Group across 13 counties, districts and cities in 10 provinces (autonomous regions) including Nimu County and Naqu County, Tibet, Maixieti Village, Atux City, Xinjiang, Xi County and Tianzhen County, Shanxi and Tianchi County, Sichuan. During the year, the Company was awarded the "2018 Outstanding Poverty Alleviation through Education in Securities and Futures Industry of China Award" at "We Are In Action" 2018 China Securities Industry Poverty Alleviation Exchange Meeting. The CICC Charity Foundation in Beijing won the "Outstanding Contribution Award of Poverty Reduction and Child Development in China" in the event of "Child Development Night" held by China Development Research Foundation.

STRATEGIES AND INITIATIVES: WHAT IS NEXT

In 2019, while keeping on track with the overall corporate strategies, we intend to maintain prudent risk control and cost management, and improve business capabilities and institutional development. Our Group is ready to adapt to all changes in circumstances while consolidating its resources allocation and realizing its potentials, in order to capture new opportunities amid varying conditions and accelerate its own transformation, to attain the goal of becoming one of the world's leading investment banks.

Our concrete strategic initiatives include:

- More focus on gathering assets to drive the growth of scale
- To accelerate the integration and transformation of wealth management
- To expand international presence and drive domestic penetration
- To further enhance balance sheet-based capabilities
- To pursue further institutional development and step up digitization
- To continue to improve professional capabilities of our middle and back offices

As an institution that is constantly looking to gain new ground in the long run, we shall always adhere to the original aspiration and ideal of "Chinese Roots and International Reach" and follow the fundamental belief of combining best international practice with the realities of China, and at the same time conclude and draw valuable lessons from our experiences. Through exchanges and learning at all levels of our Group, we are looking to improve our responsiveness, adaptability and creativity, with the will to go forward into new territory, so that we may lay down a concrete foundation for the long term development of our Group, and thus create greater value for all clients and shareholders.

Mr. Bi Mingjian
Chief Executive Officer
March 29, 2019

Definitions

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

"Acquisition"	the acquisition by our Company of 100% of the equity interest of CISC from Huijin pursuant to the Equity Transfer Agreement
"Articles of Association"	the articles of association of our Company (as amended)
"AUM"	the amount of assets under management
"Basic and diluted earnings per share"	(net profit attributable to shareholders/equity holders of the Company and holders of other equity instruments – interest for holders of perpetual subordinated bonds for the year)/weighted average number of ordinary shares in issue
"Board" or "Board of Directors"	the board of directors of our Company
"CASs"	the Chinese Accounting Standards for Business Enterprises
"CBIRC"	the China Banking and Insurance Regulatory Commission* (中國銀行保險監督管理委員會)
"CCASS"	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
"CG Code" or "Corporate Governance Code"	Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules
"China Investment Consulting"	China Investment Consulting Co., Ltd.* (中國投資諮詢有限責任公司), a company incorporated in the PRC in March 1986 and a wholly-owned subsidiary of Jianyin Investment and a Shareholder of our Company
"CICC Capital"	CICC Capital Management Co., Ltd.* (中金資本運營有限公司), a company incorporated in the PRC in March 2017 and a wholly-owned subsidiary of our Company
"CICC Fund Management"	CICC Fund Management Co., Ltd.* (中金基金管理有限公司), a company incorporated in the PRC in February 2014 and a wholly-owned subsidiary of our Company
"CICC Futures"	CICC Futures Co., Ltd.* (中金期貨有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of our Company
"CICC Jiacheng"	CICC Jiacheng Investment Management Co., Ltd.* (中金佳成投資管理有限公司), a company incorporated in the PRC in October 2007 and a wholly-owned subsidiary of our Company

"CICC HK AM"	China International Capital Corporation Hong Kong Asset Management Limited (中國國際金融香港資產管理有限公司), a company incorporated in Hong Kong in December 2005 and a wholly-owned subsidiary of CICC Hong Kong
"CICC HK Futures"	China International Capital Corporation Hong Kong Futures Limited (中國國際金融香港期貨有限公司), a company incorporated in Hong Kong in August 2010 and a wholly-owned subsidiary of CICC Hong Kong
"CICC HK Securities"	China International Capital Corporation Hong Kong Securities Limited (中國國際金融香港證券有限公司), a company incorporated in Hong Kong in March 1998 and a wholly-owned subsidiary of CICC Hong Kong
"CICC Hong Kong"	China International Capital Corporation (Hong Kong) Limited (中國國際金融(香港)有限公司), a company incorporated in Hong Kong in April 1997 and a wholly-owned subsidiary of our Company
"CICC Pucheng"	CICC Pucheng Investment Co., Ltd.* (中金浦成投資有限公司), a company incorporated in the PRC in April 2012 and a wholly-owned subsidiary of our Company
"CICC Singapore"	China International Capital Corporation (Singapore) Pte. Limited, a company incorporated in Singapore in July 2008 and a wholly-owned subsidiary of our Company
"CICC UK"	China International Capital Corporation (UK) Limited, a company incorporated in the United Kingdom in August 2009 and a wholly-owned subsidiary of our Company
"CICC US Securities"	CICC US Securities, Inc., a company incorporated in the United States in August 2005 and a wholly-owned subsidiary of our Company
"CISC"	China Investment Securities Company Limited* (中國中投證券有限責任公司), a company incorporated in the PRC in September 2005 and a wholly-owned subsidiary of our Company
"CISC Futures"	CISC Tianqi Futures Limited* (中投天琪期貨有限公司), a company incorporated in the PRC and a wholly-owned subsidiary of CISC
"CMC"	certain companies associated with Mr. Cha, including C.M. Capital Corporation, a private investment company established in 1969 in the State of California, the United States and its affiliates
"Company", "our Company", or "CICC"	China International Capital Corporation Limited (中國國際金融股份有限公司), a joint stock limited company incorporated in the PRC converted from China International Capital Corporation Limited (中國國際金融有限公司), a Chinese-foreign equity joint venture, on June 1, 2015

Definitions

"Company Law" or "PRC 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
"CSRC"	the China Securities Regulatory Commission* (中國證券監督管理委員會)
"Directors"	directors of our Company
"Domestic Share(s)"	issued ordinary share(s) in the share capital of our Company with a nominal value of RMB1.00 each, which is (are) subscribed for or credited as fully paid in RMB
"Equity Transfer Agreement"	the equity transfer agreement entered into between our Company and Huijin dated November 4, 2016, pursuant to which our Company has agreed to purchase and Huijin has agreed to sell 100% of the equity interest of CISC
"FICC"	fixed income, commodities and currencies
"Gearing ratio"	(total liabilities – accounts payable to brokerage clients)/(total assets – accounts payable to brokerage clients)
"GIC"	GIC Private Limited, a company incorporated in Singapore in May 1981 and a Shareholder of our Company
"Group", "our Group" or "we"	our Company and its subsidiaries (or with reference to the context, our Company and anyone or more of its subsidiaries)
"H Share(s)"	ordinary shares in the share capital of our Company with a nominal value of RMB1.00 each, which is (are) listed on the Hong Kong Stock Exchange and are subscribed for and traded in HK dollars
"HK$", "HKD" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange" or "HKEx"	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKICPA"	Hong Kong Institute of Certified Public Accountants
"Huijin"	Central Huijin Investment Ltd.* (中央匯金投資有限責任公司), a wholly state-owned company ultimately owned by the PRC Government

"I&G"	China National Investment and Guaranty Corporation* (中國投融資擔保股份有限公司), a company incorporated in the PRC in 1993 and a Shareholder of our Company
"ICAEW"	The Institute of Chartered Accountants in England and Wales
"IFRSs"	the International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board and the International Accounting Standards (IAS) and interpretations issued by the International Accounting Standards Committee (IASC)
"Jianyin Investment"	China Jianyin Investment Ltd.* (中國建銀投資有限責任公司), a company incorporated in the PRC in June 1986 and a wholly-owned subsidiary of Huijin and a Shareholder of our Company
"JIC Investment"	JIC Investment Co., Ltd. (建投投資有限責任公司), a company incorporated in the PRC in October 2012 and a wholly-owned subsidiary of Jianyin Investment and a Shareholder of our Company
"KKR Institutions Investments"	KKR Institutions Investments L.P., a limited partnership established in Delaware on February 8, 2010 and a Shareholder of our Company
"KraneShares"	Krane Funds Advisors, LLC
"Latest Practicable Date"	March 26, 2019
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Mingly"	Mingly Corporation, a company incorporated in Cayman Islands, and registered in Hong Kong in 1988 and a Shareholder of our Company
"Ministry of Finance" or "MOF"	the Ministry of Finance of the PRC* (中華人民共和國財政部)
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules
"NASDAQ"	National Association of Securities Dealers Automated Quotations, an US stock exchange
"NEEQ"	The National Equities Exchange and Quotations (全國中小企業股份轉讓系統)
"Net capital"	net capital refers to net assets after risk adjustments on certain types of assets as defined in the Provisions on the Calculation Basis for Risk Control Indicators of Securities Companies

Definitions

"NSSF"	the National Council for Social Security Fund of the PRC* (全國社會保障基金理事會)
"Operating leverage ratio"	(total assets – account payable to brokerage clients)/equity attributable to shareholders/equity holders of the Company and holders of other equity instruments
"PBOC"	the People's Bank of China* (中國人民銀行), the central bank of the PRC
"PMD"	Participating Managing Director
"PRC" or "China"	the People's Republic of China, and for the purposes of this annual report, excluding Hong Kong, Macau Special Administrative Region and Taiwan region
"PRC Government"	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities
"Prospectus"	the prospectus dated October 27, 2015 issued in relation to the listing of the Company's H Shares on the main board of the Hong Kong Stock Exchange
"QDII"	Qualified Domestic Institutional Investor* (合格境內機構投資者)
"QFII"	Qualified Foreign Institutional Investor* (合格境外機構投資者)
"Reporting Period"	the period from January 1, 2018 to December 31, 2018
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RQFII"	Renminbi Qualified Foreign Institutional Investor*
"SAC"	the Securities Association of China* (中國證券業協會)
"Securities Law"	the Securities Law of the PRC as amended, supplemented or otherwise modified from time to time
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Shanghai Stock Exchange"	the Shanghai Stock Exchange* (上海證券交易所)
"Shareholder(s)"	holder(s) of the Share(s)

"Share(s)"	ordinary shares in the capital of our Company with a nominal value of RMB1.00 each
"Shenzhen Stock Exchange"	the Shenzhen Stock Exchange* (深圳證券交易所)
"SOE(s)"	state-owned enterprise(s)
"State Council"	the State Council of the PRC* (中華人民共和國國務院)
"Subscription"	the subscription of the Subscription Shares by Tencent Mobility Limited pursuant to the Subscription Agreement
"Subscription Agreement"	the subscription agreement entered into between the Company and Tencent Mobility Limited dated September 20, 2017 in relation to the subscription of the Subscription Shares by Tencent Mobility Limited
"Subscription Shares"	207,537,059 new H Shares subscribed under the Subscription
"Supervisors"	supervisors of our Company
"Supervisory Committee"	the supervisory committee of our Company
"Tencent"	Tencent Holdings and its subsidiaries
"Tencent Computer"	Shenzhen Tencent Computer Systems Company Limited, a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of Tencent Holdings
"Tencent Holdings"	Tencent Holdings Limited, a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the Hong Kong Stock Exchange (Stock Code: 700)
"Tencent Mobility Limited"	Tencent Mobility Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Tencent Holdings
"TMT"	Technology, Media and Telecom
"TPG"	TPG Asia V Delaware, L.P., a limited partnership established in the United States in 2009 and a Shareholder of our Company
"United Kingdom" or "UK"	the United Kingdom of Great Britain and Northern Ireland

Definitions

"United States" or "U.S." or "USA" or "US"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"US$" or "USD"	United States dollars, the lawful currency of the United States
"Weighted average return on net assets"	(profit for attributable to shareholders of the Company/equity holders of the Company and holders of other equity instruments – distributions to holders of perpetual subordinated bonds)/weighted average of equity attributable to shareholder/equity holders of the Company
"%"	per cent

Notes:

Certain amounts and percentage figures included in this report have been subject to rounding. Accordingly, the arithmetic sum shown in certain tables may not be the total of the figures preceding them. Any discrepancies in any table or chart between the arithmetic sum shown and the total of the amounts listed are due to rounding.

For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in the report in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail. English translations of company names and other terms from the Chinese language are marked with "*" and are provided for identification purposes only.

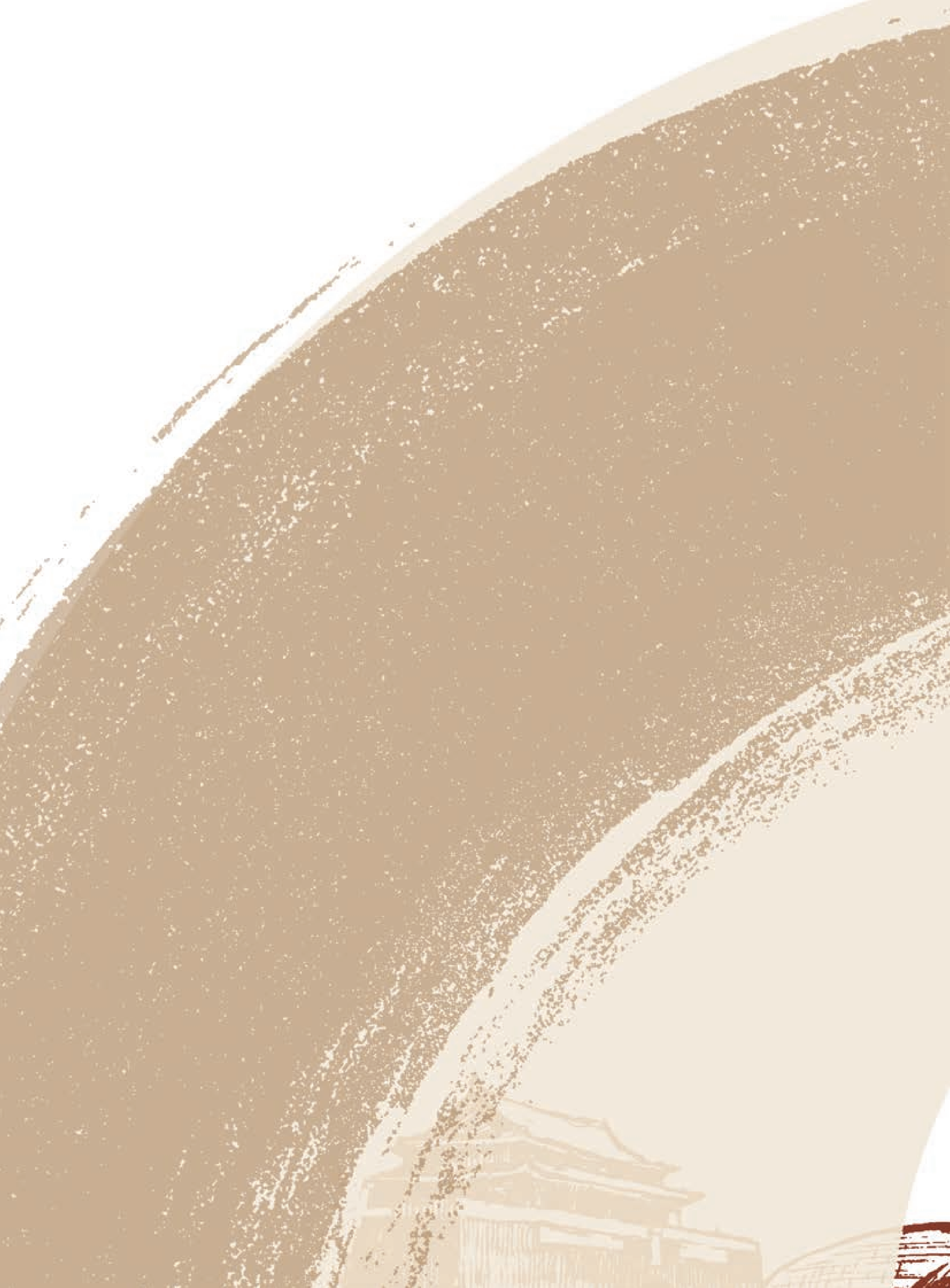
Significant Risk Warnings

The business operations of our Group are closely related to the macro economy, monetary policy and market conditions in China and other jurisdictions where our businesses are operated. Any fluctuation in domestic and international capital markets will affect the Group's business operations.

The risks faced by our Group mainly include: strategic risk arising from the adjustment of the strategy plan of our Group under the changes in domestic and overseas capital markets; business management risk arising from changes of business models, development of innovative businesses and application of new technologies; market risk caused by changes in the fair value of the financial assets resulting from fluctuations in equity prices, interest rates, exchange rates and commodity prices, etc; credit risk arising from defaults or deterioration in creditworthiness of counterparties, borrowers and security issuers; liquidity risk arising from failure of normal business operation, repayment of due indebtedness or performance of payment obligations due to shortage of funds; operational risk arising from failed or defective internal procedures or IT systems, human factors and external events; compliance risk arising from legal sanction, regulatory actions, loss of property or damage to our reputation, to which our Group is to be subject, imposed on or suffered from as a result of violation of laws, regulations, self-regulatory rules or internal regulations and rules of our Group during operation and management activities or due to employee behavior; legal risk for which our Group may suffer from economic loss or loss of reputation arising from breach of contracts, disputes in respect of infringement, litigations or other legal disputes; and reputational risk caused by negative comments on our Group due to operational activities, business management and other actions as well as external events.

Our Group will work on its organizational structure, management mechanism, IT system, risk indicator framework, talents cultivation and risks response mechanism to prevent and manage the above mentioned risks. Meanwhile, our Group will keep on optimizing its business processes to control operational risks and pay special attention on managing risks arising from innovative businesses.

For detailed analysis and measures taken by our Group in respect of the risks, please refer to the content in Management Discussion and Analysis – VI. Risk Management.



COMPANY *Profile*

Company Profile

(As of December 31, 2018)

I. COMPANY OVERVIEW

Name in Chinese:	中國國際金融股份有限公司
Name in English:	China International Capital Corporation Limited
Legal representative:	Bi Mingjian(note 1)
Chairman:	Bi Mingjian(note 1)
Chief Executive Officer:	Bi Mingjian
Registered capital:	RMB4,192,667,868(note 2)
Headquarters in the PRC:	
Registered and office address	27th and 28th Floor, China World Office 2, 1 Jianguomenwai Avenue, Chaoyang District, Beijing, PRC
Company website	http://www.cicc.com
E-mail	Investorrelations@cicc.com.cn
Principal place of business in Hong Kong:	29/F, One International Finance Centre, 1 Harbour View Street, Central, Hong Kong
Secretary to the Board:	Xu Yicheng(note 3)
Address	27th and 28th Floor, China World Office 2, 1 Jianguomenwai Avenue, Chaoyang District, Beijing, PRC
Telephone	+86-10-65051166
Facsimile	+86-10-65051156
Joint Company Secretaries:	Xu Yicheng(note 3), Zhou Jiaxing
Authorized Representatives:	Bi Mingjian, Zhou Jiaxing
Statutory Auditors engaged by our Company:	
PRC accounting firm:	KPMG Huazhen LLP
Overseas accounting firm:	KPMG

Note 1: As approved by the Board, Mr. Bi Mingjian, the Executive Director and Chief Executive Officer, has started to perform the duties of the Chairman of the Board and legal representative since March 1, 2017.

Note 2: Upon completion of issuance of 207,537,059 H Shares by the Company to Tencent Mobility Limited on March 23. 2018, the registered capital of the Company increased to RMB4,192,667,868. Please refer to "Management Discussion and Analysis - V. Significant Investment and Financing Activities of Our Group - (ii) Equity Financing" for details.

Note 3: Mr. Wu Bo resigned from the office of the Secretary to the Board and Joint Company Secretary of the Company due to work rearrangement, with effect from April 20, 2018. Mr. Xu Yicheng has been appointed by the Board as the Secretary to the Board and Joint Company Secretary of the Company since April 20, 2018.

II. INTRODUCTION TO OUR COMPANY

History

Our Company, China's first joint venture investment bank, was established on July 31, 1995 with the name of China International Capital Corporation Limited (中國國際金融有限公司) in the PRC as approved by the PBOC with a registered capital of US$100 million. The promoters of our Company were the former People's Construction Bank of China (中國人民建設銀行), Morgan Stanley & Co. Incorporated (摩根士丹利國際公司), I&G (then known as China National Investment & Guaranty Corporation (中國經濟技術投資擔保公司)), GIC (新加坡政府投資有限公司) (then known as Government of Singapore Investment Corporation Pte. Ltd. (新加坡政府投資公司)) and Mingly (名力集團控股有限公司) (then known as The Mingly Corporation Limited (名力集團)).

On June 1, 2015, our Company was converted into a joint stock company with limited liability with the name of China International Capital Corporation Limited (中國國際金融股份有限公司). Upon the conversion, our Company had a total share capital of RMB1,667,473,000 comprising 1,667,473,000 Shares with nominal value of RMB1.00 each.

Our Company was successfully listed on the Hong Kong Stock Exchange in November, 2015 and initially issued 555,824,000 H Shares, and further issued 83,372,000 H Shares upon the exercise of over-allotment option. After the completion of the global offering and the exercise of the over-allotment option, the total number of issued Shares of our Company increased from 1,667,473,000 Shares to 2,306,669,000 Shares.

On November 4, 2016, our Company and Huijin entered into the Equity Transfer Agreement, pursuant to which, our Company has agreed to acquire, and Huijin has agreed to sell, 100% of the equity interest of CISC. CISC is a fully-licensed securities firm in the PRC with an extensive and well-established branch network, a large customer base and an integrated business platform. The Company became the sole shareholder of CISC on March 21, 2017. 1,678,461,809 Domestic Shares had been issued as fully paid to Huijin as consideration for the Acquisition on April 12, 2017. Upon completion of the Acquisition, Huijin directly held 58.58% equity interest in our Company, and that the registered capital of our Company increased from RMB2,306,669,000 to RMB3,985,130,809.

On March 23, 2018, the Company completed the issue of 207,537,059 new H Shares to Tencent Mobility Limited. Accordingly, the number of the Company's H Shares and the total issued Shares increased to 1,727,714,428 H Shares and 4,192,667,868 Shares, respectively.

Company Profile

(As of December 31, 2018)

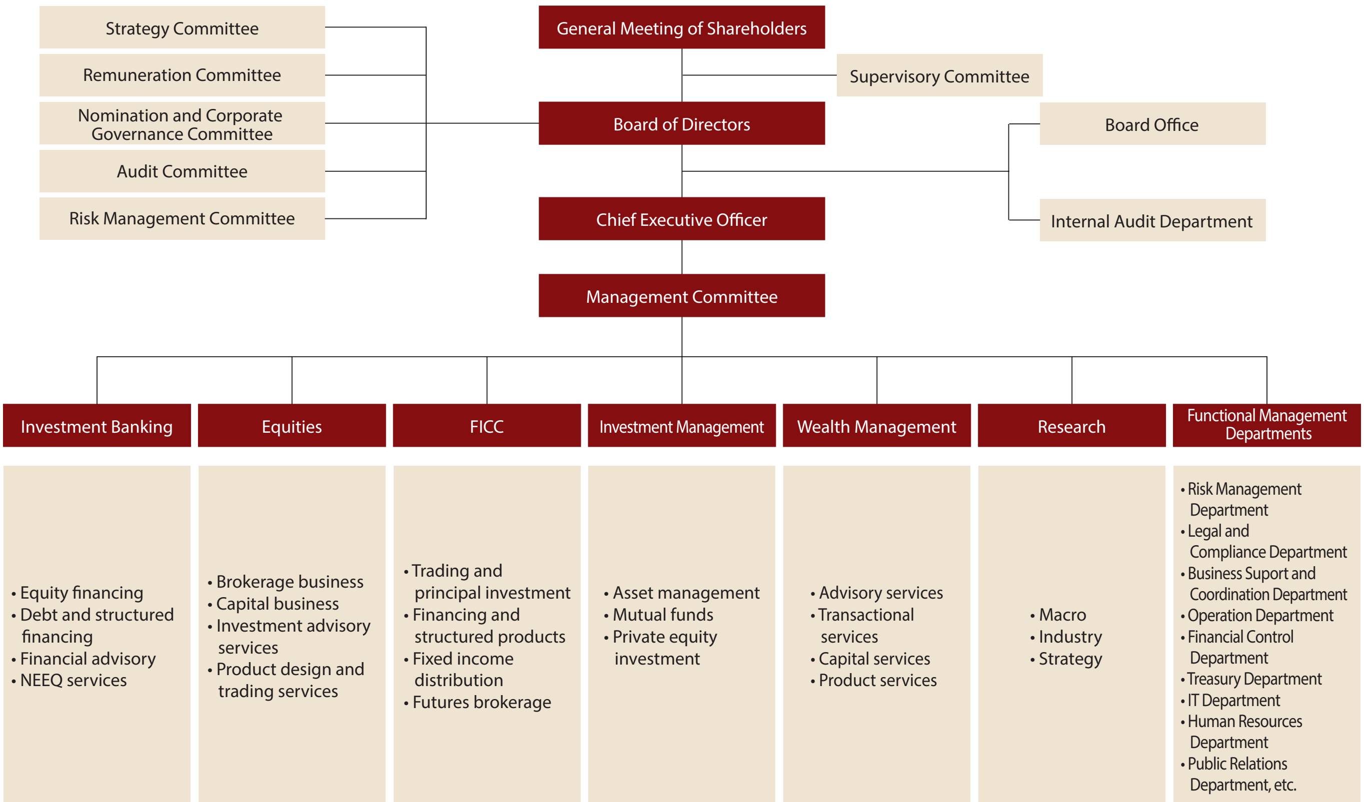
The Headquarters of our Group is in Beijing and as of December 31, 2018, our Group has a number of subsidiaries in the PRC, including CISC, CICC Capital, CICC Fund Management, CICC Pucheng and CICC Futures, and has established branch companies in Shanghai, Shenzhen, Xiamen, Chengdu and other cities with over 200 securities branches located in 28 provinces and municipalities of the PRC.

After over 20 years of unremitting efforts, our Group has achieved remarkable progress in business development and transformed into an investment bank with an outstanding team, solid client base and excellent brand. In 2015, our Group obtained several business qualifications such as qualifications for internet finance business, integrated custodian business for private funds and custodian business for securities investment funds. In 2017, CICC obtained from the National Interbank Funding Centre the qualification of market makers for the Northbound Trading under Bond Connect. CICC Futures became a member of Shanghai International Energy Exchange Corporation. In 2018, CICC obtained the qualification for conducting pilot cross-border businesses and the tier-one OTC option dealer qualification, which further improved our Group's business landscape.

As the scope of business continues to expand, our Group has also actively ventured into overseas markets and has established offices in six international financial centres, namely Hong Kong, New York, London, Singapore, San Francisco and Frankfurt with our international presence further strengthened. It laid a solid foundation for our Company to become a China-based global investment bank. Our Company was the first securities firm to obtain QDII qualification in 2007 and CICC US Securities was licensed by the US Financial Industry Regulatory Authority and the US Securities and Exchange Commission in the same year; CICC Singapore was licensed by the Monetary Authority of Singapore in 2008. In 2010, CICC UK was licensed by the UK Financial Services Authority. In 2011, CICC Hong Kong was among the first batch of securities companies to obtain approval to commence RQFII business under pilot scheme, CICC HK Futures obtained a license to operate the futures business, and CICC UK was qualified as a member of the London Stock Exchange. In 2012, CICC HK Securities obtained the license for leveraged foreign exchange trading during the same year. In 2013, CICC US Securities was qualified to operate its own research report issuance business, and CICC HK AM obtained QFII qualification. In 2016, the subsidiary of CICC Hong Kong obtained the qualification to be admitted to the national interbank bond market, and CICC HK Securities obtained qualification for the Shenzhen-Hong Kong Stock Connect. In 2017, CICC HK Securities became the first batch of CCASS members to obtain the qualification for the Bond Connect. In 2018, CICC Hong Kong Securities became a member and a settlement participant of Astana International Exchange Limited. CICC UK obtained the qualification of serving as a UK cross-border global depositary receipt conversion institution under the Shanghai-London Stock Connect.

In recent years, our Group has focused on enhancing its core competitiveness, accelerating investments in innovative business, further developing its offshore business, endeavoring to realize a balanced principal business structure and striving to become a world renowned well-structured full-service financial institution.

Corporate Organization and Structure



Notes:

1. The Internal Audit Department is independent of the business departments of our Company and will report directly to the Audit Committee under the Board.

2. The Risk Management Department and the Legal and Compliance Department will report to the Management Committee in their daily work, and will report to the Risk Management Committee under the Board.

Company Profile

(As of December 31, 2018)

AWARDED IN MAJOR HONORS 2018

Since its incorporation in 1995, we have won honors and awards in events organized by domestic and foreign media: such as Best Investment Bank in China, Best Sales Service Team and Most Influential Research Institution by leveraging on its profound and professional knowledge in economies, industries, laws and regulations, and quality customer services. Below is a list of awards that we obtained in 2018:

Awards Sponsor: Finance Asia

Country Awards 2018

– Best Investment Bank in China

China Awards 2018

– Best Investment Bank (Domestic)
– Best M&A House
– Deal of the Year:
  Ant Financial's US$14 billion Series C Funding
– Best Domestic IPO:
  Foxconn Industrial Internet's US$4.2 billion IPO
– Best Cross-border M&A Deal:
  Global Logistic Properties' US$11.6 billion Privatisation Deal

Achievement Awards 2018

– Best China Deal & Best Financing:
  Ant Financial's US$14 billion Series C Funding

Awards Sponsor: The Asset

Triple A Country Awards 2018

– Best IPO (Singapore):
  Sasseur REIT US$305 million IPO

Awards Sponsor: Institutional Investor & Caixin

2018 All-China Research Team

– The Best Research Team (Overall/Mainland China/International)
– The Best Sales Team (Overall/Mainland China)

Awards Sponsor: Asiamoney

China Corporate and Investment Banking Awards 2018

– China's Best Corporate and Investment Bank for M&A (Domestic)
– China's Best Corporate and Investment Bank for M&A (Cross-Border)
– China's Best Corporate and Investment Bank for ECM (Cross-Border)

New Silk Road Finance Awards 2018

– Best Overall Bank for Advising Chinese Institutions on BRI
– Best Bank for BRI-related Financing in the Region (Central and Eastern Europe & Central and West Asia)

China Asset-Backed Securities Awards 2018
- Most Innovative Bank

Brokers Poll 2018
- China (A&B Share)
  - Overall Combined Research & Sales
  - Best Local Brokerage
  - Best for Overall Country Research
  - Best Overall Sales Services
- China (H-share, Red chip & P-chip)
  - Best Local Brokerage
  - Best for Overall Country Research
  - Best Overall Sales Services
- Hong Kong (Local)
  - Best Local Brokerage
  - Best for Overall Country Research
  - Best Overall Sales Services

Awards Sponsor: HKEX

Stock Connect Awards for 2017
China International Capital Corporation Hong Kong Securities Limited:
- Top SPSA Participation of the Year – Stock Connect
- Top Shanghai Connect Trading Award – Chinese Broker
- Top Shenzhen Connect Trading Award – Chinese Broker

Awards Sponsor: Forbes

2018 China Top PE
- CICC Capital

Awards Sponsor: Zhitong Finance • Tonghuashun Finance

Golden Hong Kong Stocks Award 2017
- Most Valuable Financial Stocks Company

Awards Sponsor: Finet • Tencent News

Top 100 Hong Kong Listed Companies Award 2017
- Best Value Growth for New Listed Company

Awards Sponsor: Building and Construction Authority of Singapore

Singapore BCA Green Mark Award 2018
- BCA Green Mark: China International Capital Corporation (Singapore) Pte. Limited

Awards Sponsor: Yicai

China Financial Value Ranking 2018
- Investment Banker of the Year: Bi Mingjian

Best Securities Analyst 2017
- Best Sell-side Analysts Fixed-income Research (Rank 2)

Awards Sponsor: Securities Times

Best Wealth Management Institution in China Awards 2018
- Best Wealth Management Brand
- Best Investment Team of Fixed-income Assets of Asset Management Department

2018 Poverty Alleviation Awards of Securities and Futures Industry
- Best Educational Poverty Alleviation

Company Profile

(As of December 31, 2018)

Awards Sponsor: NBD

China Securities Business Awards 2018

– Best Investment Bank Brand

– Most Forward-looking Overseas Business Network: China International Capital Corporation (Hong Kong) Limited

Awards Sponsor: International Financial News

China Pioneer Securities Broker 2018

– Best Service Provider for High-net-worth Clients in China

Awards Sponsor: China Securities Journal

2017 Best Asset Management Products Awards

– Best 3-years Asset Management Plan: CICC Anxin Huibao

Best Equity Investment in China Awards 2018

– Best Equity Investment Institutions of Investment Bank: CICC Capital

Awards Sponsor: New Fortune

Best Investment Bank in China Awards 2018

– Best Investment Bank for Overseas Market

– Best Investment Bank for Refinancing

– Best Refinancing Projects: China Unicom

Awards Sponsor: China Fund

Best Asset Management in China Awards 2018

– Best Asset Management of Fixed-income Product

– Best Asset Management of Equity Product

– Best Asset Management of ABS Product

Awards Sponsor: Caixin

Achievement Awards of Capital Market 2018

– Best M&A Financial Advisor in China

Awards Sponsor: Capital Week

2018 Crystal Ball Awards for Sell-side Analysts

– Bond Research: CICC Fixed-income Research Team (Rank 1)

Awards Sponsor: Wallstreetcn.com

2018 Philosopher's Stone Best Analyst Awards

– Bond Research: CICC Fixed-income Research Team (Rank 1)

Awards Sponsor: China-fof.com

Gold Lotus Award 2018

– Top 100 Most Influential FoF Institutions in China and US CICC Capital (Rank 1)

– Top 30 Best Return FoF Institutions in China CICC Capital (Rank 1)

Awards Sponsor: Tonghuashun Finance

2018 Best Analyst Awards

– Best Research Institution

Awards Sponsor: Eastmoney.com • 1234567.com

Eastmoney Award 2018

– Best Asset Management of Equity Investment

– Best Fund Company for Creative Marketing: CICC Fund

Summary of Accounting Data and Financial Indicators

I. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

Items	2018	2017	Change year-on-year	2016	2015	2014
Operating results[1] (RMB in million)						
Total revenue and other income	**18,539.7**	15,260.2	21.5%	8,941.3	9,506.7	6,155.8
Total expenses	**14,270.9**	11,729.7	21.7%	6,667.2	6,989.8	4,717.7
Profit before income tax	**4,387.3**	3,601.0	21.8%	2,329.7	2,620.6	1,505.9
Profit for the year attributable to shareholders/equity holders of the Company and holders of other equity instruments	**3,492.2**	2,766.3	26.2%	1,820.3	1,952.6	1,118.5
Net cash (used in)/generated from operating activities	**(6,590.4)**	(30,484.5)	(78.4%)	(10,098.0)	(5,226.6)	1,042.1
Earnings per share (RMB/share)						
Basic and diluted earnings per share	**0.83**	0.76	9.2%	0.76	1.12	0.67
Weighted average return on net assets	**8.8%**	8.8%	Increased by 0.0 percentage point	10.7%	20.4%	15.1%

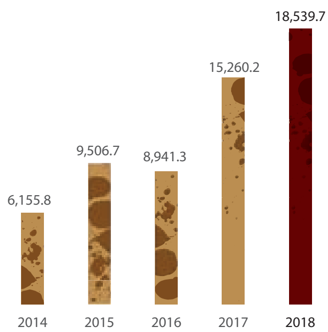
Items	December 31, 2018	December 31, 2017	Change year-on-year	December 31, 2016	December 31, 2015	December 31, 2014
Financial position (RMB in million)						
Total assets	**275,420.5**	237,811.9	15.8%	101,948.5	94,108.8	52,700.1
Total liabilities	**233,043.8**	200,919.5	16.0%	83,451.7	77,666.8	44,707.9
Total equity attributable to shareholders/equity holders of the Company and holders of other equity instruments	**42,183.5**	36,706.7	14.9%	18,446.9	16,442.0	7,992.2
Accounts payable to brokerage clients	**41,317.9**	47,346.5	(12.7%)	17,392.4	25,218.1	15,054.3
Total share capital (in million shares)	**4,192.7**	3,985.1	5.2%	2,306.7	2,306.7	1,667.5
Net assets per share attributable to shareholders/equity holders of the Company (RMB/share)	**9.8**	9.0	9.6%	7.6	6.7	4.8
Gearing ratio (%)	**81.9%**	80.6%	Increased by 1.3 percentage points	78.1%	76.1%	78.8%

(1) Our Group had included CISC in our consolidated financial statements since March 31, 2017, and therefore the Group's operating results for 2017 consolidated the corresponding amount of CISC for the period from April 1, 2017 to December 31, 2017, and the Group's operating results for 2018 consolidated the corresponding amount of CISC for the year from January 1, 2018 to December 31, 2018.

Summary of Accounting Data and Financial Indicators

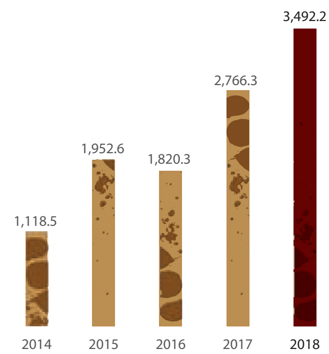
Total revenue and other income

RMB in million

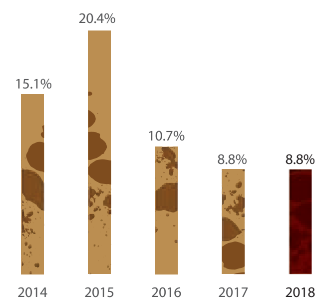


Profit for the year – attributable to shareholders/equity holders of the Company and holders of other equity instruments

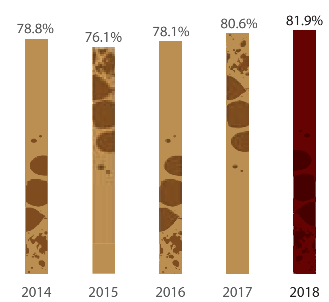
RMB in million



Weighted average return on net assets

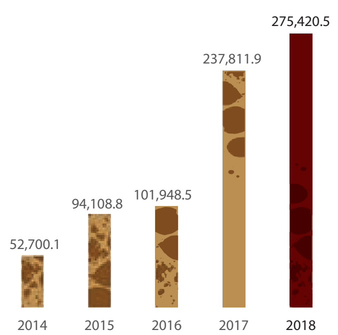


Gearing ratio



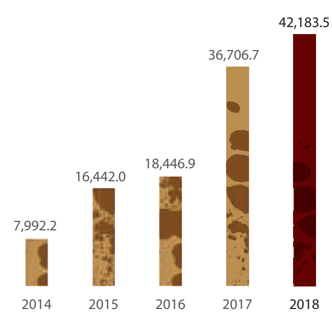
Total assets

RMB in million



Total equity attributable to shareholders/equity holders of the Company and holders of other equity instruments

RMB in million



II. DIFFERENCES OF ACCOUNTING DATA UNDER DOMESTIC AND FOREIGN ACCOUNTING STANDARDS

In terms of our Group's consolidated profits for 2018 and 2017 and the consolidated net assets as of December 31, 2018 and December 31, 2017, there's no difference between the data presented in the consolidated financial statements prepared in accordance with IFRSs and that presented in the consolidated financial statements prepared in accordance with CASs.

III. NET CAPITAL AND RELEVANT RISK CONTROL INDICATORS

As of December 31, 2018, the net capital of the Company amounted to RMB24,577.5 million, representing an increase of 27.0% as compared with RMB19,347.4 million as of December 31, 2017. In 2018, our Company's net capital and other risk control indicators all met regulatory requirements.

Unit: RMB in million

Items	**December 31, 2018**	December 31, 2017
Core net capital	**16,385.0**	12,898.2
Supplementary net capital	**8,192.5**	6,449.1
Net capital	**24,577.5**	19,347.4
Net assets	**37,265.5**	33,662.3
Total risk capital reserves	**18,399.0**	14,106.2
Total on-and-off-balance-sheet assets	**155,320.8**	124,005.3
Risk coverage ratio	**133.6%**	137.2%
Capital leverage ratio	**10.5%**	10.4%
Liquidity coverage ratio	**438.3%**	354.8%
Net stable funding ratio	**157.0%**	129.4%
Net capital/net assets	**66.0%**	57.5%
Net capital/liabilities	**22.7%**	23.6%
Net assets/liabilities	**34.5%**	41.1%
Equity securities and related derivatives held/net capital	**20.6%**	51.2%
Non-equity securities and related derivatives held/net capital	**347.5%**	269.9%

MANAGEMENT DISCUSSION AND *Analysis*

Management Discussion and Analysis

I. CORPORATE STRATEGIES AND OPERATIONS

Market Environment

China continued to advance its financial reforms in 2018. The financial industry played an increasingly prominent role as a service provider to support the real economy. To cope with challenges in domestic and global economic/financial landscapes, financial regulators have made their adjustment policies more forward-looking and well-targeted. The financial industry provided greater support to private-sector companies and small/micro enterprises. Regulatory measures to prevent major financial risks were effective. Although these reforms may adversely affect some institutions, we believe they are positive to the long-term development of the financial industry.

Riding the wave of China's financial reforms: Development of the capital market is of strategic importance to China as it can help the country address many structural issues, such as adjustment of the economic structure, enhancement of the economy's overall efficiency, reduction of high leverage in some areas, capital replenishment for banks, financing for small and medium-sized enterprises and structural improvement in financial markets. Key reform initiatives to watch in 2019 include the launch of the science and technology innovation board and the registration-based IPO system. As key service providers in capital markets, securities firms play important roles in capital market reforms.

The focus of financial regulation shifted from deleveraging to leverage stabilization and supporting the real economy as long as risks remained under control. China's financial industry experienced almost one year of deleveraging and restrictions on non-bank lending channels. The campaign began in November 2017, when regulators issued a draft document to control asset management business in financial institutions. In addition, regulators issued various other rules to control financial risks, notably the implicit debt of local governments. Incremental aggregate financing other than bank loans fell significantly by 42% YoY to be only RMB4.64 trillion in 2018. Starting from 3Q18, however, regulators' focus shifted from deleveraging to leverage stabilization with greater support to the real economy to cope with the global economic slowdown and rapidly changing international trade environment. Since early 2018, the People's Bank of China cut the required reserve ratio for serveral times to replace medium-term lending facilities (MLF). The central bank also introduced targeted medium-term lending facilities (TMLF), which carry longer durations and lower costs. These measures helped banks reduce funding costs and inject liquidity into the market, especially in respect of long-term funds. Meanwhile, regulators accelerated approval of relevant products for financial institutions, especially various capital replenishment plans for banks, so that they have sufficient capital to support strong lending growth. Regulators also encouraged financial institutions to grant more loans to small and micro enterprises.

Structure of financing changed substantially in 2018, as bond issuance stayed resilient. The deleveraging campaign led to a sharp fall in entrusted and trust loans, which accounted for 11% and 6% of incremental aggregate financing for the real economy on average over 2011-2017. Equity financing also shrank significantly due to poor stock market performance, with domestic equity issuance by non-financial companies falling 59% YoY to be only RMB0.37 trillion. The number of IPOs slumped from 438 in 2017 to 105 in 2018. In contrast, the amount of corporate bond issuance rose significantly from RMB0.45 trillion in 2017 to RMB2.48 trillion in 2018, approaching the record-high RMB3.0 trillion in 2016.

Opportunities arising from opening-up of China's financial markets: We believe China will firmly adhere to its policy for further opening-up despite the changing international landscape. Potential policy initiatives for the financial sector will likely focus on mutual access arrangements between domestic and overseas markets, adoption of international practices in regulation and market development, cross-border capital flows, and opening-up of the domestic financial industry to foreign players. We believe that global market index firms would raise their A-share inclusion factors in 2019, channeling additional overseas funds into the A-share market. Chinese financial institutions should seize these opportunities and seek long-term growth by developing cross-border business.

Opportunities from further opening-up of the financial sector and increased share of overseas investors in Chinese markets: While China's economic growth gradually decelerated and the renminbi depreciated about 6% against the US dollar in 2018, growth momentum of the world economy also weakened in the second half of 2018 and China's equity assets began to show attractive investment value following the decline in their valuations. As a result, the depreciation pressure on renminbi eased and overseas investors became increasingly interested in holding more China-based assets. Meanwhile, China has raised QFII quotas, lowered entry barriers to foreign players, and ensured smooth operations of Stock Connect programs. MSCI and FTSE Russell have included A-shares into their indexes and plan to gradually raise their inclusion factors, and the Bloomberg Barclays Global Aggregate Index will include Chinese government and policy bank bonds starting from April 2019. Therefore, we expect more overseas players and funds to enter China's domestic capital markets. As China's financial industry has developed solid strengths in terms of client acquisition, market access, branding, technology and professional expertise, we believe the opening-up will help China's financial markets further integrate with global capital markets.

Bright future for wealth management, as demand keeps rising for professional expertise: China's household wealth continued to grow in 2018. An increasing number of high-net-worth individuals are turning to professional institutions for wealth management. Compared with the US, Europe and other major economies, the share of financial assets in Chinese households' asset portfolio remains low and thus has tremendous upside. Meanwhile, financial institutions face both opportunities and challenges in product development and service offering due to dramatic fluctuations of financial asset prices in recent years and clients' diversifying demand for liquidity, risk management and investment returns. Professional institutions have developed increasingly mature business models and service capabilities along with strong business volume growth, diversification of demand and products, and establishment of a sound regulatory framework for asset management business. We believe Chinese households will allocate an increasing portion of their wealth to financial assets, creating a bright future for the wealth management business.

Industry Landscape

Intensifying competition and rising industry concentration: In 2018, we saw a 25.3% fall in CSI 300 Index and a 17.6% YoY decline in the combined trading volume of stocks and funds on Shanghai and Shenzhen stock exchanges. The aggregate earnings of securities firms tumbled by over 40% in 2018 due to their business homogeneity and the strong correlation between their business results and performance of securities markets. Despite falling earnings, the industry's concentration ratio continued to rise. Over the first three quarters of 2018, aggregate earnings of top 10 securities firms accounted for 78% of the industry's total earnings, up from 65% in 2017 and 55% in 2015. As top players took most of the earnings and some local securities firms incurred losses, we expect the industry's supply-side reform to accelerate, improving the efficiency of resource utilization and support for the real economy.

Risks of stock-based lending business emerged and development of capital-backed intermediary business diversified: The stock-based lending business began to suffer from credit risks as the stock market tumbled in 2018, while borrowers' debt-servicing ability weakened due to falling value of collateralized stocks and financing difficulties facing private-sector companies. Another risk factor is the restriction on lenders' ability to sell collateralized stocks in case the borrower defaults. Earnings and valuations of some securities firms dropped due to enormous amounts of additional provisions for asset impairment and potential risks in the quality of on-balance-sheet assets. Compared with other financial institutions (e.g. commercial banks), securities firms' competitive advantage in lending business is not capital cost, scale or leverage, but their strength in trading-based risk-pricing and integrated capital market services. We believe ROEs and risk-control in capital-backed intermediary business will diverge along with business diversification from lending alone to market-making, financial derivatives, and financing related to integrated capital market services.

Management Discussion and Analysis

Regulation gradually relaxing and capital market reforms to support long-term industry growth: We believe the tight regulation since mid-2015 ended in mid-2018, and gradual relaxation has begun. Since October 2018, we have seen even clearer signs of relaxation, such as the upcoming science and technology innovation board and registration-based IPO system, possible introduction of new exchange-traded options, and less stringent rules on M&A, stock index futures and the length of intervals between two private placements by the same company. In 2019, regulators may take additional measures to support direct financing, develop more capital market instruments, advance reforms to IPO and trading systems, and facilitate foreign players' operation in the Chinese market. As China's capital market reforms continue to unfold, we believe that reforms to basic rules and systems will help drive market growth and business expansion of leading players. In addition, development and maturity of the capital market will help securities firms upgrade earnings models (e.g. raising ROA) and improve business efficiency (e.g. enhancing leverage). Meanwhile, opening-up and intensifying competition will continue to change the industry's competitive landscape. We believe all these will support the securities industry's long-term growth, benefiting top securities firms.

Increasingly visible effects of accelerating fusion between finance and technology: Fintech continued to reshape the financial industry's business models and competitive landscape in 2018. Top internet companies maintained their absolute market leading positions, highly active customer base and strong customer stickiness in the mobile payment sector. In addition, these internet giants' superior technologies and extensive customer base helped their licensed financial affiliates secure high profitability and strong business growth. Although the stock market's valuations declined in 2018, several Fintech companies still managed to complete their IPOs, and their core business lines have expanded from P2P lending and personal cash loans to auto finance and repayment of credit card debts for clients. Banks, insurance companies and securities firms have accelerated their investment in Fintech. The establishment of CCB Fintech Co., Ltd. shows that large state-owned financial institutions began to expand their strategic investment in Fintech. We believe Fintech will help financial institutions gain competitive advantages in risk management, pricing, cost control, resource allocation, marketing and customer acquisition.

Development Strategies

Our Group's strategic goal is to establish ourselves as a world-class, China-based investment bank. In order to achieve this goal, and in light of the fast changing environment in which we operate, we intend to more prudently carry out risk control and cost management while focus on improving business capabilities and enhancing institutional development with an aim to maximize agility in weathering challenges and capturing opportunities.

Business Plans

In order to achieve our Group's strategic goal, our work plan in 2019 is: to put more emphasis on gathering assets to drive the growth of scale, to accelerate the integration and transformation of wealth management, to expand international presence and deepen localization, to strengthen the utilization of the balance sheet, to continue to optimize the institutional development and push forward digitization, and to strengthen the professional capabilities of our middle and back offices.

II. ANALYSIS OF CORE COMPETITIVENESS

Premier Franchise and Leading Market Position in High-end Businesses. Since the inception, our Group has developed and has always adhered to high standards with effective and prudent risk management, which helped firmly establish our reputation. Our Company has led numerous complex, large and precedent-setting deals. In 2018, our investment banking business maintained its leading position, which ranked first, second and first in terms of its size of underwriting achieved in A share IPOs, Hong Kong stock IPOs and Hong Kong stock refinancing, respectively, and ranked second in terms of the transaction size in the Chinese M&A market and fourth among securities firms in terms of the size of underwriting in the domestic bond market. By offering differentiated products and a wide range of solutions, our Group actively transformed and upgraded institutional investor services. For our equities business in

2018, our market share in the A-share market had shown expansion year on year, while the trading volume of our Hong Kong equities business for onshore fund and insurance clients remained at a high level, and has won the "Best Local Brokerage" in the *Asiamoney* Brokers Poll for thirteen consecutive years. With our exceptional research in product allocation and diversified investment management platforms, our Group has been providing high-net-worth clients and institutional investors with leading wealth and investment management services. In 2018, the total size of assets under the management of our Group reached approximately US$100 billion.

Market-oriented and International Governance and Practices. Our Group is committed to following the best international practices in terms of business operations, corporate governance and talent development. Our Company has established a sound governance structure under which the business operations of our Group are supervised and managed by the general shareholder's meeting, the board of directors and the supervisory committee. Our Company has established the Management Committee consisting of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and heads of each business line, thus developing an efficient proceeding and decision-making mechanism. Meanwhile, riding on the advanced international experience, our Group has developed incentives in line with market benchmarks, thereby establishing a solid foothold for the long-term sustainable development of our Group. In 2018, our Group announced the implementation of the Participating Managing Director ("PMD") Program, and identified a group of PMDs who recognized the values of CICC and made positive contributions to our Group's growth and development, from various business lines and management functions of the Company.

Top-tier Professional Teams. Our human capital allows us to keep abreast of market opportunities and adjust our business strategies in a timely manner. The senior management team of our Company has extensive experiences in domestic and overseas financial markets and a majority of them have working experiences in renowned overseas financial institutions. Our senior and middle-level management team has an average of over 15 years of working experiences in investment banking and finance-related industries. Our Group also recruited the best graduates from top domestic and overseas universities as well as the best talents in the industry. As of December 31, 2018, over 40% of our employees held master or higher degrees, and approximately 23% of our employees, 55% of our managing directors and 65% of senior management had overseas education or working experiences.

High-quality Client Base. Our Group has built up a strong foundation of a high-end client base, mainly comprising large-sized enterprises, high-quality emerging growth companies, professional institutional investors and high-net-worth individuals. The Company provides more sophisticated products with well-tailored services to meet the needs of high-end clients, who have strict criteria on service selection. Therefore, the Company charges a relatively premium commission rate for high-end clients. In view of the forecasted significant increase in the number of high-end clients, the Company expects rising demand for services and products to further contribute to our business. Our investment banking clients include (but are not limited to) leading players in traditional and emerging industries such as financial services, energy, telecommunications, transportation, metallurgy, technology, high-end manufacturing, healthcare and consumer goods. As of the end of 2018, our Group had more than 6,000 domestic and overseas institutional clients. The Company currently has nearly 3 million individual clients after integration with CISC, which contributed to a significantly enlarged customer base.

Management Discussion and Analysis

Outstanding Cross-border Capability. Since inception, our Group has adhered to the international best practices with distinct international DNA. We established presence in cross-border business early, which enabled us to enjoy certain advantages in businesses such as overseas IPOs for PRC-based companies, offshore bond offerings, and cross-border mergers and acquisitions, and to sustain strong growth in emerging businesses such as QFII/QDII products, the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect business. Currently, our Group has maintained a higher revenue share of overseas business compared with that of the peers. Our Group has established overseas operations and business activities in six financial centres across Hong Kong, New York, London, Singapore, San Francisco and Frankfurt, which are managed by respective business lines vertically. Over years of development, our Group has accumulated abundant overseas execution experiences and can seamlessly serve clients in both the domestic and overseas markets. In 2018, our Group ranked first among PRC-based investment banks for the underwriting of US IPOs of PRC-based companies, and first among PRC-based securities firms in terms of the size of underwriting for overseas investment-grade bonds. Our share of the trading volume executed through HKEx under the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect saw a further increase among all overseas and domestic brokers in Hong Kong, which put us in a leading position in the market. CICC UK became the first institution completing registration as a UK cross-border global depositary receipt conversion institution under the Shanghai-London Stock Connect on the Shanghai Stock Exchange.

Leading and Influential Research. The Research of our Group has adhered to the principles of objectiveness, independence, prudence and professionalism. With a coverage of the global markets, our Research focuses on the fundamentals of the macro economy, and investment analysis of equity products, fixed income products and commodities etc. Through our global platform, our Group provides research services to domestic and overseas clients. Our in-depth understanding, thorough analysis and unique insights regarding enterprises and industries in China have won the Company a reputation as the "China Expert". In 2018, CICC's research team continued to be recognized by awards from prominent international institutions. These included the "No. 1 Overall Country Research for China" in the *Asiamoney* Brokers Poll, which marked the 13th consecutive year of our championship in this poll since 2006. We were also named the "No. 1 All-China Research Team" by *Institutional Investor* for seven consecutive years from 2012 to 2018.

Unique Culture. Since inception, our Group has formed and adhered to our core values of "By the People and For the Nation, Professionalism and Diligence, Innovation and Entrepreneurship, Clients First, Integrity, and Chinese Roots and International Reach". The core values not only help us form team cohesiveness but also contribute to a strong risk management culture within our Group. In 2018, the Company continued to work hard to fight against poverty, and won the "2018 China Securities and Futures Industry Excellent Education Poverty Alleviation Award" at the "We Are in Action" 2018 China Securities Industry Poverty Alleviation Exchange Meeting, under the guidance of the CSRC and the State Council Leading Group Office of Poverty Alleviation and Development, hosted by the SAC and the China Futures Association, and held by "China Brokers" under the *Securities Times*. The Company also received the "Sustainable Development Inclusive Award" as nominated by *Caijing Magazine*; and was recognised as the "Pioneer of Targeted Poverty Alleviation" in the "2018 Excellent Financial Poverty Alleviation Pioneer List" selected by China.org.cn.

III. ANALYSIS OF PRINCIPAL BUSINESS

Investment Banking

Equity Financing

Market Environment

In 2018, the financing size of the A-share primary market shrank significantly due to factors such as severer secondary market volatility and slowdown of IPO review. In 2018, a total of 103 A-share IPOs were completed, with an aggregate financing size of RMB137,488 million, representing a YoY decrease of 37.1%; in terms of follow-on offerings, a total of 150 transactions were closed, with an aggregate financing size of approximately RMB354,695 million, representing a year-on-year decrease of 47.7%.

In the Hong Kong primary market, IPO, follow-on offering, and sell-down activities ramped up. In 2018, a total of 202 Hong Kong IPOs were completed, with an aggregate financing size of approximately US$36,675 million, representing a year-on-year increase of 121.7%; in terms of follow-on offerings and selldowns, a total of 196 transactions were closed with an aggregate amount of approximately US$27,366 million, representing a year-on-year increase of 10.1%.

In the U.S. primary market, IPOs by PRC-based companies remained hot and the market remained active. In 2018, a total of 42 US IPOs of PRC-based companies were completed, with an aggregate financing size of approximately US$9,244 million, representing a year-on-year increase of 137.8%.

Actions and Achievements

In 2018, we fully enhanced the development of emerging sectors, major regions and global network, continued to intensify efforts to develop new clients of equity deals and achieved meaningful breakthroughs in emerging sectors. We ranked No.1 sponsor for global IPOs of PRC-based enterprises in terms of aggregate underwriting amount in 2018.

In 2018, our Group closed a total of nine A-share IPOs, with an aggregate lead underwriting amount of RMB36,193 million acting as the lead underwriter, ranking No.1 in terms of aggregate refinancing amount in the market; we also closed seven A-share follow-on offerings, with an aggregate amount of RMB25,126 million acting as lead underwriter.

In 2018, our Group maintained a leading position in the Hong Kong stock market, and furthered our edges in Hong Kong equity financing deals. In 2018, our Group sponsored a total of nine IPOs, ranking No. 4 in the market, with an aggregate lead underwriting amount of US$5,060 million, ranking No. 2 in the market. Our Group underwrote a total of 17 Hong Kong IPOs acting as the lead bookrunner, with an aggregate amount of US$1,605 million. In 2018, our Group underwrote nine transactions of refinancings and sell-downs for Hong Kong IPOs acting as the lead bookrunner, ranking No. 5 in the market, with an aggregate lead underwriting amount of US$2,296 million, ranking No. 5 in the market.

In 2018, with the continuous boom of the US IPOs of PRC-based companies, we took a share by participating in several landmark deals. Our Group underwrote a total of five US IPOs of PRC-based companies acting as lead bookrunner during the year, with an aggregate lead underwriting amount of US$739 million, ranking No. 5 in the market.

Management Discussion and Analysis

Items A Shares	2018 Lead underwriting amount (RMB in million)	2018 Number of deals	2017 Lead underwriting amount (RMB in million)	2017 Number of deals
IPOs	**36,193**	**9**	10,257	12
Follow-on offerings	**25,126**	**7**	94,243	14
Preference shares offerings	**11,875**	**2**	–	–

Items Hong Kong equity offerings	2018 Lead underwriting amount (USD in million)	2018 Number of deals	2017 Lead underwriting amount (USD in million)	2017 Number of deals
IPOs	**1,605**	**17**	967	15
Follow-on offerings	**2,296**	**9**	607	5

Items U.S. equity offerings by PRC-based companies	2018 Lead underwriting amount (USD in million)	2018 Number of deals	2017 Lead underwriting amount (USD in million)	2017 Number of deals
IPOs	**739**	**5**	413	3

Outlook for 2019

In 2019, we will seek to deepen our coverage of new economies and strengthen our client network, and consolidate our client base in order to promote the integration of emerging industries and traditional industries and improve our capabilities in initiating major transactions. We would also continue to expand local presence, and enhance investment in key regions, as well as vigorously build pipelines for various types of deals.

Debt and Structured Financing

Market Environment

In 2018, as the yields in the domestic bond market fluctuated downwards, the total amount of issuance in primary markets increased. During the year, the total amount of onshore credit bond issuance reached approximately RMB11.44 trillion, representing a year-on-year increase of 27.3%. Meanwhile, in 2018, with the acceleration of US Fed's rate hike pace, the escalation of global trade frictions and the general tightening of financial conditions, the global capital markets became increasingly volatile, and the offshore bond markets showed overall weakness. In 2018, the overseas debt capital raising amount of PRC-based companies amounted to approximately US$211,127 million, representing a year-on-year decrease of 14.8%.

Actions and Achievements

In 2018, our Group further enhanced the professional capacity of the debt underwriting team and achieved significant progress in the underwriting of fixed income products. In 2018, we closed a total of 336 transactions, representing a year-on-year increase of over 77.8%, with an aggregate underwriting amount of approximately RMB491,778 million, including 277 onshore transactions with an aggregate amount of approximately RMB463,268 million, and 59 offshore transactions with an aggregate amount of approximately US$4,306 million.

In 2018, our Group further implemented its strategies for regional expansion, product innovation and expansion of professional teams. CICC ranked No. 4 among securities firms in terms of onshore bond offerings, up from No. 6 in 2017, with an increase of 74.6%, which was the sharpest pace among the top ten securities firms. CICC has also gradually established its brand image in the field of asset securitization products, and ranked No. 1 among project managers in terms of the issuance size of asset-backed securities of domestic companies in the market. We also managed to continually maintain our competitive advantages in onshore innovative bond products. Since the first public offering of exchangeable bonds, CICC has always maintained its leading position in the amount of onshore exchangeable bonds offerings, and ranked No. 1 in 2018. Meanwhile, thanks to sound business positioning, our offshore bond underwriting business remained substantially stable even facing an overall market downturn. We continued to rank No. 1 among Chinese securities firms in terms of the amount of investment-grade USD bond offerings by PRC-based issuers.

In terms of product innovation, we successfully closed the EUR500 million bond issuance by Chengdu Xingcheng, which was the first offshore bond issuance by a Chinese non-financial issuer that was concurrently listed on both the Frankfurt Stock Exchange of Germany and the China Europe International Exchange (CEINEX). Other projects included the RMB9.314 billion RMBS of Bank of Communications, which represented the first credit-typed ABS based on the blockchain technology, and the RMB454 million ABS of accounts receivable of UCAR (神州優車), which represented the first ABS on the O2O automobile e-commerce platform, and the RMB1 billion medium-term note of Chongqing Gaokaitou (重慶高開投), which represented the first medium term note for entrepreneurship and innovation. Our Group continued to maintain our edges in bond product innovation.

Outlook for 2019

In 2019, our Group will seek to capitalize on general trends and policy opportunities presented from new asset management regulations, the growth in cross-border business and the increase in infrastructure investments and support for private enterprises, to provide better services to major clients in debt issuance and capture other new business opportunities, in order to further expand our business scale, enhance our own capabilities, and diversify our income sources.

Management Discussion and Analysis

Financial Advisory Services

Market Environment

In 2018, according to Dealogic, 6,113 mergers and acquisitions ("M&A") by PRC-based companies were announced with an aggregate amount of approximately US$600,357 million, representing a year-on-year increase of 1.1%, among which, 5,195 were domestic M&A transactions with a total amount of US$461,018 million, representing a year-on-year increase of 8.5%; and 918 were cross-border M&A transactions with a total amount of US$139,339 million, representing a year-on-year decrease of 17.5%.

Actions and Achievements

We continued to reinforce our leadership in the M&A business. In 2018, according to M&A statistics by Dealogic, our Group announced 51 deals, involving an amount of approximately US$60,377 million. Among these transactions, 43 were domestic M&A transactions with a total amount of approximately US$57,900 million and eight were cross-border M&A transactions with a total amount of approximately US$2,477 million. In 2018, our Group ranked No.1 in the domestic M&A market and second in the PRC M&A market, with a market share of approximately 9.5% in the PRC M&A market, further strengthening our market leadership. During the first half of 2018, we opened the Frankfurt office and our expanded presence would thus pave the way for better service to our clients in cross-border M&A and fundraising.

The milestone transactions announced in 2018 include:

Projects	Size	Highlights
Ant Financial's Series C Funding	US$14.0 billion	The largest private equity financing deal by a tech company worldwide in 2018
Deepening of mixed ownership reform for wholistic listing of Yunnan Baiyao	RMB54.5 billion	The largest A-share M&A and restructuring deal in 2018
Asset reorganization between Chinalco and Yunan Metallurgical Group	RMB40.5 billion	The largest centrally-owned land consolidation and the largest strategic restructuring transaction by equity value in recent years
Restructuring of BAIC BJEV	RMB28.8 billion	The first ever IPO by a Chinese new-energy vehicle manufacturer by effectively solving the legacy issue of stock reform
Introduction of strategic investors by China Orient Asset Management	RMB18.0 billion	The largest ever strategic investor introduction by a non-banking financial institution
Acquisition of Joy City Property via cross-border shares swap by COFCO Property	RMB14.8 billion	The first incident of a cross-border share swap of an A-share listed company to acquire a controlling stake in a red chip company while maintaining its listing status
Market-based debt-to-equity swap of China Railway	RMB11.6 billion	The first arms-length debt to equity swap transaction by a centrally-owned enterprise in the construction industry
Introduction of strategic investors by China Continent Insurance	RMB10.7 billion	The largest ever strategic investor introduction via private placement by a Chinese insurance company

Outlook for 2019

In 2019, our Group will continue to focus on the pilot program of the mixed ownership reform, and seize the various business opportunities during the mixed ownership reform, and further solidify our leading position in major M&As of state-owned enterprises. Moreover, we will continue to step up efforts in cross-border activities, further strengthen the global network, and capture business opportunities presented by multinational companies making inbound M&A investment, looking for local business partners, reorganizing their operations in China and introducing strategic investors from China.

Equities

Market Environment

In 2018, stock indices and prices of various assets in the global capital markets fell sharply amid significant volatility. A shares experienced a slump due to adverse factors such as "deleveraging", decelerating economic growth and the escalating China-US trade friction. As of the end of December 2018, the Shanghai Composite Index closed at 2,493.90 points, representing a decrease of 24.6% compared with the end of 2017. The Shenzhen Stock Exchange Component Index closed at 7,239.79 points, representing a decrease of 34.4% compared with the end of 2017. The CSI 300 Index closed at 3,010.65 points, representing a decrease of 25.3% compared with the end of 2017, which was the worst performance among stock markets all over the world. Trading volume shrunk sharply, with average daily trading volume dropping by 18% year on year. There was pessimism among investors. Meanwhile, the brokerage commission in the industry continued to decrease in 2018, and the average commission rate in the industry slid to 3.1 bps, representing a decrease of 8% compared with 2017. In the Hong Kong market, as of the end of December, the Hang Seng Index closed at 25,845.7 points, representing a decrease of 13.6% from the beginning of the year and a huge decrease of 22.0% from the high level at the end of January. The H-share Index slid by 13.5%. The average daily turnover of the Hong Kong stock market for the fourth quarter of 2018 further decreased to HK$85.7 billion, representing a decrease of 25.3% compared with the first nine months.

Actions and Achievements

In 2018, faced with tremendous pressure from the market and the industry, the equities business continued to push for transformation and upgrading. Relying on the comprehensive business initiatives and coordinated development of the exchange and OTC business in domestic as well as overseas markets, we materialized synergies among different teams, customers and business lines in the exchange and OTC markets at home and abroad in order to better cope with market risks.

Despite higher market volatility and more stringent regulation, the equities business maintained good results in 2018. Our domestic brokerage fee and commission income rose against market downturn and outperformed the market trading volume by over 20 percentage points, and our A-share market share increased by 21% year on year. Our overseas income hit new highs and outperformed the market, contributing more than half of the income of the equities business for the first time. In 2018, our total trading volume in the Hong Kong stock market and the northbound trading of Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect almost doubled from 2017.

We expanded the overseas business platform to enhance our global presence. We maintained leading customer coverage and market shares in the stock connect markets. In the domestic market, we maintained a strong coverage of fund and insurance Hong Kong trading accounts, and our share of the trading volume further increased to approximately 13% in 2018, maintaining a market high. In the overseas market, according to the HKEx, our ranking among all domestic and international brokers in the northbound trading of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect continued to rise, ranking the 2nd in the market. In 2018, our income from U.S. equities trading increased by over 40% compared with last year. Our Group worked hard to prepare for the Shanghai-London Stock Connect. CICC UK became the first institution completing registration as a UK cross-border global depositary receipt conversion institution under the Shanghai-London Stock Connect on the Shanghai Stock

Management Discussion and Analysis

Exchange. The UK team and the domestic team will operate the cross-border conversion of global depositary receipts (GDRs) of Shanghai-London Stock Connect.

We made use of our product innovation capability for steady product development. In 2018, despite the challenges from regulation and market volatility, our Group continued to strengthen product innovation and cross-selling activities in the exchange and OTC markets at home and abroad, while focusing steadfast on risk management. By utilizing our proprietary IT system and platform, our prime brokerage business continued to grow. The prime brokerage business of CICC Hong Kong ranked among the topnotch international investment banks in the Hong Kong market in terms of business size and total customer base. Both the size of products and number of clients for the cross-border business in the PRC showed significant growth, diversifying overseas underlying products for basically comprehensive foreign linked underlyings. In light of the regulatory and market changes for the OTC option business, we made great efforts in terms of the development of new clients and new products. The Company officially obtained the qualification of primary dealer for OTC options on August 1, 2018. Meanwhile, we have stepped up our efforts in establishing an integrated financial service platform by continuously enhancing the middle-and-back-office operation capacity and strengthening the teams, systems, policies and procedures for several product lines such as prime brokerage, equity derivatives and synthetic equity financing, thanks to the joint efforts from the sales and trading teams.

We consolidated the global institutional customer base and strengthened cross-selling. Being deeply rooted in the domestic and overseas secondary markets for years, our Group has built a prestigious institutional client base and maintained higher levels of customer coverage and market shares among long funds (including QFII/RQFIIs, QDIIs, and the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect), insurance companies and hedge funds. As of the end of 2018, our Group maintained a percentage of approximately 40% in terms of QFII/RQFII clients and continued to maintain a leading market position. For the northbound trading of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect, we maintained a leading position of almost 50% of market share in terms of the number of Special Segregated Accounts opened. At the same time, we rendered sales support for the primary market business and supported the investment bank projects with our global institutional customer network, contributing high-quality institutional orders in various large and innovative offerings.

Outlook for 2019

In 2019, facing the challenges in both domestic and overseas markets, our Group will seize the opportunity of institutionalization and international development to develop new customers and create new products. We will enhance the professionalism and depth of customer service, further develop the institutional customer base, enhance cross-selling, and expand the global quality customer base. By strengthening product innovation capability, we will strive to control risks and develop product business steadily in spite of a challenging market environment. We will also accelerate the development of cross-border and international businesses to further enhance our international competitiveness.

FICC

Market Environment

Against the backdrop of tightened financial regulation, in the first half of 2018, shadow banking activities in the form of bank wealth management products had to transform under the new asset management regulation, resulting in a sharp reduction of non-standard assets and a continuous decline in the growth of social financing. The risk of credit default increased after the second quarter. In addition, the trade friction between China and the US gradually escalated in the second quarter, and economic fundamentals suffered a significant drop. Since the middle of the year, the monetary policy and the financial regulatory policy took a positive turn. The central bank continuously cut the required reserve ratio to boost liquidity, whereas the interest rates of the money market saw a significant drop in the third quarter. At the same time, the regulatory authority further clarified the new asset management regulation to prevent bank wealth management from sharply shrinking. In the fourth quarter, the monetary policy further shifted from loose money supply to loose credit with the successive introduction of measures which supported financing for private enterprises. Credit spreads slightly narrowed in the fourth quarter after the first three quarters of expansion, and the net financing of credit bonds also improved. For the whole year, bond yields fell significantly. However, with tightened financing channels and a reduced risk appetite of financial institutions, the volume of credit defaults reached a record high, and the market demonstrated a greater divergence. The spreads of high-grade credit narrowed while the spreads of low-grade credit expanded.

Actions and Achievements

In 2018, our Group continued to actively develop the FICC business. Our comprehensive client service capabilities were on a steady rise, and client business witnessed solid progress. We delivered strong results in client business and structured products, and maintained substantial growth and a leading market position in asset securitization. We continued to strengthen our product innovation and design capabilities, and further enhanced interaction with wealth management customers as well as our ability to provide products.

In 2018, in spite of increasing market volatility and credit risks following tightened financial regulatory requirements and China-US trade friction, our trading teams continued to demonstrate strong trading and risk control capabilities, and achieved remarkable returns by actively capturing market opportunities. We completed the integration of CISC's fixed income sales and trading teams, and implemented unified management of staff, trading strategies and risk management, with encouraging results. In addition, our Group continued to strengthen the infrastructure of our FICC business and steadily push forward relevant IT system development.

Outlook for 2019

Our Group will continue to strengthen the FICC business and focus on developing the client business. We will further enhance risk control in trading and proprietary investment businesses to strive for better returns. We will continue to build our product innovation and design capabilities, increase product varieties and expand the scale of products. We will focus on our cross-border business capability and steadily upgrade our product design and customer service platform.

Management Discussion and Analysis

Investment Management

In the previous year, amid the volatile capital market environment, the investment management business of the Group continued to perform robustly. Implementing our overall asset management strategy, we continued to advance the building of allocation teams and platforms for major classes of assets, strengthened critical capabilities such as product design, distribution, investment and research and vigorously grew the investment management business. As of December 31, 2018, the scale of assets under the Group's management through a variety of ways amounted to approximately RMB662.0 billion.

Asset Management

Market Environment

Since the beginning of 2018, the overall asset management industry shrank due to the implementation of new regulations on asset management and changes in the market environment. As of December 31, 2018, the total size of the asset management business of domestic securities companies and their subsidiaries was approximately RMB12.8 trillion (excluding the size of ABS products and funds managed by private equity subsidiaries), representing a decline of 22% compared with the end of the previous year, with the "conduit" business decreasing by 26% as compared to the end of the previous year, and active management declining by 11%. However, the proportion of active management increased slightly. With the introduction of regulatory policies, the asset management of brokerage houses gradually transformed back to active management.

Actions and Achievements

Our Company focuses on active asset management. Always putting clients' interest first, we design and offer high-quality and innovative asset management products and solutions to domestic and overseas clients for the purpose of steady value appreciation over the long term. In 2018, our Company further strengthened the investment and research team, established a rigorous investment decision-making process and disciplined management system, with the investment performance of corporate pension plan products largely outperforming the market and its peers. We continued to enrich our product lines, constantly developing new strategies and segmenting our strategies through combining them with the market environment, the customer demands, and the configuration of investment and research, so as to strengthen our comprehensive service capabilities continuously. Against the background of new regulations on asset management, we proactively promote new business including MoM and assist in the transformation of our institutional clients. We steadily enhance the capabilities of active cross-border asset management, gradually improving the cross-border product lines and optimizing the cross-border assets allocation capabilities. Moreover, the Company continued to strengthen its collaboration with CISC, and carried out in-depth cooperation in pension business development and products distribution, constantly enhancing the depth and breadth of customer coverage.

As of December 31, 2018, the business scale of the Asset Management Department of the Company was RMB161,771 million, representing a decrease of 14% compared with the end of 2017. By product line, the assets under management of collective asset management products and segregated asset management products (including NSSF, corporate annuities and collective pension plans) were RMB8,004 million and RMB153,768 million, respectively. We had altogether 302 products under management, and most of them were under active management.

Outlook for 2019

In 2019, our Group will continue to strengthen the systematic development of investment and research capabilities, and consolidate such capabilities. We will improve the product mix, enhance the capabilities of cross-border management and asset allocation, and enhance the professional development of the sales team and customer service capabilities. We will also increase the investment in system development, enhance the service quality of middle and back offices, and focus on promoting the occupational annuity business. In addition, we will seize the historical opportunity presented by the new landscape in asset management, intensify efforts in institutional business and channel business, and provide customers with one-stop comprehensive solutions. The objective is to grow our Group's asset management business into a multi-asset, multi-strategy, cross-market full-service asset manager.

Mutual Fund

Market Environment

In 2018, regulatory authorities including PBOC, CSRC, and CBIRC intensively introduced a series of financial regulations and policies for the asset management industry, formally forming a unified regulatory system for the overall asset management industry and promoting industry changes. As of December 31, 2018, there were over 5,600 mutual funds in China with total assets under management of RMB13 trillion, representing a year-on-year growth of 12.1%.

Actions and Achievements

In 2018, riding our Group's overall focus on developing our asset management and wealth management business, CICC Fund Management anchored to the positioning of serving the mass retail market and made breakthroughs in sales distribution network expansion. Closely following the changes in regulation and market environment, it further improved the product mix and focused on the development and promotion of mutual fund products fit for constructing long-term portfolios. It also further strengthened investment and research capabilities, significantly improving product performance and enlarging the asset management scale of CICC Fund Management.

As of December 31, 2018, the assets under management of CICC Fund Management were RMB20,017 million with growth of 60.9% as compared with the end of 2017. In particular, the size of mutual funds increased to RMB15,348 million with growth of 96.0% compared with the end of 2017, and the scale of private asset management scheme amounted to RMB4,669 million.

Outlook for 2019

In 2019, CICC Fund Management will continue to focus on the retail market and intensively develop retail distribution capabilities, continuously improving our ability to cater to the needs of distribution channels. We will seize the significant opportunities brought by "getting rid of return guarantees and returning to the origin" of the financial industry as well as business opportunities provided to mutual funds by "dechanneling and creating value" under unified asset management rules. We will continue to focus on upgrading the capabilities of asset allocation for major asset classes and on developing innovative products so as to meet the diversified investment and portfolio needs of customers. We will continue to build up our investment and research capability and improve our investment performance, thus comprehensively improving our Group's asset management and service capabilities.

Management Discussion and Analysis

Private Equity Investment

Market Environment

Since the beginning of 2018, the regulation of the financial industry became stricter, and the rectification of financial chaos and the prevention of financial risks became the focus of the policy environment. Compared with 2017 which continued the rapid development momentum of the past few years, the equity investment market of the PRC in 2018 saw a slight downturn.

In 2018, the total investment amount of the equity investment market of the PRC continued to increase. However, the overall condition of fundraising and exit of the market was not satisfactory due to the macro environment. The fundraising of USD funds and overseas IPO embraced a little peak. With regard to fundraising amount, RMB funds still dominated. However, the proportion of fund raising size of foreign currency funds, especially USD funds showed a steady upward trend. USD capital was optimistic about investment opportunities in China, as intensive overseas listings of Chinese companies in recent years brought considerable investment returns to USD funds. On the other hand, the liquidity of RMB funds continued to be tight. In contrast, USD funds were less affected by policies, and most of the limited partners contributing capital of USD funds were mature specialized institutions, which were very attractive to fund managers.

In terms of investment management, driven by the government's policy of encouraging innovation and entrepreneurship, industries such as the Internet, artificial intelligence, software and integrated circuits, smart manufacturing, biomedicine and other industries benefited from the policy benefits and were favored by the capital market. At the same time, with the increase in income levels, residents' demand for quality of life increased, and the demand for medical services, education and elderly care services rose. This feature brought more opportunities and choices to equity investment.

In terms of exit, due to the slowdown in approval processes of domestic IPOs in 2018, the approval rate dropped significantly, and exit through A share IPOs was challenging. Therefore, there was a clear preference for exit through mergers and acquisitions or overseas IPOs.

Actions and Achievements

At present, CICC Capital has established a unified and open management platform. Internally, it achieved resource centralization and management synergy. Externally, it fostered an open platform ecosystem. The family of funds managed by CICC Capital mainly includes fund of funds and growth funds. The industries invested in include new generation information technology, biomedicine, cultural consumption, and high-end equipment manufacturing. During the Reporting Period, the funds established by CICC Capital were mainly local FoFs/industry funds through cooperation with governments at various levels, funds managed as innovative segregated accounts through cooperation with large financial institutions, funds utilizing resources offered by the ecosystem of national emerging industry incubation funds, and cross-border funds focusing on the investment and merger and acquisition opportunities between developed countries and regions and the PRC. We have formed relatively diversified product lines, balancing the overall risk of the business through the characteristics of different products and laying a solid foundation for the long-term and stable development of CICC Capital. As of the end of December 2018, the size of assets managed by the domestic and overseas businesses of CICC Capital reached RMB249,212 million, increasing by RMB72,279 million as compared with the end of 2017, making it one of the largest business platforms in the field of private equity investment of the PRC.

Outlook for 2019

In 2019, CICC Capital will continue to adhere to the basic concept of striving for growth amid stability and constantly upgrade itself. By incorporating the franchise of CICC and its industry resources, CICC Capital will fully utilize the power of capital and grasp opportunities brought by restructuring in China's existing industries and development in its emerging industries to assist in the industrial upgrading of Chinese economy. In addition, it will also strengthen collaboration with research and investment banking, realize synergies between investment and investment banking, and build full-scope, multilayered equity investment capability to generate good returns for investors. The focus of CICC Capital's work will be mainly on further expanding the size of assets under management and improve and diversify alternative product lines such as fund of funds, corporate equity, and thematic funds.

Others

The investment management business of the Group was mainly conducted through departments or subsidiaries such as the asset management department, CICC Fund Management and CICC Capital. Along with increasing market demand and our business expansion, other departments, such as the wealth management department and FICC department of our Group also rolled out investment management business and achieved new breakthroughs in terms of business scale and client development. In addition, the assets under management of our Group also include asset-backed securities under management by the investment banking and FICC departments. As of December 31, 2018, the breakdown of total assets managed by different business divisions and subsidiaries of our Group is set forth as follows:

Scale of the Group's investment management business

Unit: RMB million

Items	December 31, 2018	December 31, 2017
Asset management	**335,197**	344,752
Including: Asset Management Department	***161,771***	*188,578*
Mutual fund	**20,017**	12,441
Private equity investment	**306,817**	235,496
Including: CICC Capital	***249,212***	*176,933*
Total of the Group	**662,031**	592,689

Wealth Management

Market Environment

In 2018, stock market trading volumes and commission rates declined under the dual impact of market downturn and tightened regulatory environment, and the fee income of the industry fell significantly year on year. Industry reshuffle accelerated against the backdrop of overall deleveraging. Meanwhile, with the constant growth of high-net-worth population and investable assets in the PRC, customer needs evolved from the sole purpose of seeking investment return to global asset allocation and family wealth planning. In particular, since the introduction of the new asset management regulations, products subject to return guarantees were gradually replaced by net book value products, while customers continued to ask for more sophisticated wealth management services. The long-term and sustainable growth in our future results essentially depends on our ability to provide customers with diversified and integrated wealth management services, our ability to accelerate the transformation of the wealth management service model and our ability to differentiate.

Management Discussion and Analysis

Actions and Achievements

In 2018, the Company further enhanced the capabilities of the Wealth Service Centre as it integrated platform resources to rationalize management structure. The Company also strengthened its functional teams, supported the launch of the wealth planning business, and strived to provide better services to clients with a particular focus on asset allocation. In consideration of the market environment and the strategic objectives of the department, we continued to position the Wealth Service Centre as an open platform, which enables search, online launch and after-sales follow-up functions for the provision of full-spectrum quality products. With the help of the platform, our Group was able to further accumulate a pool of top managers and quality assets, and better support its trading business, while continuously enhancing the capabilities of CICC and CISC to provide comprehensive service. At the same time, the Company constantly upgraded the gWMS system and gave full play to the system's role as the "core ecosystem", so as to enrich its product service system online. The Company also established a digital marketing platform, which helped investment consultants gain comprehensive understanding of their customers through the analysis of customers' digital profiles and other means, so as to actively roll out interesting, innovative and practical online and offline marketing initiatives.

In 2018, the wealth management business of CICC was the core of our integration plan with CISC. We continued to invest significantly in promoting the comprehensive transformation of CISC into a wealth management business. Through the exchange of views and thorough discussions with CISC regarding their training, marketing, research and appraisal, the functional departments of the headquarters aligned the practices of CISC with those of the Company's on a full scale. In terms of business procedures, we assisted CISC in system rationalization and optimization. In terms of training, CICC and CISC realized, to a large extent, system-wide sharing of training resources. In terms of performance appraisal, we optimized the investment consultants appraisal system of CISC along with our own so that the two systems are generally aligned, while continuously perfecting CISC's KPI appraisal system based on its business reality, in order to help nurture its investment consultants.

As of December 31, 2018, the number of CICC's wealth management customers reached 47,161, with a growth of 22.0% compared with the end of 2017. The total customer assets reached approximately RMB709,554 million, with a decrease of 3.7% compared with the end of 2017; the average assets per account exceeded RMB15 million. As of December 31, 2018, CISC had 5,417 institutional clients, 351,953 affluent customers and 2,513,974 retail customers, whose total assets were RMB1,028,505 million, RMB204,875 million and RMB40,698 million, respectively.

Outlook for 2019

In 2019, the Company will push forward on all fronts its integration with CISC, and promote its smooth implementation by establishing an integration task group. In terms of brand integration, according to the approval by the State Council, our Group has officially launched the process of building CISC into our Group's unified retail brokerage and wealth management platform, bringing all group companies under one brand. In terms of business management, the Company will deepen the overall planning and collaboration among various business lines building on the fact that the Wealth Service Centre started to provide wealth analysis and all-round support for our product offerings in 2018. Comprehensive alignment has been achieved in terms of segmented customer coverage, marketing strategy, product service strategy, system development plan, team building and other areas. With respect to system integration, we will steadily carry out the overall planning and integration of our IT systems, establishing a solid foundation for the sound operation of our business in the future.

In 2019, we will strive to accelerate the transformation of the wealth management business. With respect to high-net-worth customers, we will strengthen our capabilities in asset allocation and financial planning. We will also expand our team of private wealth advisors, optimize incentive and appraisal mechanisms and expand customer coverage. For ultra-high-net-worth customers and family office customers, we will apply the advantages of our Group's integrated platform and enhance our ability to provide value-added services. We will also further enhance the capabilities of our wealth service platform, and strengthen our capabilities in allocation analysis for major asset classes, product selection and financial planning. Meanwhile, our Group will set up a customer segmentation and reward systems, so as to optimize customer experience continuously. Our Group will strengthen its cooperation with Tencent to develop customer profiling and precision marketing capabilities, turning wealth management transformation from concept to a real business model. At the same time, in line with the wealth management integration and transformation, our Group will push forward the development and implementation of a digital wealth management platform, and expedite the finalization of ancillary systems, in an effort to actively promote digitalization. Our Group will, as always, comply with the regulatory requirements to prevent and control business risks, and do its best to ensure the steady and orderly development of all businesses.

Research

Our research team covers global markets and serves clients both at home and abroad through our Group's offices and platforms across the world. The scope of our research products and investment analysis ranges from macro economy and market strategy to asset allocation, equities, commodities, and derivatives. As of December 31, 2018, our research team employed a high-caliber team of more than 100 highly experienced professionals, and covered more than 40 sectors as well as over 1,000 stocks listed in mainland China, Hong Kong, New York and Singapore.

Our Group's Research has won recognition from major domestic and overseas investors for its independent, unbiased and insightful research products. In 2018, we published more than 12,000 reports in English and/or Chinese. On the back of our numerous sector and company reports, we assembled a series of in-depth thematic reports, such as *Enjoyable living: Broad changes in the era of renting, Wonderful L.I.F.E., Beautiful China: Green is Gold, China Semiconductor: Seek Investment Opportunities in Down-cycle, AI in China: How Technologies Reshape Industries, Biological innovations, China industrial internet: Innovation platforms for smart manufacturing*. These research products showcase our profound understanding of China. The superior quality and extensive coverage of our research reports have earned us the reputation as the "China Expert".

Our Group's Research continued to win awards from prominent international institutions in 2018. These include the "No. 1 Overall Country Research for China" in the *Asiamoney* Brokers Poll, marking the 13th consecutive year of our championship in this poll since 2006. We were also named the "No. 1 All-China Research Team" by *Institutional Investor* for seven consecutive years from 2012 to 2018.

Management Discussion and Analysis

IV. ANALYSIS OF FINANCIAL STATEMENTS

Upon completion of the Acquisition, CISC has become a wholly-owned subsidiary of the Company, and CISC's financial information has been consolidated into the financial statements of the Group. As the legal title of the equity interest of CISC was transferred to the Company on March 21, 2017 and Huijin was entitled to the profit of or was liable for the loss incurred by CISC during the transition period (from July 1, 2016 to March 31, 2017) pursuant to the Equity Transfer Agreement, the Group has included CISC in the scope of consolidation since March 31, 2017. As a result, all items of CISC's profit or loss and other comprehensive income and of CISC's cash flows in 2017 in this report are recorded for the period from April 1, 2017 to December 31, 2017; all items in 2018 are recorded for the year from January 1, 2018 to December 31, 2018. In this report, CISC's profit or loss and other comprehensive income and cash flows in 2017 and 2018 deducted from the Group's total amounts for analysis purpose refer to the amounts recorded by CISC in the period from April 1, 2017 to December 31, 2017 and in the year from January 1, 2018 to December 31, 2018, respectively.

(I) Profitability Analysis of Our Group

During 2018, driven by the significant growth in the revenue of the FICC business compared with that for 2017 together with the positive impact of the Acquisition on the Group's revenue and profit, our Group's revenue and profit has increased significantly compared with that for 2017. Meanwhile, benefitting from the forward-looking diversified strategic layout, the Group delivered outstanding results that significantly outperformed the industry in the challenging macro and market environment. The franchise of our investment banking business was further enhanced. The equities business upgraded its operation by riding the wave of institutionalisation, with a focus on product and cross-border capabilities. The FICC business achieved remarkable results. The asset management business made significant improvements in investment and asset allocation capabilities. Private equity became an important platform which offers solutions for converged investing and financing demands. The transformation of wealth management business made steady progress.

The Group realized total revenue and other income of RMB18,539.7 million in 2018, representing a year-on-year increase of RMB3,279.4 million or 21.5%. CISC realized total revenue and other income of RMB4,973.8 million. Excluding that of CISC, the Group's total revenue and other income realized a year-on-year increase of RMB2,417.1 million or 21.7%. The Group realized profit attributable to shareholders of the Company and holders of other equity instruments of RMB3,492.2 million in 2018, representing a year-on-year increase of RMB725.8 million or 26.2%. CISC realized profit attributable to shareholders of the Company and holders of other equity instruments of RMB827.7 million. Excluding that of CISC, the Group's profit attributable to shareholders of the Company and holders of other equity instruments recorded a year-on-year increase of RMB375.3 million or 16.4%. The Group realized earnings per share of RMB0.83 in 2018, representing a year-on-year increase of 9.2%. The weighted average return on net assets amounted to 8.8%, maintaining the same level as 2017.

(ii) Asset Structure and Quality

As of December 31, 2018, total assets of the Group amounted to RMB275,420.5 million, representing a year-on-year increase of RMB37,608.6 million or 15.8%. CISC's total assets amounted to RMB71,589.6 million, accounting for 26.0% of the total assets of the Group. The total liabilities of the Group amounted to RMB233,043.8 million, representing a year-on-year increase of RMB32,124.3 million or 16.0%. CISC's total liabilities amounted to RMB55,936.6 million, accounting for 24.0% of the total liabilities of the Group. The Group's total equity attributable to shareholders of our Company and holders of other equity instruments amounted to RMB42,183.5 million, representing a year-on-year increase of RMB5,476.8 million or 14.9%. After deducting accounts payable to brokerage clients of RMB41,317.9 million, the adjusted total assets of the Group amounted to RMB234,102.6 million; the adjusted total liabilities amounted to RMB191,725.9 million; the gearing ratio of the Group was 81.9%, increased by 1.3 percentage points from the gearing ratio of 80.6% as of December 31, 2017; the operating leverage ratio was 5.5 times, representing an increase of 7.0% as compared with 5.2 times as of December 31, 2017.

As of December 31, 2018, the Group's financial assets at fair value through profit or loss and derivative financial assets totalled RMB120,314.4 million, accounting for 43.7% of the total assets; financial assets at fair value through other comprehensive income and available-for-sale financial assets totalled RMB35,699.7 million, accounting for 13.0% of the total assets; cash and bank balances and cash held on behalf of brokerage clients totalled RMB60,327.4 million, accounting for 21.9% of the total assets; receivable from margin clients and financial assets held under resale agreements (reverse REPOs) totalled RMB37,269.3 million, accounting for 13.5% of the total assets; interest in associates and joint ventures amounted to RMB1,267.0 million, accounting for 0.5% of the total assets; other assets amounted to RMB20,542.7 million, accounting for 7.5% of the total assets.

As of December 31, 2018, most of the Group's liabilities were current liabilities, among which accounts payable to brokerage clients amounted to RMB41,317.9 million, accounting for 17.7% of the total liabilities; financial assets sold under repurchase agreements (REPOs) amounted to RMB48,650.8 million, accounting for 20.9% of the total liabilities; placements from financial institutions, short-term debt securities issued and long-term debt securities issued due within one year totalled RMB35,589.1 million, accounting for 15.3% of the total liabilities; financial liabilities at fair value through profit or loss and derivative financial liabilities totalled RMB18,475.5 million, accounting for 7.9% of the total liabilities; long-term debt securities issued amounted to RMB48,998.8 million, accounting for 21.0% of the total liabilities; other liabilities amounted to RMB40,011.8 million, accounting for 17.2% of the total liabilities.

(iii) Cash Flows

In 2018, excluding the impacts of change in accounts payable to brokerage clients, net increase in cash and cash equivalents of the Group amounted to RMB4,245.4 million. Net decrease in cash and cash equivalents of CISC amounted to RMB566.3 million. In 2017, net increase in cash and cash equivalents of the Group amounted to RMB7,795.4 million; among which, the cash and cash equivalents obtained as a result of the acquisition of CISC and the net increase in cash and cash equivalents arising from the consolidation of CISC totaled RMB7,944.5 million. Excluding the effect of acquiring and consolidating CISC, the Group's net increase in cash and cash equivalents amounted to RMB4,811.7 million in 2018 and the net decrease in cash and cash equivalents amounted to RMB149.0 million in 2017. The variation in the net change in cash and cash equivalents was primarily a result of the decrease in net cash used in operating activities.

Net cash used in operating activities amounted to RMB6,590.4 million in 2018, representing a decrease of RMB23,894.2 million or 78.4% compared with the net cash used of RMB30,484.5 million in 2017. CISC's net cash used in operating activities amounted to RMB3,683.0 million, accounting for 55.9% of that of the Group. Excluding that of CISC, the Group's net cash used in operating activities decreased by RMB18,793.1 million or 86.6% year on year, mainly due to the decrease in net cash paid for trading financial instruments at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets in operating activities.

Net cash used in investing activities in 2018 amounted to RMB1,737.3 million and net cash used by CISC amounted to RMB69.6 million. Net cash generated by the Group in 2017 amounted to RMB7,726.3 million; among which, the cash and cash equivalents obtained as a result of the acquisition of CISC amounted to RMB7,631.8 million and the net cash used in investing activities by CISC amounted to RMB14.3 million. Excluding the effect of acquiring and consolidating CISC, the Group's net cash outflow incurred in investing activities was mainly a result of a decrease in proceeds from sales of investments and of an increase in payment for acquisition of investments.

Net cash generated from financing activities in 2018 amounted to RMB12,573.0 million, representing a decrease of RMB17,980.6 million or 58.8% compared with that of RMB30,553.7 million in 2017. CISC's net cash generated from financing activities amounted to RMB3,186.4 million, accounting for 25.3% of that of the Group. Excluding that of CISC, the Group's net cash generated from financing activities decreased by RMB12,035.2 million or 56.2% year on year, mainly due to an increase in repayment of debt securities.

(iv) Financing Channels and Capability

Our Group constantly broadens its financing channels to optimize its liability structure. The financing instruments of our Group includes perpetual subordinated bonds, subordinated bonds, corporate bonds, syndication loans, short-term commercial papers, beneficiary certificates, USD-denominated medium-term notes, structured notes, inter-bank borrowings and REPOs.

In addition, our Group may finance through follow-on offerings, rights issues and other ways according to market conditions and business needs.

(v) Operating Revenue and Profit Analysis

1. Analysis of Items in Statement of Profit or Loss and Other Comprehensive Income

Summary of Financial Performance

In 2018, the Group realized net profit of RMB3,534.6 million, representing a year-on-year increase of 25.7%. The financial performance of the Group are summarized as follows:

Unit: RMB in million

Items	2018	2017	Change	% of change
Revenue				
Fee and commission income	**8,820.4**	8,282.2	538.2	6.5%
Interest income	**4,586.9**	2,979.7	1,607.3	53.9%
Investment income	**4,871.0**	4,008.5	862.6	21.5%
Total revenue	**18,278.4**	15,270.3	3,008.1	19.7%
Other operating income/(losses), net	**261.3**	(10.1)	271.4	N/A
Total revenue and other income	**18,539.7**	15,260.2	3,279.4	21.5%
Total expenses	**14,270.9**	11,729.7	2,541.1	21.7%
Share of profits of associates and joint ventures	**118.6**	70.5	48.0	68.1%
Profit before income tax	**4,387.3**	3,601.0	786.3	21.8%
Income tax expense	**852.7**	789.9	62.8	8.0%
Profit for the year	**3,534.6**	2,811.2	723.5	25.7%
Attributable to:				
Shareholders of the Company and holders of other equity instruments	**3,492.2**	2,766.3	725.8	26.2%

Revenue Breakdown

In 2018, the Group's revenue increased by 19.7% to RMB18,278.4 million compared with that in 2017. Of the Group's revenue, fee and commission income accounted for 48.3%, representing a year-on-year decrease of 6.0 percentage points; interest income accounted for 25.1%, representing a year-on-year increase of 5.6 percentage points; investment income accounted for 26.6%, representing a year-on-year increase of 0.4 percentage point. Breakdown of the Group's revenue for 2018 is listed as follows:

Items	2018	2017	Change
Fee and commission income	**48.3%**	54.2%	Decreased by 6.0 percentage points
Interest income	**25.1%**	19.5%	Increased by 5.6 percentage points
Investment income	**26.6%**	26.3%	Increased by 0.4 percentage point
Total	**100.0%**	100.0%	

In 2018, the Group's interest income increased significantly compared with that for last year, resulting in a smaller proportion of fee and commission income in total revenue.

Management Discussion and Analysis

Fee and Commission Income and Expenses

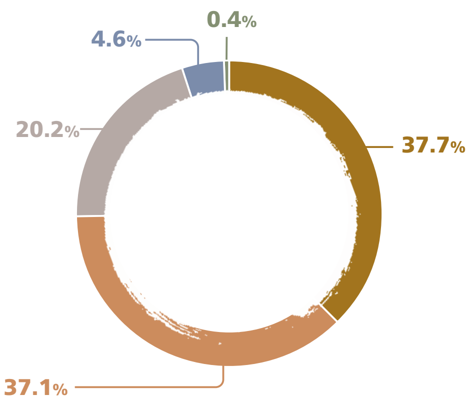
In 2018, the Group realized a net fee and commission income of RMB7,951.8 million, representing a year-on-year increase of RMB492.0 million or 6.6%. CISC realized a net fee and commission income of RMB1,442.6 million, accounting for 18.1% of that of the Group. Excluding that of CISC, the Group's net fee and commission income increased by RMB627.2 million or 10.7% year on year. Breakdown of the Group's net fee and commission income in 2018 is listed as follows:

Unit: RMB in million

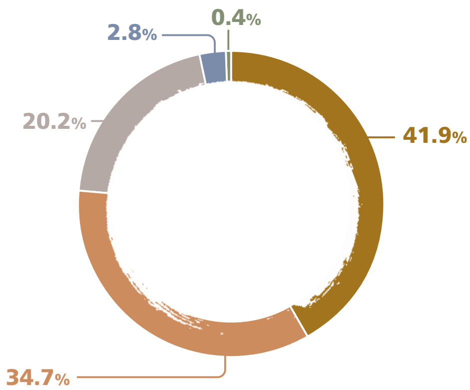
Items	2018	2017	Change	% of change
Fee and commission income				
Brokerage commission income	**3,323.7**	3,468.7	(145.1)	(4.2%)
Investment banking income	**3,272.7**	2,872.2	400.5	13.9%
Underwriting and sponsoring fees from equity financing	**2,091.0**	1,645.2	445.8	27.1%
Underwriting and sponsoring fees from debt and structured financing	**620.7**	589.7	30.9	5.2%
Financial advisory fees	**561.0**	637.2	(76.2)	(12.0%)
Asset management fees	**1,779.1**	1,671.5	107.6	6.4%
Asset management and mutual funds	**699.6**	655.7	43.9	6.7%
Private equity investment funds	**1,079.5**	1,015.9	63.7	6.3%
Investment advisory fees	**405.9**	233.1	172.8	74.1%
Others	**39.1**	36.6	2.4	6.6%
Total fee and commission income	**8,820.4**	8,282.2	538.2	6.5%
Fee and commission expenses	**868.6**	822.4	46.2	5.6%
Net fee and commission income	**7,951.8**	7,459.8	492.0	6.6%

The charts below set forth the composition of the Group's fee and commission income in 2018 and 2017:

Composition of fee and commission income in 2018



Composition of fee and commission income in 2017



- Brokerage commission income
- Investment banking income
- Asset management fees
- Investment advisory fees
- Others

The respective proportions of the Group's fee and commission income in 2018 are listed as follows:

Items	2018	2017	Change
Brokerage commission income	**37.7%**	41.9%	Decreased by 4.2 percentage points
Investment banking income	**37.1%**	34.7%	Increased by 2.4 percentage points
Asset management fees	**20.2%**	20.2%	Decreased by 0.0 percentage point
Investment advisory fees	**4.6%**	2.8%	Increased by 1.8 percentage points
Others	**0.4%**	0.4%	Increased by 0.0 percentage point
Total	**100.0%**	100.0%	

Brokerage commission income amounted to RMB3,323.7 million, representing a year-on-year decrease of RMB145.1 million or 4.2%. CISC's brokerage commission income amounted to RMB1,624.2 million, accounting for 48.9% of that of the Group. Excluding that of CISC, the Group's brokerage commission income decreased by RMB90.3 million or 5.0% year on year, mainly due to the sharp fall of stock indices and of prices of various assets in the global capital markets amid significant volatility in 2018. Trading volume of the A-share market shrunk sharply, and the average commission rate in the industry slid to 3.1 bps, representing a decrease of 8% compared with the average rate of 2017. Meanwhile, in the Hong Kong market, the major stock indices and the average daily turnover both exhibited a steep decrease. The slump of the two markets resulted in the slight drop in brokerage commission income of the Group as compared with that in 2017.

Investment banking income amounted to RMB3,272.7 million, representing a year-on-year increase of RMB400.5 million or 13.9%. Investment banking income included underwriting and sponsoring fees from equity financing and from debt structured financing and financial advisory fees. The underwriting and sponsoring fees amounted to RMB2,711.6 million, representing a year-on-year increase of RMB476.7 million or 21.3%. CISC's underwriting and sponsoring fees amounted to RMB60.0 million, accounting for 2.2% of that of the Group. Excluding that of CISC, the Group's underwriting and sponsoring fees increased by RMB573.8 million or 27.6% year on year, mainly due to a slight growth of the equity financing business in 2018 compared with that in 2017. The financial advisory fees amounted to RMB561.0 million, representing a year-on-year decrease of RMB76.2 million or 12.0%. CISC's financial advisory fees amounted to RMB13.7 million, accounting for 2.4% of that of the Group. Excluding that of CISC, the Group's financial advisory fees decreased by RMB62.4 million or 10.2% year on year, mainly due to a decrease in the advisory fees income for M&A projects compared with that in 2017.

Management Discussion and Analysis

Asset management fees amounted to RMB1,779.1 million, representing a year-on-year increase of RMB107.6 million or 6.4%. Asset management fees consisted of the management fees from the asset management business, from mutual fund business and from private equity fund business. CISC's asset management fees amounted to RMB106.3 million, accounting for 6.0% of that of the Group. Excluding that of CISC, the Group's asset management fees increased by RMB109.9 million or 7.0% year on year, mainly due to a sustaining growth of the special asset management business(note) and of private equity fund business, contributing to the corresponding increase in asset management fees. In addition to asset management fees, the Group also had a share of profits of associates and joint ventures generated from AUM managed by fund management companies jointly-invested by the Group. Breakdown of the size of the Group's AUM in 2018 is listed as follows:

Unit: RMB in million

Items	December 31, 2018	December 31, 2017	% of change
AUM that generated fee and commission income (wholly-owned)			
Collective asset management products	**19,059**	26,099	(27.0%)
Segregated asset management products	**183,752**	210,909	(12.9%)
Special asset management products	**116,514**	94,772	22.9%
Mutual funds	**20,017**	12,441	60.9%
Private equity funds	**170,900**	152,355	12.2%
Subtotal	**510,242**	496,576	2.8%
AUM that generated share of profits of associates and joint ventures (jointly-invested)			
Private equity funds	**135,917**	83,141	63.5%
Non-private equity funds	**15,873**	12,972	22.4%
Subtotal	**151,789**	96,113	57.9%
Total	**662,031**	592,689	11.7%

Investment advisory fees amounted to RMB405.9 million, representing a year-on-year increase of RMB172.8 million or 74.1%. CISC's investment advisory fees amounted to RMB12.3 million, accounting for 3.0% of that of the Group. Excluding that of CISC, the Group's investment advisory fees increased by RMB164.9 million or 72.1% year on year, mainly due to an increase in the advisory fee income from private equity investments in 2018.

Fee and commission expenses increased by RMB46.2 million or 5.6% year on year. CISC's fee and commission expenses amounted to RMB472.8 million, accounting for 54.4% of that of the Group. Excluding that of CISC, the Group's fee and commission expenses increased by RMB50.5 million or 14.6% year on year, in line with the growth of the Group's fee and commission income.

Note: The special asset management business is the business of issuing asset-backed securities with specific underlying asset or asset portfolio on the listing venues regulated by the CSRC, with "asset-backed special plan" as vehicle.

Interest Income and Expenses

In 2018, the Group incurred net interest expenses of RMB284.0 million, among which interest income amounted to RMB4,586.9 million, representing a year-on-year increase of 53.9%, and among which interest expenses amounted to RMB4,870.9 million, representing a year-on-year increase of 49.1%. CISC's interest income and interest expenses amounted to RMB2,496.0 million and RMB1,459.6 million respectively. Excluding those of CISC, the Group's interest income amounted RMB2,090.9 million, representing a year-on-year increase of 96.9%; and the interest expenses amounted to RMB3,411.3 million, representing a year-on-year increase of 46.5%. Breakdown of the Group's interest income and expenses in 2018 is listed as follows:

Unit: RMB in million

Items	2018	2017	Change	% of change
Interest income				
Interest income from financial institutions	**1,362.6**	1,279.7	82.9	6.5%
Interest income from margin financing and securities lending	**1,490.3**	1,213.8	276.5	22.8%
Interest income from reverse REPOs	**797.5**	459.2	338.3	73.7%
Interest income from financial assets at fair value through other comprehensive income	**915.4**	–	915.4	N/A
Others	**21.2**	27.0	(5.8)	(21.4%)
Total interest income	**4,586.9**	2,979.7	1,607.3	53.9%
Interest expenses				
Interest expenses of accounts payable to brokerage clients	**171.1**	198.6	(27.5)	(13.8%)
Interest expenses on REPOs	**1,088.1**	920.3	167.8	18.2%
Interest expenses on placements from financial institutions	**482.8**	312.3	170.5	54.6%
Interest expenses on debt securities issued	**2,889.2**	1,647.6	1,241.6	75.4%
Others	**239.6**	188.8	50.9	26.9%
Total interest expenses	**4,870.9**	3,267.6	1,603.3	49.1%
Net interest expenses	**(284.0)**	(287.9)	4.0	(1.4%)

Interest income from financial institutions amounted to RMB1,362.6 million, representing a year-on-year increase of RMB82.9 million or 6.5%. CISC's interest income from financial institutions amounted to RMB720.9 million, accounting for 52.9% of that of the Group. Excluding that of CISC, the Group's interest income from financial institutions increased by RMB39.2 million or 6.5% year on year.

Interest income from margin financing and securities lending amounted to RMB1,490.3 million, representing a year-on-year increase of RMB276.5 million or 22.8%. CISC's interest income from margin financing and securities lending amounted to RMB1,264.2 million, accounting for 84.8% of that of the Group. Excluding that of CISC, the Group's interest income from margin financing and securities lending increased by RMB27.8 million or 14.0% year on year, mainly due to an increase in average daily scale of margin financing resulted from the rise in financing demands of overseas clients.

Management Discussion and Analysis

Interest income from reverse REPOs amounted to RMB797.5 million, representing a year-on-year increase of RMB338.3 million or 73.7%. CISC's interest income from reverse REPOs amounted to RMB343.6 million, accounting for 43.1% of that of the Group. Excluding that of CISC, the Group's interest income from reverse REPOs increased by RMB219.9 million or 93.9% year on year, mainly due to an increase in the interest income from stock-based lending business.

The Group reclassified the interest income from financial assets at fair value through other comprehensive income from investment income to interest income due to the adoption of IFRS 9, *Financial instruments* ("IFRS 9"). For details of changes in accounting policies of the Group in 2018, please refer to "Directors' Report – XI. Other Disclosures – (ii) Reasons for and Impact from Changes of Accounting Policies, Accounting Estimates or Correction of Major Accounting Errors".

Interest expenses amounted to RMB4,870.9 million, representing a year-on-year increase of RMB1,603.3 million or 49.1%. CISC's interest expenses amounted to RMB1,459.6 million, accounting for 30.0% of that of the Group. Excluding that of CISC, the Group's interest expenses increased by RMB1,082.2 million or 46.5% year on year, mainly due to the increase in debt financing. In 2018, in order to meet its business development needs and the regulatory requirements, the Group issued various debt securities including beneficiary certificates, subordinated bonds, corporate bonds and the USD-denominated medium-term notes, resulting in the corresponding increase of interest expenses.

Investment Income

In 2018, the Group realized an investment income of RMB4,871.0 million, representing a year-on-year increase of RMB862.6 million or 21.5%. CISC's investment income amounted to RMB538.1 million, accounting for 11.0%, a relatively small proportion, of that of the Group. Excluding that of CISC, the Group's investment income increased by RMB439.1 million or 11.3% year on year. Breakdown of the Group's investment income in 2018 is listed as follows:

Unit: RMB in million

Items	**2018**	2017	**Change**	**% of change**
Investment income				
Net gains from financial assets at fair value through other comprehensive income and from available-for-sale financial assets	**184.1**	804.9	(620.8)	(77.1%)
Net gains from financial instruments at fair value through profit or loss and from derivative financial instruments	**4,687.0**	3,180.2	1,506.8	47.4%
– Equity investments	**1,003.3**	1,487.2	(484.0)	(32.5%)
– Debt investments	**2,895.8**	855.8	2,040.0	238.4%
– Other investments	**787.9**	837.2	(49.3)	(5.9%)
Gains from disposal of associates	**–**	23.4	(23.4)	N/A
Others	**0.0**	(0.0)	0.0	N/A
Total	**4,871.0**	4,008.5	862.6	21.5%

Net gains from financial assets at fair value through other comprehensive income and from available-for-sale financial assets totalled RMB184.1 million, representing a year-on-year decrease of RMB620.8 million or 77.1%, mainly due to the reclassification of the interest income from financial assets at fair value through other comprehensive income from investment income to interest income as a result of the adoption of IFRS 9.

Net gains from financial instruments at fair value through profit or loss and from derivative financial instruments totalled RMB4,687.0 million, representing a year-on-year increase of RMB1,506.8 million or 47.4%. The net gains were from the following categories of investments:

– Net gains from equity investments represented a year-on-year decrease of RMB484.0 million or 32.5%, mainly due to the decrease in investment income resulting from the slowdown of trading activities and from the declining business scales of OTC derivatives amid a falling stock market in 2018.

– Net gains from debt investments represented a year-on-year increase of RMB2,040.0 million or 238.4%, mainly due to an increase in the investment income resulting from the increase in bond positions and from the decrease in the yields in bond market in 2018.

– Net gains from other investments represented a year-on-year decrease of RMB49.3 million or 5.9%.

For detailed information of the financial assets at fair value through profit or loss and of derivative financial assets held by the Group at the end of 2018, please refer to "(vi) Analysis of Items in Statement of Financial Position – 1. Items of Assets – Investments – Financial Assets at Fair Value through Profit or Loss" and "(vi) Analysis of Items in Statement of Financial Position – 1. Items of Assets – Investments – Derivative Financial Assets" respectively.

Operating Expenses

In 2018, the Group's operating expenses (excluding fee and commission expenses and interest expenses, the same below) amounted to RMB8,531.4 million, representing a year-on-year increase of RMB891.6 million or 11.7%. CISC's operating expenses amounted to RMB2,040.0 million, accounting for 23.9% of that of the Group. Excluding that of CISC, the Group's operating expenses represented a year-on-year increase of RMB901.8 million or 16.1%. Breakdown of the Group's operating expenses in 2018 is listed as follows:

Unit: RMB in million

Items	2018	2017	Change	% of change
Operating expenses				
Staff costs	**5,737.8**	5,522.4	215.4	3.9%
Depreciation and amortization expenses	**301.9**	230.4	71.5	31.1%
Tax and surcharges	**72.3**	61.8	10.5	16.9%
Other operating expenses and costs	**2,345.1**	1,883.7	461.4	24.5%
Provision for/(reversal of) impairment losses	**74.2**	(58.6)	132.8	N/A
Total	**8,531.4**	7,639.8	891.6	11.7%

Staff costs amounted to RMB5,737.8 million, representing a year-on-year increase of RMB215.4 million or 3.9%. CISC's staff costs amounted to RMB1,203.5 million, accounting for 21.0% of that of the Group. Excluding that of CISC, the Group's staff costs increased by RMB331.3 million or 7.9% year on year, mainly due to the improvement in the operating results of the Group as compared with that of 2017 and the increase in number of staff.

Depreciation and amortization expenses amounted to RMB301.9 million, representing a year-on-year increase of RMB71.5 million or 31.1%. CISC's depreciation and amortization expenses amounted to RMB123.9 million, accounting for 41.0% of that of the Group. Excluding that of CISC, the Group's depreciation and amortization expenses increased by RMB56.3 million or 46.3% year on year. The increased expenditures on office equipment and software and on renovation and remodeling of newly-rented office space led to an increase in the corresponding depreciation and amortization expenses.

Tax and surcharges amounted to RMB72.3 million, representing a year-on-year increase of RMB10.5 million or 16.9%. CISC's tax and surcharges amounted to RMB23.7 million, accounting for 32.7% of that of the Group. Excluding that of CISC, the Group's tax and surcharges increased by RMB8.0 million or 19.8% year on year, mainly due to the increase in the Group's total revenue and other income.

Other operating expenses and costs amounted to RMB2,345.1 million, representing a year-on-year increase of RMB461.4 million or 24.5%. CISC's other operating expenses and costs amounted to RMB663.3 million, accounting for 28.3% of that of the Group. Excluding that of CISC, the Group's other operating expenses and costs increased by RMB395.8 million or 30.8% year on year, mainly due to the increase in charges for operating lease of property and equipment and in information technology related expenses.

In 2018, provision for impairment losses of the Group amounted to RMB74.2 million while the reversal of impairment losses in 2017 amounted to RMB58.6 million. CISC's provision for impairment losses amounted to RMB25.6 million, accounting for 34.5% of that of the Group. Excluding that of CISC, the Group's provision for impairment losses amounted to RMB48.6 million, mainly consisted of impairment losses of accounts receivable.

2. Segment Results

We have six principal business segments: Investment Banking, Equities, FICC, Investment Management, Wealth Management and CISC. The segment Others mainly comprises of other business departments and back offices.

Unit: RMB in million

Items	2018	2017	Change	% of change
Investment Banking				
Segment revenue and other income	**2,935.7**	2,602.0	333.6	12.8%
Fee and commission income	**2,616.7**	2,442.5	174.2	7.1%
Interest income	**12.0**	5.6	6.4	113.5%
Investment income	**283.3**	137.2	146.2	106.6%
Other operating income, net	**23.6**	16.8	6.9	41.2%
Interest expenses	**(115.1)**	(33.3)	(81.8)	246.0%
Revenue and other income after interest expenses	**2,820.6**	2,568.7	251.8	9.8%
Non-interest expenses[(1)]	**(1,847.1)**	(1,611.3)	(235.9)	14.6%
Profit before income tax	**973.4**	957.5	15.9	1.7%
Segment margin[(2)]	**33.2%**	36.8%	Decreased by 3.6 percentage points	

Interest income, investment income and interest expenses of Investment Banking increased significantly year on year, mainly due to an increase in the position of debt securities held by the Group as a result of its underwriting commitment. The increase in position brought about a growth of income and, on the other hand, an increased capital demand, which in turn resulted in the increased interest expenses.

Items	2018	2017	Change	% of change
Equities				
Segment revenue and other income	**2,736.4**	2,939.7	(203.2)	(6.9%)
Fee and commission income	**1,598.0**	1,447.8	150.2	10.4%
Interest income	**257.3**	197.3	60.0	30.4%
Investment income	**892.1**	1,428.4	(536.3)	(37.5%)
Other operating losses, net	**(11.0)**	(133.9)	122.9	(91.8%)
Interest expenses	**(511.4)**	(484.6)	(26.8)	5.5%
Revenue and other income after interest expenses	**2,225.1**	2,455.1	(230.0)	(9.4%)
Non-interest expenses(1)	**(994.4)**	(894.5)	(99.9)	11.2%
Profit before income tax	**1,230.7**	1,560.7	(329.9)	(21.1%)
Segment margin(2)	**45.0%**	53.1%	Decreased by 8.1 percentage points	
FICC				
Segment revenue and other income	**3,647.3**	1,885.1	1,762.2	93.5%
Fee and commission income	**481.4**	243.9	237.6	97.4%
Interest income	**886.5**	152.9	733.6	479.7%
Investment income	**2,264.7**	1,445.7	819.0	56.7%
Other operating income, net	**14.7**	42.7	(28.0)	(65.6%)
Interest expenses	**(1,927.2)**	(1,351.6)	(575.6)	42.6%
Revenue and other income after interest expenses	**1,720.1**	533.5	1,186.6	222.4%
Non-interest expenses(1)	**(556.8)**	(368.8)	(188.0)	51.0%
Profit before income tax	**1,163.3**	164.7	998.6	606.2%
Segment margin(2)	**31.9%**	8.7%	Increased by 23.2 percentage points	

Interest income of FICC increased significantly year on year, mainly due to the increase in interest income from debt investments.

Management Discussion and Analysis

Items	2018	2017	Change	% of change
Investment Management				
Segment revenue and other income	**1,878.7**	1,789.8	88.9	5.0%
Fee and commission income	**1,655.2**	1,409.6	245.6	17.4%
Interest income	**24.9**	21.5	3.4	15.7%
Investment income	**151.3**	346.8	(195.5)	(56.4%)
Other operating income, net	**47.4**	11.9	35.4	297.6%
Interest expenses	**(83.8)**	(55.5)	(28.3)	50.9%
Revenue and other income after interest expenses	**1,794.9**	1,734.3	60.6	3.5%
Non-interest expenses[1]	**(1,035.4)**	(798.6)	(236.8)	29.7%
Share of profits of associates and joint ventures	**44.1**	38.1	6.1	15.9%
Profit before income tax	**803.7**	973.8	(170.2)	(17.5%)
Segment margin[2]	**42.8%**	54.4%	Decreased by 11.6 percentage points	

Other operating income of Investment Management increased significantly year on year, mainly due to the increase in government grants.

Items	2018	2017	Change	% of change
Wealth Management				
Segment revenue and other income	**1,486.6**	1,692.0	(205.4)	(12.1%)
Fee and commission income	**551.5**	679.1	(127.7)	(18.8%)
Interest income	**624.2**	520.0	104.2	20.0%
Investment income	**300.3**	463.7	(163.4)	(35.2%)
Other operating income, net	**10.7**	29.2	(18.5)	(63.5%)
Interest expenses	**(498.2)**	(506.3)	8.1	(1.6%)
Revenue and other income after interest expenses	**988.4**	1,185.7	(197.3)	(16.6%)
Non-interest expenses[1]	**(687.8)**	(657.9)	(29.9)	4.6%
Share of profits/(losses) of associates and joint ventures	**5.4**	(0.1)	5.4	N/A
Profit before income tax	**305.9**	527.8	(221.8)	(42.0%)
Segment margin[2]	**20.6%**	31.2%	Decreased by 10.6 percentage points	

Items	2018	2017	Change	% of change
CISC[3]				
Segment revenue and other income	**4,973.8**	4,111.5	862.3	21.0%
Fee and commission income	**1,915.4**	2,054.8	(139.4)	(6.8%)
Interest income	**2,496.0**	1,917.9	578.1	30.1%
Investment income	**538.1**	114.6	423.5	369.5%
Other operating income, net	**24.3**	24.2	0.1	0.4%
Interest expenses	**(1,459.6)**	(938.5)	(521.1)	55.5%
Revenue and other income after interest expenses	**3,514.2**	3,173.0	341.2	10.8%
Non-interest expenses[1]	**(2,512.8)**	(2,527.2)	14.5	(0.6%)
Share of profits/(losses) of associates and joint ventures	**93.5**	(0.8)	94.3	N/A
Profit before income tax	**1,094.9**	644.9	449.9	69.8%
Segment margin[2]	**22.0%**	15.7%	Increased by 6.3 percentage points	

Investment income of CISC increased significantly year on year, mainly due to the increase in investment income from fixed-income business.

Items	2018	2017	Change	% of change
Others[4]				
Segment revenue and other income	**881.1**	240.0	641.0	267.0%
Fee and commission income	**2.3**	4.5	(2.2)	(48.7%)
Interest income	**285.9**	164.3	121.6	74.0%
Investment income	**441.2**	72.1	369.1	511.9%
Other operating income/(losses), net	**151.6**	(0.9)	152.5	N/A
Segment expenses	**(2,041.3)**	(1,501.7)	(539.6)	35.9%
Share of (losses)/profits of associates and joint ventures	**(24.4)**	33.3	(57.7)	N/A
Loss before income tax	**(1,184.7)**	(1,228.4)	43.7	(3.6%)

Investment income of Others increased significantly year on year, mainly due to the increase in gains generated from cash management by the Treasury Department.

(1) Non-interest expenses include fee and commission expenses, staff costs, depreciation and amortization expenses, tax and surcharges, other operating expenses and costs, and provision for/(reversal of) impairment losses.

(2) Segment margin = profit before income tax/segment revenue and other income

(3) The Group had included CISC in its scope of consolidation since March 31, 2017. The segment operating results of CISC for 2018 included its corresponding amounts for the year from January 1, 2018 to December 31, 2018; the segment operating results for 2017 included its corresponding amounts for the period from April 1, 2017 to December 31, 2017.

(4) The segment margin of Others is not presented because this segment incurred loss before income tax in the relevant years.

(vi) Analysis of Items in Statement of Financial Position

1. Items of Assets

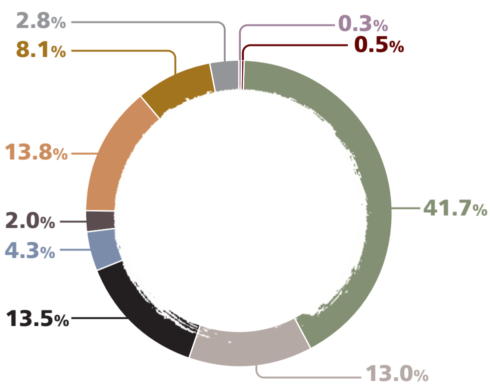
As of December 31, 2018, the Group's total assets amounted to RMB275,420.5 million, representing a year-on-year increase of RMB37,608.6 million or 15.8%. Excluding accounts payable to brokerage clients, the Group's adjusted total assets as of December 31, 2018 amounted to RMB234,102.6 million, representing a year-on-year increase of RMB43,637.2 million or 22.9%. CISC's adjusted total assets amounted to RMB50,537.1 million, accounting for 21.6% of that of the Group. Excluding that of CISC, the Group's adjusted total assets increased by RMB41,653.7 million or 29.4% year on year. Breakdown of the Group's assets is listed as follows:

Unit: RMB in million

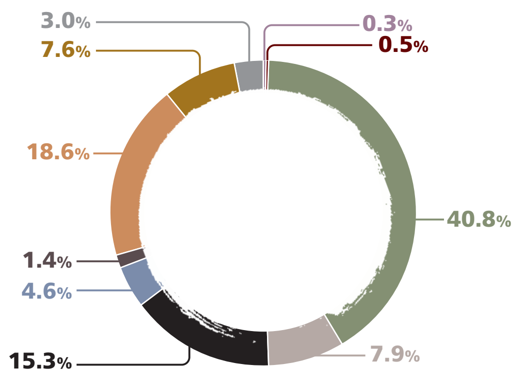
Items	December 31, 2018	December 31, 2017	Change	% of change
Property and equipment and intangible assets	**869.4**	702.1	167.3	23.8%
Interest in associates and joint ventures	**1,267.0**	1,128.3	138.7	12.3%
Financial assets at fair value through profit or loss	**114,784.9**	97,011.7	17,773.2	18.3%
Financial assets at fair value through other comprehensive income and available-for-sale financial assets	**35,699.7**	18,897.4	16,802.3	88.9%
Receivable from margin clients and reverse REPOs	**37,269.3**	36,321.1	948.2	2.6%
Accounts receivable and interest receivable	**11,879.1**	10,872.2	1,007.0	9.3%
Derivative financial assets	**5,529.5**	3,447.9	2,081.6	60.4%
Cash held on behalf of brokerage clients	**37,902.9**	44,226.1	(6,323.2)	(14.3%)
Cash and bank balances	**22,424.5**	18,130.9	4,293.6	23.7%
Others	**7,794.2**	7,074.1	720.0	10.2%
Total	**275,420.5**	237,811.9	37,608.6	15.8%

The charts below set forth the composition of the Group's assets as at the indicated dates:

Composition of assets as of December 31, 2018



Composition of assets as of December 31, 2017



- Property and equipment and intangible assets
- Interest in associates and joint ventures
- Financial assets at fair value through profit or loss
- Financial assets at fair value through other comprehensive income and available-for-sale financial assets
- Receivable from margin clients and reverse REPOs
- Accounts receivable and interest receivable
- Derivative financial assets
- Cash held on behalf of brokerage clients
- Cash and bank balances
- Others

Management Discussion and Analysis

INVESTMENTS

The Group's investments consisted of financial assets at fair value through other comprehensive income and available-for-sale financial assets, interest in associates and joint ventures, financial assets at fair value through profit or loss and derivative financial assets.

As of December 31, 2018, the investments of the Group amounted to RMB157,281.1 million, representing a year-on-year increase of RMB36,795.8 million or 30.5%. Breakdown of the Group's investments is listed as follows:

Unit: RMB in million

Items	**December 31, 2018**	December 31, 2017	**Change**	**% of change**
Financial assets at fair value through other comprehensive income and available-for-sale financial assets	**35,699.7**	18,897.4	16,802.3	88.9%
Interest in associates and joint ventures	**1,267.0**	1,128.3	138.7	12.3%
Financial assets at fair value through profit or loss	**114,784.9**	97,011.7	17,773.2	18.3%
Derivative financial assets	**5,529.5**	3,447.9	2,081.6	60.4%
Total	**157,281.1**	120,485.3	36,795.8	30.5%

Financial Assets at Fair Value through Other Comprehensive Income and Available-for-sale Financial Assets

As of December 31, 2018, the Group's financial assets at fair value through other comprehensive income and available-for-sale financial assets totalled RMB35,699.7 million, representing a year-on-year increase of RMB16,802.3 million or 88.9% and accounting for 13.0% of the Group's total assets; among which, debt investments increased by RMB18,273.6 million or 104.9% year on year, mainly because the Group expanded its scale of debt investments in 2018; meanwhile, equity investments and funds and other investments were reclassified to financial assets at fair value through profit or loss due to the adoption of IFRS 9. Breakdown of the Group's financial assets at fair value through other comprehensive income and available-for-sale financial assets is listed as follows:

Unit: RMB in million

Items	**December 31, 2018**	December 31, 2017	**Change**	**% of change**
Equity investments	–	1,300.4	(1,300.4)	N/A
Debt investments	**35,699.7**	17,426.1	18,273.6	104.9%
Funds and other investments	–	170.9	(170.9)	N/A
Total	**35,699.7**	18,897.4	16,802.3	88.9%

Interest in Associates and Joint Ventures

As of December 31, 2018, the Group's interest in associates and joint ventures amounted to RMB1,267.0 million, representing a year-on-year increase of RMB138.7 million or 12.3% and accounting for 0.5% of the Group's total assets, mainly due to an increase in the Group's share of profits of associates and joint ventures in 2018. Breakdown of the Group's interest in associates and joint ventures is listed as follows:

Unit: RMB in million

Items	December 31, 2018	December 31, 2017	Change	% of change
Associates	**825.8**	704.6	121.2	17.2%
Joint ventures	**441.2**	423.7	17.5	4.1%
Total	**1,267.0**	1,128.3	138.7	12.3%

Financial Assets at Fair Value through Profit or Loss

As of December 31, 2018, the Group's financial assets at fair value through profit or loss amounted to RMB114,784.9 million, representing a year-on-year increase of RMB17,773.2 million or 18.3% and accounting for 41.7% of the Group's total assets. The details of the investment categories are as follows:

Unit: RMB in million

Items	December 31, 2018	December 31, 2017	Change	% of change
Equity investments				
– Hedge position held for OTC derivative transactions	**23,580.7**	37,792.7	(14,212.0)	(37.6%)
– Financial assets of consolidated structured entities	**306.4**	284.6	21.8	7.7%
– Equity investments held directly by the Group	**3,305.8**	853.0	2,452.9	287.6%
Subtotal	**27,192.9**	38,930.2	(11,737.3)	(30.1%)
Debt investments				
– Financial assets of consolidated structured entities	**2,778.7**	759.1	2,019.6	266.1%
– Debt investments held directly by the Group	**65,104.4**	46,179.4	18,925.0	41.0%
Subtotal	**67,883.1**	46,938.5	20,944.6	44.6%
Funds and other investments				
– Financial assets of consolidated structured entities	**1,343.7**	3,912.8	(2,569.1)	(65.7%)
– Funds and other investments held directly by the Group	**18,365.2**	7,230.2	11,135.0	154.0%
Subtotal	**19,708.9**	11,143.0	8,565.9	76.9%
Total	**114,784.9**	97,011.7	17,773.2	18.3%

Management Discussion and Analysis

The Group's financial assets at fair value through profit or loss represented a year-on-year increase of RMB17,773.2 million or 18.3%, mainly because that the Group expanded its scale of investments:

– RMB4,428.8 million in financial assets of consolidated structured entities that the Group sponsored and held interests in, accounting for 3.9% of the total financial assets at fair value through profit or loss. The financial assets of these consolidated structured entities included RMB306.4 million of equity investments, primarily listed stocks; RMB2,778.7 million of debt investments, all above investment grade; RMB1,343.7 million of funds and other investments, mainly fixed-income products;

– RMB23,580.7 million of investments in hedge equity position held for OTC by the Group, consisted of underlying assets of the OTC derivatives trading agreements into which the Group had entered with its clients, accounting for 20.5% of the total financial assets at fair value through profit or loss. These underlying assets were held to hedge the market risks associated with OTC derivative trading whereby the volatility in fair value of the underlying assets was mainly assumed by the clients and had no material impact to the Group's profit or loss;

– RMB3,305.8 million of equity investments held directly by the Group, accounting for 2.9% of the total financial assets at fair value through profit or loss, most of which were equity investments of the private equity funds and investment in stocks for the NEEQ market making business;

– RMB65,104.4 million in debt investments held directly by the Group, accounting for 56.7% of the total financial assets at fair value through profit or loss, most of which were debt securities rated at investment grade or above and debt securities issued by the MOF, the PBOC or policy banks in China;

– RMB18,365.2 million in funds and other investments held directly by the Group, accounting for 16.0% of the total financial assets at fair value through profit or loss, most of which were money market funds and fixed-income products with high liquidity and low risks.

Derivative Financial Assets

As of December 31, 2018, the Group's derivative financial assets amounted to RMB5,529.5 million, representing a year-on-year increase of RMB2,081.6 million or 60.4% and accounting for 2.0% of the Group's total assets. The increase in derivative financial assets was mainly caused by a higher valuation of the OTC derivatives attributable to change in prices of the underlying stocks. As a result, the derivative financial assets of equity contracts increased by RMB1,854.8 million or 72.4% compared with that at the end of 2017. Breakdown of the Group's derivative financial assets is listed as follows:

Unit: RMB in million

Items	December 31, 2018	December 31, 2017	Change	% of change
Interest rate contracts	**826.5**	318.5	507.9	159.5%
Currency contracts	**99.6**	44.0	55.6	126.2%
Equity contracts	**4,416.9**	2,562.1	1,854.8	72.4%
Credit contracts	**5.9**	5.2	0.7	14.0%
Other contracts	**180.7**	518.1	(337.4)	(65.1%)
Total	**5,529.5**	3,447.9	2,081.6	60.4%

RECEIVABLE FROM MARGIN CLIENTS AND REVERSE REPOs

As of December 31, 2018, the Group's receivable from margin clients and reverse REPOs totalled RMB37,269.3 million, representing a year-on-year increase of RMB948.2 million or 2.6%, mainly due to the increase in bond pledged repurchase transactions.

PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

As of December 31, 2018, the Group's property and equipment and intangible assets totalled RMB869.4 million, representing a year-on-year increase of RMB167.3 million or 23.8%, mainly due to the increase in expenditures on office equipment and softwares and on renovation and remodeling of newly-rented office space. Breakdown of the Group's property and equipment and intangible assets is listed as follows:

Unit: RMB in million

Items	December 31, 2018	December 31, 2017	Change	% of change
Property and equipment	**597.2**	474.9	122.3	25.7%
Intangible assets	**272.2**	227.2	45.0	19.8%
Total	**869.4**	702.1	167.3	23.8%

CASH HELD ON BEHALF OF BROKERAGE CLIENTS

As of December 31, 2018, the Group's cash held on behalf of brokerage clients amounted to RMB37,902.9 million, representing a year-on-year decrease of RMB6,323.2 million or 14.3%, mainly due to the decrease in deposits from brokerage clients.

Management Discussion and Analysis

CASH AND BANK BALANCES

As of December 31, 2018, the Group's cash and bank balances amounted to RMB22,424.5 million, representing a year-on-year increase of RMB4,293.6 million or 23.7%.

Unit: RMB in million

Item	**December 31, 2018**	December 31, 2017	**Change**	**% of change**
Cash and bank balances	**22,424.5**	18,130.9	4,293.6	23.7%

2. Items of Liabilities

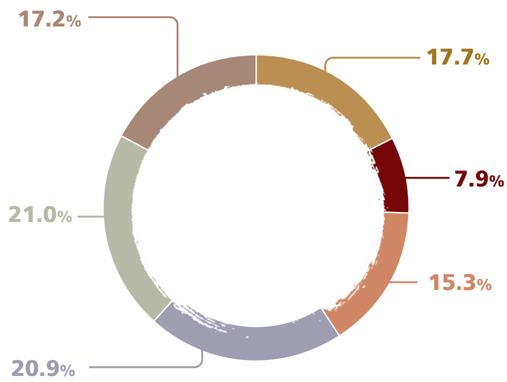
As of December 31, 2018, the Group's total liabilities amounted to RMB233,043.8 million, representing a year-on-year increase of RMB32,124.3 million or 16.0%. Excluding accounts payable to brokerage clients, the Group's adjusted total liabilities as of December 31, 2018 amounted to RMB191,725.9 million, representing a year-on-year increase of RMB38,152.9 million or 24.8%. CISC's adjusted total liabilities amounted to RMB34,884.2 million, accounting for 18.2% of that of the Group. Excluding that of CISC, the Group's adjusted total liabilities increased by RMB36,723.8 million or 30.6% year on year. In 2018, the Group put great efforts in developing balance sheet business and gradually expanded its financing scale through various channels. Breakdown of the Group's liabilities is listed as follows:

Unit: RMB in million

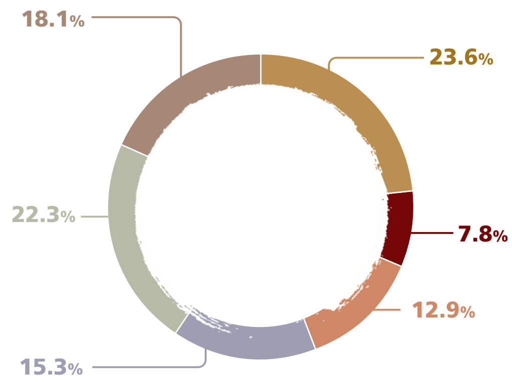
Items	**December 31, 2018**	December 31, 2017	**Change**	**% of change**
Accounts payable to brokerage clients	**41,317.9**	47,346.5	(6,028.6)	(12.7%)
Financial liabilities at fair value through profit or loss and derivative financial liabilities	**18,475.5**	15,642.6	2,832.9	18.1%
Placements from financial institutions, short-term debt securities issued and long-term debt securities issued due within one year	**35,589.1**	26,006.2	9,582.9	36.8%
REPOs	**48,650.8**	30,653.6	17,997.1	58.7%
Long-term debt securities issued	**48,998.8**	44,835.9	4,162.8	9.3%
Others	**40,011.8**	36,434.7	3,577.2	9.8%
Total	**233,043.8**	200,919.5	32,124.3	16.0%

The following chart sets out the composition of the Group's liabilities as of the dates indicated:

Composition of liabilities as of December 31, 2018



Composition of liabilities as of December 31, 2017



- Accounts payable to brokerage clients
- Financial liabilities at fair value through profit or loss and derivative financial liabilities
- Placements from financial institutions, short-term debt securities issued and long-term debt securities issued due within one year
- REPOs
- Long-term debt securities issued
- Others

Management Discussion and Analysis

As of December 31, 2018, the Group's accounts payable to brokerage clients amounted to RMB41,317.9 million, representing a year-on-year decrease of RMB6,028.6 million or 12.7%, mainly due to the decrease in the balance of client deposits.

Unit: RMB in million

Items	December 31, 2018	December 31, 2017	Change	% of change
Individual clients	**22,623.8**	24,548.5	(1,924.7)	(7.8%)
Institutional/corporate clients	**18,686.5**	22,798.1	(4,111.5)	(18.0%)
Accrued interest	**7.6**	–	7.6	N/A
Total	**41,317.9**	47,346.5	(6,028.6)	(12.7%)

As of December 31, 2018, the Group's financial liabilities at fair value through profit or loss and derivative financial liabilities totalled RMB18,475.5 million, representing a year-on-year increase of RMB2,832.9 million or 18.1%, mainly due to the increase in liabilities payable to clients.

As of December 31, 2018, the Group's placements from financial institutions and the balance of the Group's outstanding short-term debt securities issued and long-term debt securities issued due within one year totalled RMB35,589.1 million, which consisted of beneficiary certificates of RMB13,291.2 million, subordinated bonds of RMB2,204.7 million, medium-term notes of RMB3,439.9 million, structured notes of RMB1,971.4 million, corporate bonds of RMB6,148.1 million and placement from financial institutions of RMB8,533.8 million. The total represented an increase of 36.8% compared with that at the end of 2017, mainly due to the increase in short-term debt financing for the development of balance sheet business.

As of December 31, 2018, the Group's REPOs amounted to RMB48,650.8 million, representing a year-on-year increase of RMB17,997.1 million or 58.7%. The increase was a result of an increased need for funding for FICC business that led to a corresponding increase in the REPOs with debt securities as collateral.

As of December 31, 2018, the balance of the Group's outstanding long-term debt securities issued amounted to RMB48,998.8 million, which consisted of beneficiary certificates due after one year of RMB404.7 million, subordinated bonds of RMB12,812.1 million, medium-term notes of RMB6,876.8 million and corporate bonds of RMB28,905.2 million. It increased by RMB4,162.8 million or 9.3% compared with that at the end of 2017. The Group's long-term debt securities issued in 2018 included six tranches of corporate bonds with the aggregate principal of RMB9,500.0 million, two tranches of subordinated bonds with the aggregate principal of RMB2,500.0 million, two tranches of long-term beneficiary certificates with the aggregate principal of RMB400.0 million and two tranches of USD-denominated medium-term notes with the aggregate principal of US$1,000.0 million.

As of December 31, 2018, the Group's other liabilities amounted to RMB40,011.8 million, representing a year-on-year increase of RMB3,577.2 million or 9.8%, mainly due to the short-term fluctuations in payables for trading activities.

3. Items of Equity

As of December 31, 2018, the Group's total equity attributable to shareholders of the Company and holders of other equity instruments amounted to RMB42,183.5 million, representing a year-on-year increase of RMB5,476.8 million or 14.9%, mainly from the issuance of new H Shares and operational accumulations. Breakdown of the Group's equity is listed as follows:

Unit: RMB in million

Items	**December 31, 2018**	December 31, 2017	**Change**	**% of change**
Share capital	**4,192.7**	3,985.1	207.5	5.2%
Capital reserve	**24,822.6**	22,721.1	2,101.5	9.2%
Surplus reserve	**532.5**	347.1	185.4	53.4%
General reserves	**2,547.7**	2,030.1	517.6	25.5%
Investment revaluation reserve	**41.8**	(135.1)	176.9	N/A
Foreign currency translation reserve	**(81.0)**	(355.8)	274.8	(77.2%)
Retained profits	**9,127.3**	7,114.2	2,013.1	28.3%
Other equity instruments	**1,000.0**	1,000.0	–	–
Total equity attributable to shareholders of the Company and holders of other equity instruments	**42,183.5**	36,706.7	5,476.8	14.9%

(vii) Contingent Liabilities

As of 31 December 2018, CISC, a subsidiary of the Company, held one piece of land under construction for which CISC had obtained the corresponding land use right certificates and construction permits in accordance with PRC laws. Up to the date of approving the Group's financial statements, construction of the land has not commenced. By relevant laws and regulations, in the event of delay in commencement of construction work on land, CISC may be subject to a fee on idle land of no more than RMB112.2 million (equivalent to 20% of the land transfer fee) and/or to forfeiture of the land use rights. However, if the delay is caused by government actions or other force majeure events, CISC may negotiate with relevant government authorities for postponing the commencement date and extending the time period for the development and construction of the land. CISC received the idle land verification report from relevant government authorities on February 1, 2018. According to this report, the aforesaid land was recognized as idle land, and the idling was caused by government and corporate reasons. In May 2018, CISC received a Hearing Right Notice from the relevant government authorities, demanding the payment of a fee on idle land of RMB112.2 million and thereupon CISC applied for attending hearing meeting. Thereafter in August 2018, CISC received a Hearing Notice and attended the hearing. Up to the date of approving the Group's financial statements, CISC is still in the progress of communicating with the relevant government authorities. The amount of the fee is subject to the decision of the relevant government authorities, and CISC is of the view that such amount cannot be reliably measured. As a result, no relevant accrued liabilities were recognized as of 31 December 2018.

Except for the above, the Group has no other outstanding matters which have a material impact on its consolidated financial position as of December 31, 2018.

(viii) Pledge of Assets of the Group

The Group has no pledge of assets as of December 31, 2018.

Management Discussion and Analysis

(ix) Income Tax Policy

In accordance with the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) and the Provisions of Implementation for the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法實施條例), the statutory corporate income tax rate applicable to our Company and our PRC subsidiaries is 25%. Our Hong Kong subsidiaries are subject to a tax rate of 16.5% on their assessable profit. The Company's income tax computation and payment are governed by the Announcement of the State Administration of Taxation on Printing and Distributing the Administrative Measures for Collection of Consolidated Payments of Enterprise Income Tax by the Enterprises with Trans-regional Operations (《國家稅務總局關於印發〈跨地區經營匯總納稅企業所得稅徵收管理辦法〉的公告》) (Public Notice of the State Administration of Taxation [2012] No.57). During the year ended December 31, 2018, we had fulfilled all our tax obligations and did not have any unresolved tax disputes with the relevant tax authorities in China or other jurisdictions.

V. SIGNIFICANT INVESTMENT AND FINANCING ACTIVITIES OF OUR GROUP

(i) Equity Investment

During the Reporting Period, the Group did not have significant equity investments.

(ii) Equity Financing

Save as disclosed below, the Group had no significant equity financing during the Reporting Period.

On September 20, 2017, the Company entered into a strategic cooperation Framework Agreement with Tencent Computer. Pursuant to this agreement, the Company and Tencent Computer will procure and ensure the establishment of the strategic cooperation relationship between the Company and Tencent Holdings and its subsidiaries on the group level. On the same day, the Company and Tencent Mobility Limited (a wholly-owned subsidiary of Tencent Holdings), entered into the Subscription Agreement.

On March 23, 2018, the Company completed the issuance of 207,537,059 new H Shares to Tencent Mobility Limited pursuant to the Subscription Agreement. Accordingly, the number of the Company's H Shares and the total issued Shares increased to 1,727,714,428 H Shares and 4,192,667,868 Shares, respectively. For details, please refer to the announcements published by the Company on September 20, 2017 and March 23, 2018. After deducting the relevant expenses, the net proceeds from the issuance of the Subscription Shares amounted to approximately HK$2,860.82 million. Our Group intended to use the proceeds for replenishing the capital of our Group and hence to support our Group's domestic and overseas business development by further strengthening our capital base. As of December 31, 2018, the Group has utilized 66.8% of net proceeds, of which, 30.5% were used in securities investments and transactions, 3.8% in securities underwriting, 31.1% in capital businesses, 1.4% in the working capital in the ordinary and usual course of businesses and development. The remaining 33.2% of such net proceeds are planned to be used in cross-border businesses. The Group intends to use all the unutilized net proceeds upon implementation of relevant procedures.

(iii) Debt Financing

As of December 31, 2018, the Group's outstanding bonds are set out below:

Type	Tranche	Size of Issuance	Date of Value	Maturity Date	Interest Rate	Remarks
Corporate bonds	16 CICC 01	RMB3,000 million	July 18, 2016	July 18, 2021	2.99%	Our Company has an option to redeem such bond on July 18, 2019. If the early-redemption option is not exercised at the end of the third year, the Company has an option to increase the coupon rate and an obligation to redeem such bond if required by the investors.
	16 CICC 02	RMB1,000 million	July 18, 2016	July 18, 2023	3.29%	Our Company has an option to redeem such bond on July 18, 2021. If the early-redemption option is not exercised at the end of the fifth year, the Company has an option to increase the coupon rate and an obligation to redeem such bond if required by the investors.
	16 CICC 03	RMB1,100 million	October 27, 2016	October 27, 2021	2.95%	Our Company has an option to redeem such bond on October 27, 2019. If the early-redemption option is not exercised at the end of the third year, the Company has an option to increase the coupon rate and an obligation to redeem such bond if required by the investors.
	16 CICC 04	RMB900 million	October 27, 2016	October 27, 2023	3.13%	Our Company has an option to redeem such bond on October 27, 2021. If the early-redemption option is not exercised at the end of the fifth year, the Company has an option to increase the coupon rate and an obligation to redeem such bond if required by the investors.
	16 CICC 05	RMB2,000 million	December 26, 2016	December 26, 2019	4.50%	
	17 CICC 01	RMB4,000 million	January 20, 2017	January 20, 2020	4.35%	

Management Discussion and Analysis

Type	Tranche	Size of Issuance	Date of Value	Maturity Date	Interest Rate	Remarks
Corporate bonds	17 CICC 02	RMB1,000 million	May 8, 2017	May 8, 2020	4.97%	
	17 CICC 03	RMB1,000 million	May 8, 2017	May 8, 2022	5.19%	
	17 CICC 04	RMB2,000 million	July 27, 2017	July 27, 2020	4.78%	
	17 CICC 05	RMB2,000 million	October 20, 2017	October 20, 2020	5.13%	
	17 CICC 06	RMB2,500 million	November 21, 2017	November 21, 2020	5.45%	
	18 CICC 01	RMB1,000 million	January 26, 2018	January 26, 2020	5.58%	
	18 CICC 02	RMB1,000 million	January 26, 2018	January 26, 2021	5.70%	
	18 CICC 03	RMB500 million	April 24, 2018	April 24, 2020	4.80%	
	18 CICC 04	RMB1,000 million	April 24, 2018	April 24, 2021	4.94%	
	18 CICC 05	RMB1,000 million	June 28, 2018	June 28, 2020	5.20%	
	18 CICC 06	RMB1,000 million	June 28, 2018	June 28, 2021	5.30%	
	17 CISC F1	RMB3,000 million	July 18, 2017	July 18, 2020	4.95%	
	17 CISC F2	RMB1,000 million	July 18, 2017	July 18, 2022	5.10%	
	18 CISC 01	RMB1,000 million	March 23, 2018	March 23, 2021	5.95%	
	18 CISC 02	RMB2,000 million	September 3, 2018	September 3, 2020	4.72%	
	18 CISC 03	RMB1,000 million	September 21, 2018	September 21, 2021	4.99%	

Type	Tranche	Size of Issuance	Date of Value	Maturity Date	Interest Rate	Remarks
Subordinated bonds	16 CICC C2	RMB3,400 million	December 15, 2016	December 15, 2021	4.60%	
	17 CICC C1	RMB600 million	May 22, 2017	May 22, 2022	5.39%	
	17 CICC C2	RMB1,500 million	July 24, 2017	July 24, 2022	4.98%	
	17 CICC C3	RMB1,500 million	November 16, 2017	November 16, 2022	5.50%	
	18 CICC C1	RMB1,000 million	April 20, 2018	April 20, 2023	5.30%	
	18 CICC C2	RMB1,500 million	August 29, 2018	August 29, 2021	4.70%	
	16 CISC 01	RMB2,200 million	December 7, 2016	December 7, 2019	4.00%	
	17 CISC 01	RMB1,000 million	February 23, 2017	February 23, 2020	4.85%	
	17 CISC 02	RMB1,800 million	February 23, 2017	February 23, 2022	5.00%	
	16 CICC Futures	RMB100 million	December 16, 2016	December 16, 2024	Bearing an interest rate of 5.00% per annum in the first five years; 8.00% from the sixth to eighth year	CICC Futures has an option to redeem such bond on December 16, 2021
Perpetual subordinated bonds	15 CICC Y1	RMB1,000 million	May 29, 2015	–	Bearing an interest rate of 5.70% per annum in the first five years, and subject to reset every five years	As at the end of each five-year period, our Company has a right to extend the term of such perpetual subordinated bonds for another five-year period

Management Discussion and Analysis

Type	Tranche	Size of Issuance	Date of Value	Maturity Date	Interest Rate	Remarks
Notes payable	The three-year USD-denominated guaranteed notes under the guaranteed medium-term note programme of CICC Hong Kong Finance 2016 MTN Limited	US$500 million	May 18, 2016	May 18, 2019	Bearing a coupon rate of 2.75% at a price of T3+192.5 bps with a yield of 2.811%	
	The three-year USD-denominated US$600 million guaranteed notes with floating rate under the guaranteed medium-term note programme of CICC Hong Kong Finance 2016 MTN Limited	US$600 million	April 25, 2018	April 25, 2021, or interest payment date nearest to April 25, 2021	3-month USD LIBOR rate +1.20%	
	The three-year USD-denominated US$400 million guaranteed notes with floating rate under the guaranteed medium-term note programme of CICC Hong Kong Finance 2016 MTN Limited	US$400 million	September 11, 2018	September 11, 2021, or interest payment date nearest to September 11, 2021	3-month USD LIBOR rate +1.20%	

In addition, in 2018, the Group completed 1,265 issuances of beneficiary certificates, with an aggregate principal amount of RMB53,803.63 million. As of December 31, 2018, the aggregate principal of the Group's outstanding beneficiary certificates amounted to RMB15,069.45 million. As of December 31, 2018, the balance of bank borrowings and overdrafts of the Group's Hong Kong subsidiaries amounted to approximately HK$170.00 million and US$4.32 million.

In 2018, the Group completed the issuance of six tranches of corporate bonds, with an aggregate issuance size of RMB9,500 million.

VI. RISK MANAGEMENT

Overview

Our Group has always believed that risk management creates value. The risk management of our Group aims to effectively allocate risk-based capital, limit risks to a controllable level, maximize the corporate value and constantly solidify the foundation for the steady and sustainable development of our Group. Our Group has sound corporate governance, effective risk management measures and a strict internal control system.

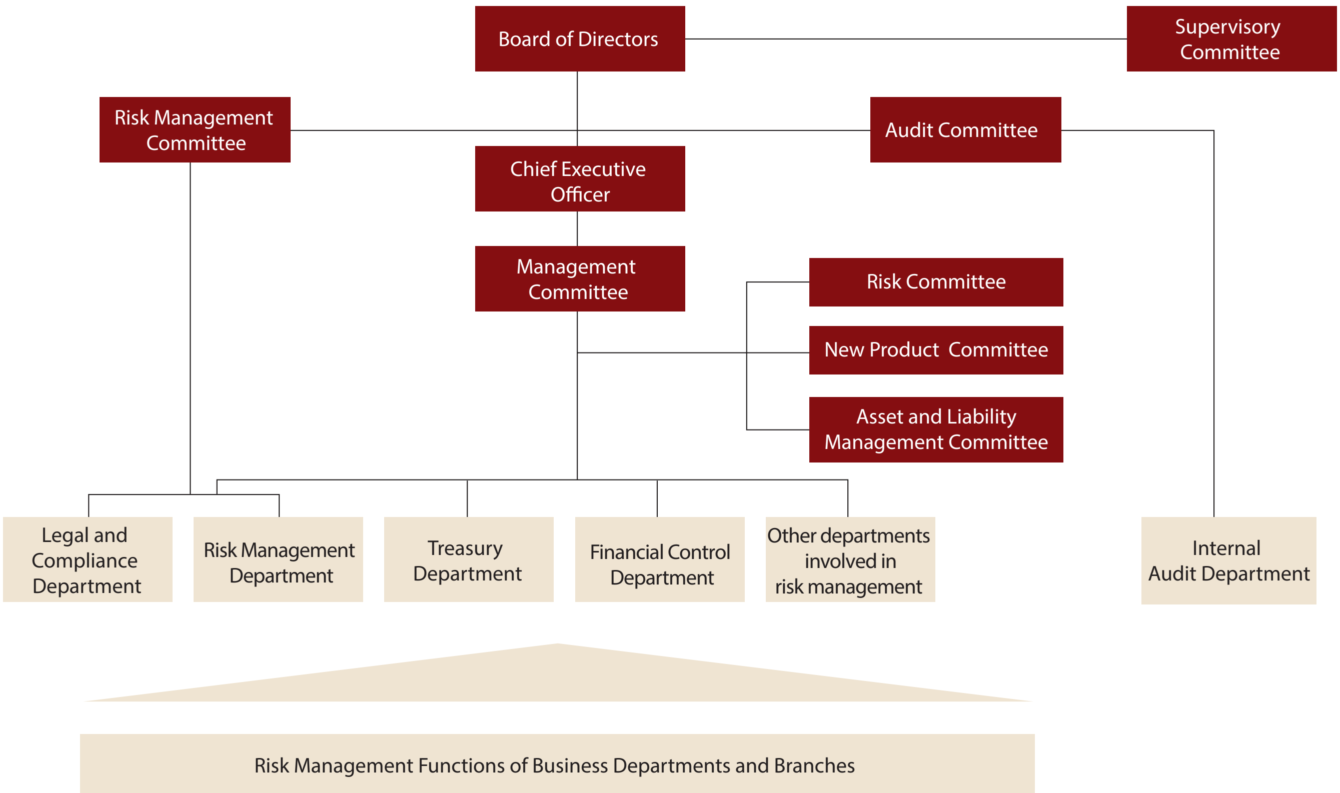
Pursuant to the relevant laws and regulations and regulatory requirements, our Group has established a sound governance structure. The general meeting, the Board of Directors and the Supervisory Committee of our Company perform duties in accordance with the "Company Law", the "Securities Law", the "Guidance for the Internal Control of Securities Companies" (《證券公司內部控制指引》), the "Norms for the Comprehensive Risk Management of Securities Companies" (《證券公司全面風險管理規範》) and the Articles of Association and supervise and manage the business operations of our Group. Through enhancing and improving the internal control structure, compliance and risk management culture, the Board of Directors has made internal control and risk management an essential aspect of the business operation management of our Group.

Risk Management Framework

In accordance with the needs for business development and risk management, our Group has established a multi-level risk management organizational structure which comprises the Board of Directors, the Supervisory Committee, senior management, independent departments performing risk management functions, business departments and branches, of which, (i) the Board of Directors is the top level of our Company's risk management and internal control governance structure and is responsible for facilitating the enforcement of the firm-wide risk management culture and reviewing and approving the overall risk management goals, risk appetite, risk tolerance, important risk limits and the risk management policy of our Company. The Board of Directors performs its risk management duties primarily through the Risk Management Committee and the Audit Committee; (ii) the Supervisory Committee assumes the supervision duty on the effectiveness of the overall risk management of our Company, and supervises and inspects the fulfillment of the risk management duties performed by the Board of Directors and the Management Committee, and reviews the rectification of risk management deficiencies and findings; (iii) under the Board of Directors, our Company has established the Management Committee chaired by the Chief Executive Officer. The Management Committee determines the risk appetite of our Company in accordance with the overall risk management goals set by the Board of Directors and assumes the major responsibility of ensuring the effectiveness of the overall risk management of our Company; (iv) the Risk Committee established under the Management Committee reports risk issues to the Management Committee and significant risk matters to the Risk Management Committee under the Board of Directors. The Chief Operating Officer is the chairman of the Risk Committee, and the Chief Risk Officer and Chief Compliance Officer are the co-executive chairmen of the Risk Committee. Other members include the Chief Financial Officer, heads of each of the business departments and heads of independent departments performing risk management functions; (v) independent departments performing risk management functions, including internal control departments such as Risk Management Department, Legal and Compliance Department, Treasury Department, Financial Control Department, Operations Department, Information Technology Department and Public Relations Department, coordinate to manage various risks based on their respective perspectives; and (vi) heads of business departments and branches take the primary responsibility for the effectiveness of risk management. During our daily business operations, all staff involved in business operations in our business departments and branches are required to perform risk management functions.

Management Discussion and Analysis

The organizational structure of our Group's risk management is shown in the following chart:



Risk to Our Group's Business Activities and Management Measures

Risks related to business activities of our Group mainly include market risk, credit risk, liquidity risk, operational risk, compliance risk, legal risk and reputational risk, etc. Our Group proactively responded to risks through effective risk management measures, which generally prevented the occurrence of significant risk events and ensured the stable development of the business operation of our Group. During the Reporting Period, the business of our Group operated steadily and all risks were managed within a controllable and tolerable level.

In 2018, under the conditions of the ongoing concern on China's economic steadily changes in what was a generally stable economic performance, the complicated and severe international economic situation, and China's economic slowdown, both domestic and foreign capital markets fluctuated wildly. Potential risks of the whole market increased, especially credit risks and market risks. Under the complicated and challenging market environment, the Group's risk management experienced more challenges during the Reporting Period. The Group continued to strengthen the management of various business lines and risk types by joint efforts of the first and the second lines of defense. The Group was committed to reducing the risks in existing businesses, controlling risks of new business initiatives, and ensured that risks were timely reported, and managed. The overall risks of the Group were under control. Compared with the peers, attributed to the Group's control over the size and concentration of the capital business, as well as the precautionary measures taken to manage bond credit risk, no significant risk events and large losses occurred during the Reporting Period, and the Group's overall risk control capability has withstood the market tests. Meanwhile, the Group's businesses further expanded and developed, and management and supporting functions continued to be improved, while the size of financial assets had a further growth.

Market Risk

Market risk refers to risks of changes in the fair value of financial assets held by our Group resulting from the fluctuations in equity prices, interest rates, exchange rates and commodity prices, etc.

Our Group has adopted the following measures to manage market risk:

➢ Business departments of our Group, as parties performing market risk management duties and the first line of defense, dynamically manage market risk of exposures by way of diversifying risk exposures, controlling the size of positions and utilizing hedging instruments;

➢ The Risk Management Department independently assesses, monitors and manages the overall market risk of our Group with following measures. The market risk management includes risk measurement, limit formulation and risk monitoring:

- Our Group measures market risk mainly by means of Value at Risk (VaR) analysis, stress tests and sensitivity analysis, etc. VaR is a major tool for our Group to measure and monitor market risk. VaR measures the potential maximum loss to an asset portfolio by changes in market risk factors at a certain confidence level within a certain holding period. Our Group computes the single day VaR at a confidence level of 95% by adopting a historical simulation method based on three years of historical data and examines the effectiveness of the model through the method of back testing on a regular basis. Meanwhile, our Group adopts stress test to complement the VaR analysis and measures whether the investment loss of our Group is within the scope of the risk tolerance when market risk factors such as equity price, interest rate, exchange rate and commodity price undergo extreme changes. In addition, in respect of sensitivity factors of different assets, our Group measures the impact of changes in specific factors on the value of assets by calculating the corresponding sensitivity indicators.

- Our Group has formulated a risk limit indicator framework. Risk limit is a mean for controlling risks and also represents the risk appetite and risk tolerance of our Group. Our Group sets appropriate market risk limits based on the business nature, such as notional limit, VaR limit, concentration limit, sensitivity limit and stop-loss limit, etc.

- Our Group monitors risk limit usage in real time or on a daily basis. The Risk Management Department prepares daily risk reports to monitor the usage of limits and submit them to the senior management and business departments. When the limit usage triggers the warning line, the Risk Management Department will issue a warning notice to business departments. Once the risk indicators exceed the limits, business departments shall report reasons of the breach and measures to be taken to the Chief Risk Officer or his authorized person and shall be responsible for reducing the risk exposure to a level within the limits in a given timeframe. If this cannot be achieved, they are required to apply to the Chief Risk Officer or his authorized person for a temporary increase in limit. If necessary, the Chief Risk Officer will submit a request to senior management.

Management Discussion and Analysis

Value at Risk (VaR)

Our Group sets the total VaR limit of our investment portfolio and VaR limits for different business lines. The Risk Management Department computes VaRs of these financial instruments on a daily basis to ensure the daily VaRs are maintained within limits. The following table sets forth the computed VaRs of the Group by risk categories as of the dates and for the periods as indicated: (i) the daily VaRs as of the end of the respective period; (ii) the averages of daily VaRs during the respective period; and (iii) the highest and lowest daily VaRs during the respective period.

The Group

(RMB in million)	December 31, 2018	December 31,2017	2018 (as of December 31) Average	Highest	Lowest	2017 (as of December 31) Average	Highest	Lowest
Price-sensitive financial instruments(1)	10.0	57.0	35.3	84.1	9.2	27.0	59.4	6.0
Interest-rate-sensitive financial instruments(2)	54.1	43.5	34.9	59.1	22.7	36.7	50.4	19.4
Exchange-rate-sensitive financial instruments(3)	13.0	20.6	17.1	26.1	10.9	10.8	21.5	5.1
Total portfolio	54.0	83.3	57.4	94.7	31.9	50.1	83.6	23.4

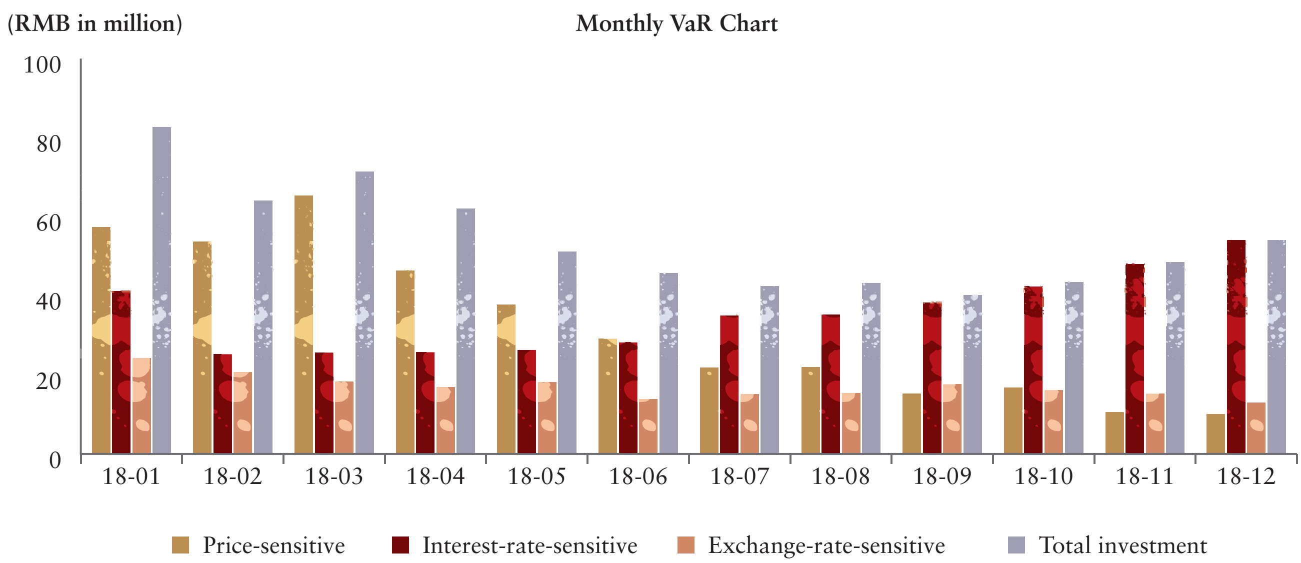
Notes:

(1) including equities and the price sensitive portion of derivative products

(2) including fixed income products and the interest rate sensitive portion of derivative products

(3) including financial products subject to exchange rate changes (including derivative products)

The chart below sets forth the VaRs by risk categories of the Group as of the end of each month over the past year:



During the Reporting Period, our Group conducted foreign exchange risk management for offshore assets, measuring risk exposures and monitoring risk limit utilizations on a daily basis. The foreign exchange risk exposures were managed by adjusting currency positions and using foreign exchange derivatives as hedging instruments.

During the Reporting Period, our Group closely monitored domestic and overseas market conditions and business risks. Coping with interest rate swings in both domestic and overseas markets, our Group hedged the interest rate risk for the fixed-income portfolio by using treasury bond futures, interest rate swaps, etc.

Credit Risk

Credit risk refers to the risk resulting from defaults or deterioration in creditworthiness of counterparties, borrowers and security issuers. The exposure to credit risk of our Group arises mainly from:

➢ Credit risk from debt borrowers or bond issuers' default or bankruptcy, including the loss due to intermediary institutions (such as brokers or custodian banks). The risk exposure represents the total value of outstanding debts;

➢ Credit risk from a counterparty's default on the OTC derivative transactions (such as swaps or forward transactions). The risk exposure is determined by the changes in the market value of the derivatives;

➢ The settlement risk from a business partner's failure in delivery of funds or securities when our Group has fulfilled its delivery obligation.

Bond Investments

Our Group emphasizes the diversification level of the fixed income credit products and the credit products invested are those predominantly with relatively high credit ratings. Our Group controls its credit risk and market risk exposures by setting up limits on investment size, product types, credit ratings and concentrations, and closely monitors and tracks bond issuers' business performance and credit profiles so as to constantly evaluate and warn any credit deterioration.

Management Discussion and Analysis

During the Reporting Period when bond defaults were rising, FICC collaborated with the Risk Management Department and closely identified, assessed, monitored and managed credit risk related to bond investments. As a result, the Group avoided material losses during the Reporting Period through effective risk management measures.

	As of December 31, 2018 (RMB in million)		
The Group	Position	DV01	Spread DV01
Outside Mainland China(by international rating agencies)[1]			
— AAA	37.0	0.00	–
— AA- to AA+	99.9	0.03	0.03
— A- to A+	4,769.9	0.99	1.28
— below A-	6,964.7	1.32	1.43
Sub-total	11,871.5	2.35	2.74
Mainland China(by domestic rating agencies)[1]			
— AAA	68,569.1	10.04	6.75
— AA- to AA+	8,437.2	1.17	1.17
— A- to A+	609.8	0.07	0.07
— below A-	47.2	0.01	0.01
Sub-total	77,663.2	11.29	8.00
— Non-rated[2]	2,598.5	0.74	–
— Non-rated[3]	11,449.6	–	–
Total	103,582.7	14.38	10.74

Notes: The Risk Management Department uses DV01 and Spread DV01 to measure the interest rate sensitivity and credit spread sensitivity of bonds. DV01 measures the change in the value of interest rate sensitive products for each parallel movement of one basis point in a market interest rate curve. Spread DV01 measures the change in the value of credit spread sensitive products for each parallel movement of one basis point in the credit spread.

(1) The Group refers the credit ratings of its debt securities to the credit ratings of the debt securities or the debt securities' issuers from Bloomberg comprehensive ratings or the local major rating agencies.

(2) These non-rated financial assets mainly include government bonds, central bank bills, policy financial bonds, and Special Drawing Rights ("SDR") – denominated bonds.

(3) These non-rated financial assets are mainly other debt instruments and trading securities which are not rated by independent rating agencies.

Capital Business

For the credit risks of margin financing and securities lending business and stock-based lending business, our Group has established a comprehensive and robust risk control system, including the customers' creditworthiness assessment, collateral management, underlying securities management, risk limit management, margin ratio monitoring, mandatory liquidation, etc. Our Group attaches considerable importance to customers' on-boarding and has established and implemented a strict customer selection and credit assessment mechanism, under which the branches are responsible for preliminary assessment of the customers' credit profile by collecting customers' basic information, financial status, securities investment experience, credit record and risk tolerance. The information of the customers that has passed the preliminary assessment will be submitted to the relevant business departments at the headquarters for further review, which, if qualified, will then be submitted to the Risk Management Department for formal approval, which will conduct an independent assessment of the customers' qualifications, and determine their credit ratings and credit limits.

During the Reporting Period, no significant losses were incurred in the Group's margin financing and securities lending business and stock-based lending business. Our Group primarily controlled the risks of margin financing and securities lending business and stock-based lending business by the following:

Margin Financing and Securities Lending Business

During the Reporting Period, our Group strictly controlled the concentrations of single customer and single collateral, closely monitored and assessed accounts with more concentration and higher risk investment portfolio, timely communicated with the customers and promptly took corresponding measures to mitigate such risks; our Group attached considerable importance to collateral management and dynamically adjusted the scope and haircuts of the collaterals; it prudently reviewed and approved business extension by considering the following factors, i.e., the concentration and risk condition of the investment portfolio, and the collateral ratio of the existing deal; our Group also conducted regular or irregular stress testing and closely monitored customers with high risks.

Stock-based Lending Business

During the Reporting Period, our Group exercised strict control over the onboarding and approval of the stock-based lending deals, and has taken effective risk control measures, including, but not limited to, strengthening deal risk assessment, evaluating the risks by the customers' creditworthiness and fundamentals of the pledged securities (including the pledge ratio of the large shareholder, pledge ratio of all shareholders, liquidity and trading suspension records, shareholder structure, capital status of the controlling shareholder, potential delisting risk, and negative news), carefully determining the loan-to-value ratio, as well as exercising strict control over the financing amount of the customers who are subject to shareholding reduction restriction; our Group strictly controlled single security concentration, established a security blacklist mechanism, and managed the overall exposure of a single security within the Group. In addition, our Group strengthened the on-site due diligence investigation, assessment and analysis of the pledged securities and clients with large financing demand, and raised the approval requirements to ensure risks were managed at a controllable level.

Meanwhile, our Group closely monitored the risks of the outstanding contracts, conducted regular and irregular stress testing, and classified deals into different risk status and kept tracking of the deals with potential high risks; it maintained close monitoring and regular assessment of the customers' credit risk with large financing amount, and maintained dynamic monitoring of the pledged securities, continuously tracked the fundamentals and security price fluctuations of large deals, and if any abnormal circumstances identified on the pledged security, our Group will ensure the risk precautions are in place, and corresponding measures are taken promptly.

Provision Methods for Expected Credit Loss

In accordance with IFRS 9, our Group started to recognize provision for losses in respect of debt investments and capital businesses based on expected credit loss since 2018. For financial instruments measured at expected credit loss, our Group classifies each financial instrument into different risk stages based on whether the credit risk of the relevant financial instrument has increased significantly since its initial recognition. A financial instrument is included in stage 1 if it has low credit risk at the reporting date or its credit risk has not increased significantly since its initial recognition; a financial instrument is included in stage 2 if its credit risk has increased significantly since its initial recognition; a financial instrument is migrated to stage 3 if it has objective evidence of impairment. Our Group measures the expected credit loss based on parameters such as Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). Each parameter is determined as follows: (i) the PD represents an estimation of the likelihood of default over a given period of time. Our Group estimates the PD based on the internal rating model with references to factors including external rating information, macroeconomic environment and changes in the quantitative and qualitative indicators of counterparties or bond issuers; (ii) the LGD represents the Group's expectation of the extent of loss on a defaulted exposure. When determining the LGD, our Group estimates the cash flows recovered from the disposal of underlying assets and collaterals after taking into full consideration the liquidity and relevant historical market data of underlying assets and collaterals. Estimation is made based on the differences between the recoverable cash flows and the contracted cash flows; and (iii) the EAD represents the total value our Group is exposed to at the time of default over a given period of time.

Management Discussion and Analysis

Margin Financing and Securities Lending Business

The following table sets forth the balance of margin financing and securities lending, market value of collaterals, collateral ratio and the impairment data of the margin financing and securities lending business of the Group:

Unit: RMB in million

Items	As of December 31, 2018	As of December 31, 2017
Amounts of margin financing and securities lending	**17,747.1**	22,204.3
Market value of collaterals	**41,865.7**	60,683.8
Collateral ratio	**235.9%**	273.3%
Loss allowance	**35.3**	27.0
Loss allowance/Receivable from margin clients	**0.2%**	0.1%

Unit: RMB in million

Item	2018	2017
(Reversal of)/provision for impairment losses	**(10.2)**	1.0

Note: The collateral ratio is calculated as the ratio of the client's total account balance (including cash and securities held) to the client's balance of margin loans and securities borrowed from our Group (i.e. the sum of margin loans extended, the securities sold short and any accrued interests and fees).

As of December 31, 2018, the collateral ratio of the margin financing and securities lending business of the Group was 235.9%. Assuming that the market value of all securities as collaterals of the Group's margin financing and securities lending business declined by 10% and 20% respectively, the collateral ratio of the Group's margin financing and securities lending business as of December 31, 2018, would have been 212.8% and 191.8% respectively.

Stock-based Lending Business

The following table sets forth the lending amount, market value of collaterals, collateral ratio and the impairment data of the stock-based lending business of the Group:

Unit: RMB in million

Items	As of December 31, 2018	As of December 31, 2017
Amounts of stock-based lending	**10,802.6**	11,789.9
Market value of collaterals	**24,413.1**	29,723.5
Collateral ratio	**226.0%**	252.1%
Loss allowance	**73.4**	14.4
Loss allowance/Stock-based lending	**0.7%**	0.1%

Unit: RMB in million

Item	2018	2017
Provision for/(reversal of) impairment losses	**38.6**	(0.8)

Note: The collateral ratio refers to the ratio of the total market value of the pledged collateral and its yields to the client's total amount payable to our Group.

Liquidity Risk

Liquidity risk refers to the risks arising from our Group's inability to obtain sufficient funds in a timely manner or inability to obtain sufficient funds at reasonable costs in a timely manner to respond to asset growth, settle debts due and satisfy the funding needs in conducting normal business operations.

Our Group implements vertical and centralized management on liquidity risks of all domestic and overseas branches and subsidiaries. Our Group has adopted the following measures to manage liquidity risk:

- Closely monitoring balance sheets of our Group and its branches and subsidiaries, and managing liquidity gaps between assets and liabilities;
- Setting liquidity risk limits based on our Group's overall situation and regulatory requirement;
- Conducting cash flow forecast and liquidity risk stress test on a regular and irregular basis to analyze and assess our liquidity risk exposure;
- Maintaining adequate high-quality liquid assets and establishing liquidity contingency plan for potential liquidity emergencies.

Management Discussion and Analysis

In order to withstand the potential liquidity risk and satisfy the short-term liquidity needs, our Group constantly holds sufficient unsecured and high-quality liquid assets as its liquidity reserves. The liquidity reserves are held by the Treasury Department and are managed independently from business departments. Our Group manages the liquidity reserves of all branches and subsidiaries vertically to ensure the allocation efficiency of the liquidity reserves. Meanwhile, due to the liquidity transfer restrictions between entities and regions, the liquidity reserves are held in various currencies and maintained within the Company and its major operating subsidiaries, ensuring that the liquidity requirements of different entities are met in a timely manner. Considering the credit events in the domestic bond market occurring at times in 2018 and the uncertainty of market liquidity risk, our Group optimizes the management of the liquidity reserves from the aspects of policy framework, risk management, investment size and criteria, etc. The size and composition of the liquidity reserves are actively managed by our Group based on the consideration of factors including, but not limited to, funding maturity profile, balance sheet size and composition, business and operational capital requirements, stress test results, and regulatory requirements. Our Group strictly limits the liquidity reserves to high-quality liquid assets including cash and cash equivalents, interest rate bonds and money market funds.

Our Group constantly broadens and diversifies its funding channels to optimize the liability structure. The funding instruments of our Group include perpetual subordinated bonds, subordinated bonds, corporate bonds, medium term note program, syndication loan, short-term commercial papers, beneficiary certificates, income right transfer, inter-bank borrowing, REPOs, etc. Our Group maintains good relationship with major commercial banks and had sufficient bank credit to meet the funding requirement for business development. In 2018, as assessed by China Chengxin Securities Rating Co., Ltd (中誠信證券評估有限公司) and China Chengxin International Credit Rating Company Limited (中誠信國際信用評級有限責任公司), the credit rating of our Company was AAA and the rating outlook was stable. As of the Latest Practicable Date, as assessed by Standard & Poor's, the long-term rating of the Group was BBB, the short-term rating was A-2 and the rating outlook is positive. As assessed by Moody's, the long-term rating of the Group was Baa1, the short-term rating was P-2 and the rating outlook was stable. As assessed by Fitch, the long-term rating of the Group was BBB+, the short-term rating was F2 and the rating outlook was stable.

During the Reporting Period, there was no substantial change in terms of substance and type of liquidity risks exposed to our Group. Our Group's liquidity risk management was sound, the liquid reserve was sufficient, and the liquidity risk was under control.

During the Reporting Period, the regulatory liquidity risk management indicator of our Company continued to comply with the regulatory requirements. As of December 31, 2018, the liquidity coverage ratio and the net stable funding ratio of our Company were 438.3% and 157.0%, respectively.

Operational Risk

Operational risk refers to the risks of losses resulting from failed or defective internal procedures or IT systems, human factors and external events.

Our Group has adopted the following measures to manage operational risk:

➢ Establishing a transparent organizational structure with a proper decision-making mechanism;

➢ Implementing sound policies and procedures and enforcing checks and balances;

➢ Establishing new product approval policy to define roles and responsibilities;

➢ Establishing a business continuity plan to ensure business continuity in the event of sudden business disruptions.

During the Reporting Period, there was no substantial change in nature and extent of operational risks exposed to our Group. Our Group continued to strengthen the operational risk management by enhancing IT systems and streamlining business procedures. Through developing business-related IT systems and optimizing and standardizing business procedures, our Group further improved the operation efficiency and reduced operational risk. Meanwhile, our Group continuously reinforces the firmwide culture of risk awareness and encourages all staff to proactively participate in operational risk management and to jointly control and manage risk.

Compliance Risk

Compliance risk refers to the risk of legal sanctions, regulatory actions, loss of property or damage to our reputation because of the violation of laws, regulations, self-regulatory rules or our internal policies arising from our operations and management activities or employee behavior.

Our Group has mainly adopted the following measures to manage and prevent compliance risk:

➢ Our Group formulates and updates our compliance policies and procedures in accordance with changes in laws, regulations and industry norms;

➢ Our Group conducts compliance reviews for new businesses. Our professional compliance team is responsible for examining new businesses and providing compliance advice. We implement effective compliance risk management measures at an early stage of new businesses;

➢ Our Group controls the circulation of sensitive information by monitoring information flows and establishing dynamic Chinese walls, with the aim to prevent risks of insider trading and manage conflicts of interest;

Management Discussion and Analysis

- ➢ Our Group has established a sound internal control system for anti-money laundering to fulfill our responsibilities for client identification and classification of client risk level. We identify and analyze suspicious transactions and promptly report to the regulators where necessary;

- ➢ Our Group undertakes compliance reviews in accordance with applicable laws, regulations, other regulatory documents, self-regulatory rules, industry norms and our internal policies, to monitor the compliance of our business operations and employee activities and identify and manage compliance risks in a proactive manner;

- ➢ Our Group adopts various means to cultivate a compliance culture with each business line, functional department and branch and provide compliance training to our employees to improve their compliance awareness;

- ➢ Our Group has established an accountability system in respect of employees' violations of laws, regulations and internal policies to impose applicable punishments on offenders.

During the Reporting Period, there was no substantial change in nature and extent of compliance risks exposed to our Group.

Legal Risk

Legal risk refers to the possible risk of economic loss or damage to our Group's reputation resulting from breach of contracts, infringement-related disputes, litigation or other legal disputes.

Our Group manages, controls and prevents legal risks mainly through the following measures:

- ➢ Our Group continuously enhances our internal policies and business procedures from a legal perspective to ensure that our operations and management satisfy the requirements of applicable laws and regulations;

- ➢ Our Group formulates templates for various business contracts and requires our business departments to use our in-house templates to the fullest extent. We also review contracts drafted or provided by counterparties prior to entering into such contracts to mitigate the legal risk associated with performing such contracts;

- ➢ The application, maintenance and protection of our trademarks, protection of our goodwill and trade secrets and taking actions against behavior that harms our reputation or interests;

- ➢ Our Group conducts legal training to enhance our employees' legal awareness;

- ➢ Our Group takes active measures to mitigate legal risks when disputes and litigation arise.

During the Reporting Period, there was no material change in the nature and extent of legal risks of our Group or in our ability to respond to legal risks.

Reputational Risk

Reputational risk refers to the risk of negative comments on our Group caused by our Group's operational activities, business management and other actions as well as external events. Reputational risk can occur in all business areas and activities, and our Group assesses and manages reputational risk across all areas such as operation management, business activities and employee behaviors.

Our Group has mainly adopted the following measures to manage and prevent reputational risk:

➢ All business departments take measures to prevent and control reputational risks across important business activities and processes, and strictly follow "Know your Customers (KYC)" principle, enhance project due diligence and quality control, as well as timely prevent and deal with potential reputational risk;

➢ Reinforcing the firm-wide culture of risk awareness for all employees and enhancing the professional ethics of employees through policy making and employee training; and any employee who causes a significant reputational loss to our Group due to any misconduct or improper behavior will be subject to disciplinary actions;

➢ The Public Relations Department monitors the overall reputational risk of our Group by public opinion monitoring and media communications, and takes proper actions to intervene in a timely manner according to the severity of events, and releases or communicates with media the correct information and stance related to our Group, so as to further prevent the spread of false information in public environment.

DIRECTORS' *Report*

Directors' Report

I. PRINCIPAL BUSINESSES OF OUR COMPANY

The principal businesses of our Company are Investment Banking, Equities, FICC, Wealth Management, Investment Management and relevant financial services. The business operations and prospects of our Company and risks possibly faced by our Company in our business activities are respectively set out in "Management Discussion and Analysis – III. Analysis of Principal Business" and "Management Discussion and Analysis – VI. Risk Management" of this report. Particulars of significant events affecting our Company are set out in "Other Significant Events" of this report. The key financial indicators of our Company are set out in "Summary of Accounting Data and Financial Indicators" and "Independent Auditor's Report and Notes to the Consolidated Financial Statements" of this report.

II. PROFIT DISTRIBUTION PLAN

1. According to the Company Law, the Securities Law and other laws and regulations and the Articles of Association, the 2018 profit distribution plan of the Company is proposed as follows:

   At the beginning of 2018, the Company's undistributed profits amounted to RMB1,678 million. In addition, the Company realized net profits of RMB1,854 million for 2018. After deducting the 2017 dividends allocated to the shareholders in 2018 of RMB671 million and the profits allocated to holders of other equity instruments of RMB57 million, and before appropriating the statutory surplus reserves, general risk reserves and trading risk reserves, the profits available for distribution of the Company at the end of 2018 amounted to RMB2,804 million.

   In accordance with the provisions under the relevant laws and regulations and the Articles of Association, the Company will distribute its profits for 2018 in the following order:

   (1) RMB185 million, or 10% of the profit of the Company in 2018, is to be appropriated to the statutory surplus reserve (the accumulated amount of the statutory surplus reserves of the Company will account for 12.7% of the registered capital of the Company after this contribution);

   (2) RMB186 million, or 10% of the profit, 2.5% of the custodian fee income for mutual funds and 10% of collective asset management fee income of the Company in 2018, is to be appropriated to the general risk reserves;

   (3) RMB185 million, or 10% of the profit of the Company in 2018, is to be appropriated to the trading risk reserves.

   The total contribution of the three items above is RMB556 million.

   After deducting of the three items above, the profits available for distribution of the Company at the end of 2018 is RMB2,248 million.

Note:

Certain amounts and percentage figures included in this report have been subject to rounding. Accordingly, the arithmetic sum shown may not be the total of the figures preceding them. Any discrepancies between the arithmetic sum shown and the total of the amounts listed are due to rounding.

2. Taking into account the Company's long-term development and the interests of shareholders, the profit distribution plan of the Company for 2018 is proposed as follows:

   (1) The Company will adopt the method of cash dividend payment for its 2018 profit distribution. The total proposed cash dividend to be distributed is RMB670,826,858.88 (tax inclusive). In case of any changes in the total number of issued Shares of the Company on the record date resulting from placing of Shares, Share repurchase or other reasons, the amount of cash dividend per Share will be adjusted accordingly, within the total amount of RMB670,826,858.88 (tax inclusive). On the basis of 4,192,667,868 Shares in issue of the Company as at the Latest Practicable Date, a cash dividend of RMB1.6 (tax inclusive) for every ten Shares held will be distributed.

   (2) The cash dividend will be denominated and declared in RMB, and paid in RMB and in Hong Kong dollars to holders of Domestic Shares and holders of H Shares, respectively. The actual amount distributed in Hong Kong dollars will be converted based on the average central parity of the exchange rate of RMB against Hong Kong dollars as announced by the People's Bank of China for the five working days prior to the date of the annual general meeting of the Company.

   Subject to approval of the resolution relating to the 2018 profit distribution plan by the annual general meeting, the cash dividend is expected to be paid on or around July 26, 2019.

   The Company will announce in due course the date of the 2018 annual general meeting and will give notice on the closure of its register of members to determine the shareholders eligible to attend and vote at the 2018 annual general meeting. The Company will make further notice on the record date, the closure date of its register of members and date of distribution of dividend.

III. ISSUANCE OF SHARES AND UTILIZATION OF PROCEEDS

On 23 March 2018, the Company issued 207,537,059 new H shares to Tencent Mobility Limited pursuant to the Subscription Agreement. For details, please refer to "Management Discussion and Analysis – V. Significant Investment and Financing Activities of Our Group – (ii) Equity Financing" in this report.

IV. ISSUANCE OF BONDS

In 2018, our Group completed the issuance of six tranches of corporate bonds of RMB9,500 million in aggregate and two tranches of subordinated bonds of RMB2,500 million in aggregate. The funds raised were used to repay debt financing instruments that were due, replenish the working capital and/or net capital of our Group. For details, please refer to "Management Discussion and Analysis – V. Significant Investment and Financing Activities of Our Group – (iii) Debt Financing" in this report.

Directors' Report

V. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a service contract with our Company. The Directors or Supervisors may be re-elected upon expiry of their term of office, upon the approval by the shareholders' general meeting (but the independent non-executive Directors shall not remain in office for over six years even if re-elected).

In addition, none of the Directors or Supervisors have entered into service contracts with our Company or any of its subsidiaries which cannot be terminated within one year without compensation (other than statutory compensation).

VI. PERMITTED INDEMNITY

Our Company has maintained liability insurance policies for its Directors, Supervisors and senior management. All policies are underwritten by domestic and overseas renowned insurance companies, and our Company regularly reviews the policies.

VII. DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which our Company or its subsidiaries was a party and in which a Director or Supervisor of our Company had a material interest, directly or indirectly, has been entered into during the Reporting Period.

VIII. DIRECTORS' INTERESTS IN BUSINESSES THAT COMPETE WITH THE BUSINESSES OF OUR COMPANY

Save as disclosed in the "Directors, Supervisors, Senior Management and Employees – II. Biographies of Directors, Supervisors and Senior Management" of this report, none of the Directors has any disclosable interests in any business competing against the businesses of our Company.

IX. RIGHTS OF DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

As of December 31, 2018, none of the Directors, Supervisors or their respective spouses or minor children under the age of 18 years were granted with rights, or had exercised any such rights, to acquire benefits by means of purchasing Shares or debentures of our Company. Neither our Company nor any of its subsidiaries were a party to any arrangements to enable the Directors, Supervisors or their respective spouses or minor children under the age of 18 years to acquire such rights from any other body corporates.

X. MANAGEMENT CONTRACTS

Save for employment contracts with employees, our Company did not enter into any contracts nor had any existing contracts in respect of all or any significant part of management and administration of business of our Company during the Reporting Period.

XI. OTHER DISCLOSURES

(i) Pre-emptive Rights

Our Company currently has no arrangements in respect of pre-emptive rights according to the provisions under the PRC laws and the Articles of Association.

(ii) Reasons for and Impact from Changes of Accounting Policies, Accounting Estimates or Correction of Major Accounting Errors

The IASB has issued a number of new standards and amendments to IFRSs including IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from contracts with customers*. The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39. For details of the changes in accounting policies, please refer to "Notes to the Consolidated Financial Statements – 2 Significant accounting policies – (c) Changes in accounting policies".

(iii) Tax Relief and Exemption Information for Holders of H Shares

The holders of H Shares of our Company shall pay relevant tax and/or enjoy tax relief and exemption in accordance with the following provisions:

According to the Individual Income Tax Law of the People's Republic of China (《中華人民共和國個人所得稅法》) and its implementation rules, dividends paid to individuals by PRC companies are generally subject to an individual income tax levied at a flat rate of 20%. For an individual who has no domicile in the PRC and is not resident in the territory of the PRC or who has no domicile in the PRC and has been resident in the territory of the PRC for less than 183 days cumulatively within a tax year, his/her receipt of dividends from a PRC company is normally subject to a PRC withholding tax of 20% unless specifically exempted or reduced by an applicable tax treaty and other tax laws and regulations.

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

Pursuant to the "Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets" (Cai Shui [2014] No.81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014]81號)) and the "Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets" (Cai Shui [2016] No.127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)) jointly promulgated by the Ministry of Finance, the State Administration of Taxation and the CSRC, for dividends derived by Mainland individual investors from investing in H Shares listed on the Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect, H-share companies shall withhold individual income tax at a tax rate of 20% for the investors. For mainland securities investment funds investing in shares listed on Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect, the above rules also apply and individual income tax shall be levied on dividends derived therefrom. Dividends derived by mainland enterprise investors from investing in shares listed on Hong Kong Stock Exchange through Shanghai Hong Kong Stock Connect or Shenzhen Hong Kong Stock Connect shall be reported and paid by the enterprise investors themselves. H-share companies will not withhold or pay enterprise income tax on their behalf in the distribution of dividends. For dividends derived by mainland resident enterprises where the relevant H shares have been continuously held for more than 12 months, the enterprise income tax thereon may be exempt according to the tax law.

(iv) Reserves and Distributable Reserves

For the movement of distributable profit, please refer to the "Consolidated Statement of Changes in Equity" and the "Notes to the Consolidated Financial Statements" of this report.

(v) Major Clients and Suppliers

We have a high-quality and diversified client base (primarily consisting of industry-leading corporations, institutional investors and high-net-worth individuals). We develop and maintain long-term cooperation with clients and are dedicated to providing them with a comprehensive suite of products and services. We have won our clients' loyalty through our deep engagement and our thorough knowledge and understanding of their businesses. Our clients always entrust us to handle their strategically important and structurally sophisticated transactions.

In 2018, income and other revenue from our top five clients did not exceed 10% of our total revenue and other income.

By virtue of the nature of our business, we have no major suppliers.

Other Significant Events

I. MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Group did not have any material litigation or arbitration.

II. MATERIAL CONTRACTS AND EXECUTION

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

III. CONNECTED TRANSACTIONS

The Group conducts connected transactions in strict compliance with the Listing Rules, "Policy on Information Disclosure Management of China International Capital Corporation Limited" and "Policy on Management of Connected Transactions of China International Capital Corporation Limited". The Group's connected transactions are conducted based on the principles of equity, openness and fairness, and the connected transaction agreements are entered into based on the principles of equality, voluntariness, equivalence and compensation. During the Reporting Period, the Group did not conduct any non-exempt connected transactions or continuing connected transactions in accordance with the Listing Rules.

For the year ended December 31, 2018, no related party transactions as set out in "Notes to the Consolidated Financial Statements – 50 Related Party Relationships and Transactions" constitute connected transactions or continuing connected transactions required to be disclosed under the Listing Rules.

IV. MATERIAL ACQUISITIONS AND DISPOSALS DURING THE REPORTING PERIOD

The Group did not have any material acquisitions, disposals, swaps and asset reorganizations relating to its of subsidiaries, associates, joint operations or joint ventures during the Reporting Period.

V. COMPLIANCE WITH LAWS AND REGULATIONS

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

Other Significant Events

VI. SUBSEQUENT EVENTS

For detailed information of the Group's issuance and redemption of debt securities and information of changes in shares in 2019 and up to the date of approving the Group's financial statements, please refer to "Notes to the Consolidated Financial Statements – 58 SUBSEQUENT EVENTS".

VII. TALENT MANAGEMENT MECHANISM

In order to better cultivate the sense of ownership and entrepreneurship, and establish a partnership culture that reflects the alignment of employees' and shareholders' interests within our Group, as approved by the Board of Directors, the Company announced to implement the Participating Managing Director Program (the "PMD" Program) during the Reporting Period, and selected a group of PMDs who recognized the values of CICC and made positive contributions to our Group's growth and development from various business lines and management functions of our Group.

As an important measure of corporate culture building and talent cultivation, the PMDs undertake the mission of promoting business development, participating in institutional building and nurturing talent team, and will be committed to the corporate culture of courage, pioneering and teamwork, so as to make greater contributions to the development and innovation of our Group.

VIII. SECURITIES OF OUR COMPANY BOUGHT BY EMPLOYEES

According to the statistics conducted by our Company, from January 1, 2018 up to the date of this report, certain Directors, Senior Management, PMDs and senior staff of our Company collectively and voluntarily bought H Shares of our Company out of their own funds on a voluntary basis at their own risks, which involved approximately 41 million H Shares in aggregate, representing approximately 1.0% of the total issued share capital of our Company.

The voluntary purchase of Shares represents the confidence of the Directors, Senior Management, PMDs and senior staff of our Group, which is conducive to the establishment of a corporate culture of strong sense of responsibility and ownership.

Changes in Shares and Information of Substantial Shareholders

As of December 31, 2018, the share capital structure of our Company is as follows:

Name of shareholders	Number and class of securities	Approximate percentage of shareholding in the total share capital of our Company	Approximate percentage of shareholding in the relevant class of shares
Huijin	2,334,655,680 Domestic Shares	55.684%	94.714%
Jianyin Investment	911,600 Domestic Shares	0.022%	0.037%
JIC Investment	911,600 Domestic Shares	0.022%	0.037%
China Investment Consulting	911,600 Domestic Shares	0.022%	0.037%
Tencent Mobility Limited	207,537,059 H Shares	4.950%	12.012%
TPG	171,749,719 H Shares	4.096%	9.941%
GIC	158,162,635 H Shares	3.772%	9.154%
I&G	127,562,960 Domestic Shares	3.043%	5.175%
Mingly	122,559,265 H Shares	2.923%	7.094%
Public shareholders of H Shares	1,067,705,750 H Shares	25.466%	61.799%

I. CHANGES IN SHARE CAPITAL

On March 23, 2018, the Company completed the issue of 207,537,059 new H Shares to Tencent Mobility Limited. Accordingly, the number of the Company's H Shares and the total issued Shares increased to 1,727,714,428 H Shares and 4,192,667,868 Shares, respectively.

As at the end of the Reporting Period, the total issued Shares of our Company was 4,192,667,868 Shares, of which, 2,464,953,440 were Domestic Shares and 1,727,714,428 were H Shares. Please refer to "Management Discussion and Analysis – V. Significant Investment and Financing Activities of Our Group – (ii) Equity Financing" of this report for details.

Changes in Shares and Information of Substantial Shareholders

II. SHAREHOLDERS

As of December 31, 2018, our Company had 5 domestic Shareholders and 446 registered holders of H Shares.

As of December 31, 2018, Huijin was interested in approximately 55.75% of the total capital of our Company directly and indirectly.

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

III. DISCLOSURE OF INTERESTS

Directors', Supervisors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of our Company and Its Associated Corporations

As of December 31, 2018, the interests or short positions of the Directors, Supervisors and chief executive of our Company in the shares, underlying shares or debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by our Company under section 352 of the SFO, or as otherwise notified to our Company and the Hong Kong Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Listing Rules were as follows:

Name of Director/ Supervisor/ Chief Executive	Class of Shares	Capacity	Number of Securities/ Type of shares held	Approximate percentage of shareholding in the total share capital of our Company	Approximate percentage of shareholding in the relevant class of shares
David Bonderman	H Shares	Interest of controlled corporation *(Note 1)*	171,749,719/ Long positions	4.096%	9.941%
Cha Mou Daid Johnson	H Shares	Beneficial owner	753,600/ Long positions	0.018%	0.044%
		Beneficiary of a discretionary trust *(Note 2)*	122,559,265/ Long positions	2.923%	7.094%
Liu Haifeng David	H Shares	Founder of a discretionary trust *(Note 3)*	636,400/ Long positions	0.015%	0.037%
		Interest of controlled corporation *(Note 4)*	779,600/ Long positions	0.019%	0.045%
Bi Mingjian	H Shares	Beneficiary of a trust *(Note 5)*	1,568,355/ Long positions	0.037%	0.091%
Edwin Roca Lim	H Shares	Beneficial owner	356,000/ Long positions	0.008%	0.021%
Siu Wai Keung	H Shares	Beneficial owner	100,000/ Long positions	0.002%	0.006%

Changes in Shares and Information of Substantial Shareholders

Notes:

(1) The interests deemed to be held by Mr. David Bonderman consists of 171,749,719 H Shares held by TPG. Each of TPG Asia GenPar V, L.P. (as general partner of TPG), TPG Asia GenPar V Advisors, Inc. (as general partner of TPG Asia GenPar V, L.P.), TPG Holdings I, L.P. (as the sole member of TPG Asia GenPar V Advisors, Inc.), TPG Holdings I-A, LLC (as general partner of TPG Holdings I, L.P.), TPG Group Holdings (SBS), L.P. (as the sole member of TPG Holdings I-A, LLC and the sole member of TPG Holdings II-A, LLC), TPG Group Holdings (SBS) Advisors, LLC (as general partner of TPG Group Holdings (SBS), L.P.), TPG Group Holdings (SBS) Advisors, Inc. (as the sole member of TPG Group Holdings (SBS), Advisors, LLC), Mr. David Bonderman and Mr. James Coulter (each holds a 50% interest in TPG Group Holdings (SBS) Advisors, Inc.), as well as TPG Capital Management, L.P. (as the registered investment adviser to TPG), TPG Capital Advisors, LLC (as the sole member of TPG Capital Management, LLC, which is the general partner of TPG Capital Management, L.P.), TPG Holdings II Sub, L.P. (as the sole member of TPG Capital Advisors, LLC), TPG Holdings II, L.P. (as general partner of TPG Holdings II Sub, L.P.), TPG Holdings II-A, LLC (as general partner of TPG Holdings II, L.P.), is deemed to be interested in the H Shares held by TPG under the SFO. Mr. Bonderman and Mr. Coulter disclaim beneficial ownership of the securities held by TPG.

(2) The interests deemed to be held by Mr. Cha Mou Daid Johnson consists of 122,559,265 H Shares held by Mingly. Mingly is held by certain discretionary trusts as to 96.12% as at December 31, 2018, of which CCM Trust (Cayman) Limited, LBJ Regents Limited and Dolios Limited are the corporate trustees, and Mr. Cha Mou Daid Johnson is among the members of the class of discretionary beneficiaries.

(3) Mr. Liu Haifeng David is interested in 636,400 H Shares through a discretionary trust, The Liu Family Legacy Trust, of which he is the founder.

(4) New Trace Limited is wholly-owned by Mr. Liu Haifeng David. Therefore, Mr. Liu Haifeng David is deemed to be interested in 779,600 H Shares held by New Trace Limited for the purpose of the SFO.

(5) Mr. Bi Mingjian holds interests through COFCO Trust Co., Ltd. Qiyuan No.2 Collective Fund Trust Scheme, the trust scheme established by COFCO Trust Co., Ltd.

Substantial Shareholders' Interests or Short Positions

As of December 31, 2018, to the knowledge of our Company and the Directors after making reasonable inquiries, the following persons (other than the Directors, Supervisors and chief executive of our Company as disclosed above) have interests or short positions in shares or underlying shares which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be maintained by our Company under Section 336 of the SFO:

Name of Shareholders	Class of Shares	Capacity	Number of securities/Type of Shares held	Approximate percentage of shareholding in the total share capital of our Company	Approximate percentage of shareholding in the relevant class of shares
Huijin *(Note 1)*	Domestic Shares	Beneficial owner	2,334,655,680/ Long positions	55.684%	94.714%
		Interest of controlled corporation	2,734,800/ Long positions	0.065%	0.111%
Tencent Holdings Limited *(Note 2)*	H Shares	Interest of controlled corporation	207,537,059/ Long positions	4.950%	12.012%
TPG *(Note 3)*	H Shares	Beneficial owner	171,749,719/ Long positions	4.096%	9.941%
GIC	H Shares	Investment manager	158,162,635/ Long positions	3.772%	9.154%
I&G *(Note 4)*	Domestic Shares	Beneficial owner	127,562,960/ Long positions	3.043%	5.175%
Mingly *(Note 5)*	H Shares	Beneficial owner	122,559,265/ Long positions	2.923%	7.094%
OppenheimerFunds, Inc.	H Shares	Investment manager	91,913,460/ Long positions	2.192%	5.320%
JPMorgan Chase & Co.	H Shares	Interest of controlled corporation	4,426,011/ Long positions	0.106%	0.256%
			2,889,665/ Short positions	0.069%	0.167%
		Investment manager	36,400/ Long positions	0.0009%	0.002%
		Person having a security interest in shares	254,102/ Long positions	0.006%	0.015%
		Approved lending agent	97,864,498/ Long positions	2.334%	5.664%

Notes:

(1) Each of Jianyin Investment, JIC Investment and China Investment Consulting is wholly owned by Huijin. Therefore, Huijin is deemed to be interested in 2,734,800 Domestic Shares held by Jianyin Investment, JIC Investment and China Investment Consulting pursuant to the SFO. In addition, according to the share transfer agreement dated June 6, 2018 between Huijin and Haier Group (Qingdao) Financial Holdings Ltd., Huijin agreed to transfer to Haier Group (Qingdao) Financial Holdings Ltd. 398,500,000 Domestic Shares (representing approximately 9.505% of the total issued Shares of our Company and approximately 16.167% of the relevant class of Shares) it held in the Company at a consideration of RMB5,411.63 million. The share transfer has been approved by the CSRC and other regulatory authorities, and relevant registration procedures of the register of members of the share transfer were completed on March 11, 2019. Each of Haier Electric International Co., Ltd. (as the sole member of Haier Group (Qingdao) Financial Holdings Ltd.), Qingdao Haichuangke Management Consulting Enterprise (Limited Partnership) (holding 48.8% interest in Haier Electric International Co., Ltd.), Haier Group Corporation (holding 51.2% interest in Haier Electric International Co., Ltd.), and Qingdao Haichuangke Investment Management Co., Ltd. (as general partner of Qingdao Haichuangke Management Consulting Enterprise (Limited Partnership) and a member holding its 10% interest), is deemed to be interested in the Domestic Shares held by Haier Group (Qingdao) Financial Holdings Ltd. under the SFO.

(2) As at December 31, 2018, Tencent Mobility Limited, directly interested in 207,537,059 H Shares, is a corporation controlled by Tencent Holdings Limited, which is therefore deemed to be interested in the H Shares held by Tencent Mobility Limited.

(3) Each of TPG Asia GenPar V, L.P. (as general partner of TPG), TPG Asia GenPar V Advisors, Inc. (as general partner of TPG Asia GenPar V, L.P.), TPG Holdings I, L.P. (as the sole member of TPG Asia GenPar V Advisors, Inc.), TPG Holdings I-A, LLC (as general partner of TPG Holdings I, L.P.), TPG Group Holdings (SBS), L.P. (as the sole member of TPG Holdings I-A, LLC and the sole member of TPG Holdings II-A, LLC), TPG Group Holdings (SBS) Advisors, LLC (as general partner of TPG Group Holdings (SBS), L.P.), TPG Group Holdings (SBS) Advisors, Inc. (as sole member of TPG Group Holdings (SBS) Advisors, LLC), Mr. David Bonderman and Mr. James Coulter (each holds a 50% interest in TPG Group Holdings (SBS) Advisors, Inc.), as well as TPG Capital Management, L.P. (as the registered investment adviser to TPG), TPG Capital Advisors, LLC (as the sole member of TPG Capital Management, LLC, which is the general partner of TPG Capital Management, L.P.), TPG Holdings II Sub, L.P. (as the sole member of TPG Capital Advisors, LLC), TPG Holdings II, L.P. (as general partner of TPG Holdings II Sub, L.P.), TPG Holdings II-A, LLC (as general partner of TPG Holdings II, L.P.), is deemed to be interested in the H Shares held by TPG under the SFO. Mr. Bonderman and Mr. Coulter disclaim beneficial ownership of the H Shares held by TPG.

(4) As at December 31, 2018, State Development & Investment Corporation (國家開發投資公司), a PRC state-owned enterprise, holds approximately 47.20% shares of I&G and is therefore deemed to be interested in the domestic Shares held by I&G under the SFO.

(5) As at December 31, 2018, Mingly is held by certain, but not identical discretionary trusts, as to 96.12%, of which CCM Trust (Cayman) Limited, LBJ Regents Limited and Dolios Limited are the corporate trustees and members of the classes of discretionary beneficiaries of these trusts comprise the late Dr. Cha Chi Ming's issue.

(6) As at the Latest Practicable Date, Des Voeux Investment Company Limited held 202,844,235 H Shares of the Company, representing approximately 4.84% of total issued Shares of the Company and approximately 11.74% of the relevant class of shares. Des Voeux Investment Company Limited is wholly-owned by Alibaba Group Treasury Limited which is wholly owned by Alibaba Group Holding Limited. Therefore, Alibaba Group Treasury Limited and Alibaba Group Holding Limited are deemed to be interested in 202,844,235 H Shares held by Des Voeux Investment Company Limited under the SFO.

IV. SUFFICIENT PUBLIC FLOAT

As at the Latest Practicable Date and based on the information available to our Company and to the knowledge of the Directors, our Company's public float complies with the requirements of Rule 8.08 of the Listing Rules.

V. PURCHASE, SALE OR REDEMPTION OF SECURITIES OF OUR COMPANY

During the year ended December 31, 2018, neither our Company nor its subsidiaries has purchased, sold or redeemed any of our Company's securities.

Directors, Supervisors, Senior Management and Employees

I. BASIC INFORMATION ON THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

As at the Latest Practicable Date, the basic information on the Directors, Supervisors and senior management of the Company is as follows:

Name	Position	Gender	Age	Appointment date
DIRECTORS				
Bi Mingjian (畢明建) Note 1	Executive Director	Male	63	May 2015
	Chief Executive Officer			March 2015
	Chairman of the Management Committee			March 2015
Zhao Haiying (趙海英)	Non-executive Director	Female	54	August 2011
David Bonderman (大衛 • 龐德文)	Non-executive Director	Male	76	November 2010
Liu Haifeng David (劉海峰)	Non-executive Director	Male	48	February 2015
Shi Jun (石軍)	Non-executive Director	Male	46	December 2013
Cha Mou Daid Johnson (查懋德)	Non-executive Director	Male	67	October 2002
Edwin Roca Lim (林重庚)	Independent Non-executive Director	Male	78	May 2015
Liu Li (劉力)	Independent Non-executive Director	Male	63	June 2016
Siu Wai Keung (蕭偉強)	Independent Non-executive Director	Male	64	May 2015
Ben Shenglin (賁聖林)	Independent Non-executive Director	Male	53	May 2015
SUPERVISORS				
Gao Tao (高濤)	Chairman of the Supervisory Committee	Male	54	June 2017
	Employee Representative Supervisor			June 2017
Liu Haoling (劉浩凌)	Supervisor	Male	47	May 2015
Jin Lizuo (金立佐)	Supervisor	Male	61	May 2015

Note:

(1) Mr. Bi Mingjian has started to perform the duties of the Chairman of the Board since March 1, 2017 till the new Chairman of the Board is elected.

Directors, Supervisors, Senior Management and Employees

Name	Position	Gender	Age	Appointment date
SENIOR MANAGEMENT				
Bi Mingjian (畢明建)	See "Directors" above			
Chu Gang (楚鋼)	Chief Operating Officer	Male	55	April 2015
	Member of the Management Committee			April 2015
Wong King Fung (黃勁峯)	Chief Financial Officer	Male	50	February 2017
	Member of the Management Committee			February 2017
Hu Changsheng (胡長生)	Member of the Management Committee	Male	53	June 2017
Huang Zhaohui (黃朝暉)	Member of the Management Committee	Male	55	April 2015
Huang Haizhou (黃海洲)	Member of the Management Committee	Male	56	April 2015
Liang Hong (梁紅)	Member of the Management Committee	Female	50	April 2015
Cheng Qiang (程強)	Member of the Management Committee	Male	51	April 2015
Ding Wei (丁瑋)	Member of the Management Committee	Male	59	January 2018
Wu Bo (吳波)	Member of the Management Committee	Male	41	April 2018
Zhang Fengwei (張逢偉)	Chief Risk Officer	Male	51	June 2017
Chen Gang (陳剛)	Chief Compliance Officer	Male	46	August 2016
Lu Xu (呂旭)	Chief Technology Officer	Male	65	April 2015
Xu Yicheng (徐翌成)	Secretary to the Board of Directors	Male	44	April 2018
Ma Kui (馬葵)	Financial Controller	Female	47	May 2015
Wang Sheng (王晟)	Assistant President	Male	41	March 2018
Yang Xinping (楊新平)	Assistant President	Female	63	February 2017

Please refer to "Notes to the Consolidated Financial Statements – 13 Directors' and Supervisors' Remuneration" of this report for the remuneration of the Directors and Supervisors.

II. BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

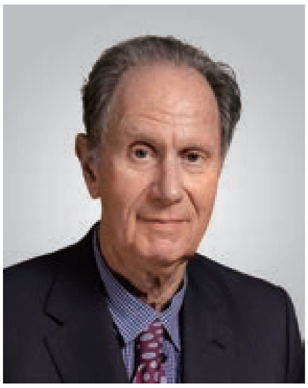
Directors

Mr. Bi Mingjian (畢明建), aged 63, has been appointed as Director of our Company since May 2015, and Non-executive Director of CISC since March 2017. He has also served as the Chief Executive Officer and Chairman of the Management Committee of our Company since March 2015. He joined the Group in August 1995 and participated in the establishment of our Company. He held several positions in the Group, including Deputy Chief Executive Officer, member and Acting Chairman of the Management Committee, Co-Chief Operating Officer and Co-Head of the Investment Banking Department from August 1995 to February 2006. He served as a Senior Advisor to our Company from March 2006 to November 2012. He served as a Managing Partner of HOPU Investment Management Co., Ltd. from November 2012 to March 2015. Prior to August 1995, he served as the Deputy Division Chief of the State Farms and Reclamation Bureau of the Ministry of Agriculture from January 1984 to December 1985, Operation Officer of the World Bank Representative Office in China from December 1985 to June 1988, Deputy Director of the project office of China Rural Trust and Investment Corporation from June 1988 to October 1988 and Project Economist and Advisor of the World Bank from October 1988 to January 1994. He currently serves as Director of a number of subsidiaries of our Company. Mr. Bi obtained a diploma in English from East China Normal University (華東師範大學) in December 1982 and a master of business administration degree from George Mason University, the United States, in January 1993.

Ms. Zhao Haiying (趙海英), aged 54, has been appointed as a Director of our Company since August 2011. She taught at the Business School of Hong Kong University of Science and Technology from 1992 to 1995. She also served as a consultant for the Asian Development Bank from 1995 to 1997 and taught at the School of Economics and Finance of The University of Hong Kong from 1995 to 2001. She served as a commissioner of the Strategy and Development Commission of the CSRC from January 2001 to January 2002, deputy director of the Department of Public Offering Supervision of the CSRC from January 2002 to October 2005, director of the Industrial and Commercial Bank of China Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 1398) and the Shanghai Stock Exchange (Stock Code: 601398), from October 2005 to December 2008 and, in the meantime, the head of the department of research and legal affairs of Huijin from May 2006 to September 2007. She served as head of the department of asset allocation and strategic research of CIC from December 2007 to October 2009, vice general manager of Huijin as well as the director of its non-bank department from October 2009 to February 2012, and a director of New China Life Insurance Company Ltd., a company listed on the Hong Kong Stock Exchange (Stock Code: 1336) and Shanghai Stock Exchange (Stock Code: 601336), from December 2009 to March 2016. She was a member of executive committee of CIC and the Executive Vice President of Huijin as well as the director of its securities institution management department from February 2012 to April 2012. She was a member of the executive

Directors, Supervisors, Senior Management and Employees

committee of CIC and the Executive Vice President of Huijin from April 2012 to April 2015. She was a member of the executive committee of CIC and the Executive Vice President of Huijin as well as the director of its securities institution management department/insurance institution management department from April 2015 to October 2015. She also served as a committee member of the 11th, the 12th and the 13th National Committee of the Chinese People's Political Consultative Conference. Ms. Zhao served as the chief risk officer of CIC since October 2015. Ms. Zhao received a bachelor's degree in precision instrument from Tianjin University (天津大學) in 1984 and a doctoral degree in economics from the University of Maryland, the United States, in 1992.



Mr. David Bonderman (大衛•龐德文), aged 76, has been appointed as a Director of our Company since November 2010. He is a founding partner of Texas Pacific Group ("TPG"), an affiliate of one of the substantial shareholders of our Company. Through its global buyout platform, TPG generally makes significant investments in operating companies through acquisitions and restructurings across a broad range of industries globally. Prior to forming TPG in 1992, he was Chief Operating Officer of the Robert M. Bass Group, Inc. (RMBG), now doing business as Keystone Group, L.P. in Fort Worth, Texas. Prior to joining RMBG in 1983, he was a partner in the law firm of Arnold & Porter in Washington, D.C., where he specialized in corporate, securities, bankruptcy and antitrust litigation. From 1969 to 1970, he was a Fellow in Foreign and Comparative Law in conjunction with Harvard University and from 1968 to 1969 he was Special Assistant to the U.S. Attorney General in the Civil Rights Division. From 1967 to 1968, he was Assistant Professor at Tulane University School of Law in New Orleans. Mr. Bonderman currently serves on a number of boards, including director of Ryanair Holdings Plc, a company listed on the Irish Stock Exchange (Ticker: RYA), London Stock Exchange (Ticker: RYA) and NASDAQ (Ticker: RYAAY) since August 1996, director of TPG Pace Holdings Corp., a company listed on the New York Stock Exchange (Ticker: TPGH) since April 2017, and director of Allogene Therapeutics, Inc., a company listed on the NASDAQ (Ticker: ALLO) since May 2018. In addition, he serves on the boards of The Wilderness Society, the American Himalayan Foundation, the Rock and Roll Hall of Fame Foundation, and the Grand Canyon Trust. Mr. Bonderman has also served as a director in, among others, TPG Pace Energy Holdings Corp., a company listed on the New York Stock Exchange (Ticker: TPGE), from April 2017 to July 2018; Caesars Entertainment Corporation (formerly known as Harrah's Entertainment, Inc.), a company listed on the NASDAQ (Ticker: CZR), from January 2008 to October 2017; Kite Pharma, Inc., a company listed on the NASDAQ (Ticker: KITE), from March 2011 to October 2017; Costar Group, Inc. (formerly known as Realty Information Group), a company listed on the NASDAQ (Ticker: CSGP), from May 1995 to June 2015; Armstrong World Industries, Inc., a company listed on the New York Stock Exchange (Ticker: AWI), from September 2009 to June 2012; General Motors Company, a company listed on the New York Stock Exchange (Ticker: GM), from July 2009 to June 2014; VTB Group, a company listed on the Moscow Exchange (Ticker: VTBR) and London Stock Exchange (Ticker: VTBR LI), from March 2011 to June 2014; and Pace Holdings Corp. (formerly known as Paceline Holdings Corp.), a company listed on the NASDAQ (Ticker:

PACE), from July 2015 to March 2017. In June 1963, Mr. Bonderman obtained a bachelor's degree in Slavic languages and literatures: Russian from University of Washington in the United States. In June 1966, he graduated magna cum laude from Harvard Law School in the United States, with a bachelor's degree in Law. He was a member of the Harvard Law Review and a Sheldon Fellow.

Please refer to "Directors, Supervisors and Senior Management – Board of Directors" of the Prospectus for further details on Mr. Bonderman's civil proceedings. In addition, the following sets forth the updates of Mr. Bonderman's civil proceedings as referred to in the Prospectus: (i) in respect of the voluntary bankruptcy petition filed by Caesars Entertainment Operating Company, Inc. ("CEOC"), the Bankruptcy Court for the District of Illinois confirmed a plan of reorganization in January 2017, which became effective in October 2017; (ii) in respect of the claims filed by various trustees of notes issued by CEOC, these proceedings were discharged when the plan of reorganization became effective; and (iii) a claim arising from the acquisitions of TIM Hellas Telecommunications, S.A. and Q Telecommunications S.A. brought to the High Court of Justice of England in December 2016 was voluntarily dismissed in February 2018.

Mr. Liu Haifeng David (劉海峰), aged 48, has been appointed as a Director of our Company since February 2015. He is the Co-founder and the Chairman of DCP Capital. Mr. Liu previously served as Partner of KKR, Co-Head of KKR Asia Private Equity and CEO of KKR Greater China. Prior to joining KKR, Mr. Liu was Managing Director and Co-head of Morgan Stanley Private Equity Asia. Mr. Liu has established outstanding long-term investment track records over the past 26 years of direct investment, and was responsible for a number of successful and innovative private equity investments in Greater China, such as Ping An Insurance, Mengniu Dairy, Qingdao Haier Co., Sunner Poultry, Belle International, Far East Horizon, Nanfu Battery, Modern Dairy, United Envirotech, CICC, China Cord Blood, Paradise Retail, Hengan International, COFCO Meat, Yuehai Feed, Asia Dairy, Venus Medtech, etc. Mr. Liu also serves as a non-executive director of Far East Horizon Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 3360), since October 2009; a non-executive director of Qingdao Haier Co., Ltd., a company listed on the Shanghai Stock Exchange (Stock Code: 600690), since September 2014; and a non-executive director of Sunpower Group, a company listed on the Singapore Main Board (Stock Code: SUNP) since November 2017. Mr. Liu graduated from Columbia University as Class Salutatorian with a B.S. in Electrical Engineering. He is a member of Tau Beta Pi National Engineering Honor Society and a winner of the Edwin Howard Armstrong Memorial Award for the top electrical engineering student at Columbia University. "KKR" as defined in this paragraph means Kohlberg Kravis Roberts & Co. L.P. together with its affiliates.

Directors, Supervisors, Senior Management and Employees

Mr. Shi Jun (石軍), aged 46, has been appointed as a Director of our Company since December 2013. He held several positions in I&G, one of the shareholders of our Company, including a deputy general manager of the department of market development (II), general manager of department of financial products, principal of the center of financial products and general manager of the department of general financial products and the executive president and he was in charge of the investment, wealth management and internet finance businesses since July 1996. Mr. Shi currently serves as the president of I&G since April 2016, and he is responsible for the overall management work. Mr. Shi has been admitted as a lawyer in the PRC since April 2001 and has been qualified as a CFA charter holder of the CFA Institute since September 2007. Mr. Shi obtained a bachelor's degree in economics specializing in insurance from Shanghai University of Finance and Economics (上海財經大學) in June 1996 and a master of business administration degree from Tsinghua University (清華大學) in January 2011. He also completed the executive master of business administration program and obtained a master of business administration degree from China Europe International Business School (中歐國際工商學院) in August 2014.

Mr. Cha Mou Daid Johnson (查懋德), aged 67, has been appointed as a Director of our Company since October 2002. He currently serves as a director of C.M. Capital Advisors (HK) Limited. He has been the chairman of C.M. Capital Corporation since 2000. He has also served as a board member and non-executive director of HKR International Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 480) since 1989 and December 2004 respectively, and as a non-executive director of Hanison Construction Holdings Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 896) since November 2001. He has been appointed as a non-executive director of Mingly, one of the substantial shareholders of our Company, since April 2000 and currently as an independent non-executive director and a member of the nomination committee, risk management committee, chairman of the remuneration committee and the former chairman of the audit committee of Shanghai Commercial Bank Limited since September 2001. He also holds directorships in other private companies in Hong Kong and overseas. Mr. Cha is active in many non-profit organizations serving as trustee, advisor or committee member. Since 1989, he has served at various institutions at different times in the following capacities: currently a board member of Qiu Shi Science & Technologies Foundation, a founding member of the Moral Education Concern Group, and a council member and a member of the Finance Committee of the Hong Kong University of Science and Technology, a member of the Presidents' Global Advisory Council at Carnegie Mellon University. Previously, as a member of The Hong Kong Government Advisory Council in Innovation and Technology; a trustee and chairman of Investment Committee of the Croucher Foundation; a council member and a member of the Finance Committee and Investment Sub-Committee of The Chinese University of Hong Kong; a trustee of the Mathematical Sciences Research Institute in the United States; a member of the Advisory Council of the Graduate School of Business of Stanford University; a member of Investment Committee, Foundation member, and board of trustee of University of California, San Francisco; an advisory board member of the College of Letters and Science of University of California, Los Angeles; and a member of Advisory Council of the Business School of University of San Francisco. Mr. Cha obtained a bachelor's degree in chemistry from Carnegie Mellon University, the United States, in May 1973 and a master of business administration degree from the Graduate School of Business of Stanford University, the United States, in June 1976.

Mr. Edwin Roca Lim (林重庚), aged 78, has been appointed as a Director of our Company since May 2015. He served as a lecturer at The University of Hong Kong from 1965 to 1970. He joined the World Bank Group in May 1970 and held several positions, including economist, senior economist, lead economist for China, chief representative in China, director in charge of West Africa and of India. He was granted external service leave by the World Bank Group for two years from February 1994 to lead the organization of an investment bank in China. This initiative led to the establishment of our Company. In this context, he served as a senior advisor to Morgan Stanley from March 1994 to May 1995 and as the Chief Executive Officer of our Company from June 1995 to December 1995. He returned to the World Bank Group in January 1996 and served as director in charge of India until he retired in August 2002. Mr. Lim obtained a bachelor's degree in public and international affairs from Princeton University, the United States, in June 1962 and a doctoral degree in economics from the Graduate School of Arts and Sciences of Harvard University, the United States, in June 1970. He also completed the advanced management program at Harvard Business School of Harvard University, the United States, in May 1993.

Mr. Liu Li (劉力), aged 63, has been appointed as a Director of our Company since June 2016. He currently holds positions such as a Finance Professor in Guanghua School of Management of Peking University and Deputy Head and Doctoral Supervisor in Finance and Securities Research Center of Peking University. Mr. Liu has been teaching in Guanghua School of Management (formerly known as Economic Management Department of School of Economics) of Peking University since January 1986, and had been teaching in Beijing Institute of Iron and Steel from September 1984 to December 1985. He served as an independent non-executive director of Metallurgical Corporation of China Ltd., a company listed on the Shanghai Stock Exchange (stock code: 601618) and the Hong Kong Stock Exchange (stock code: 1618), from December 2008 to November 2014, and independent director of Bohai Ferry Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 603167), from December 2009 to March 2014. Mr. Liu currently serves as an independent director of China Oil HBP Science & Technology Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 002554), since December 2009, an independent non-executive director of China Machinery Engineering Corporation, a company listed on the Hong Kong Stock Exchange (stock code: 1829), since January 2011, an independent director of Langfang Development Co., Ltd., a company listed on the Shanghai Stock Exchange (stock code: 600149), since August 2011, an independent non-executive director of Bank of Communications Co., Ltd., a company listed on the Hong Kong Stock Exchange (stock code: 3328), since September 2014, an independent director of Success Electronics Ltd, a company listed on the Shenzhen Stock Exchange (stock code: 002289), since January 2016, and an independent director of CNPC Capital Company Limited, a company listed on the Shenzhen Stock Exchange (stock code: 000617), since June 2017. Mr. Liu obtained a master's degree in physics from Peking University in July 1984 and MBA from Catholic University of Louvain in Belgium in July 1989.

Directors, Supervisors, Senior Management and Employees

Mr. Siu Wai Keung (蕭偉強), aged 64, (former name: Francis Siu Wai Keung), has been appointed as a Director of our Company since May 2015. He served for KPMG for approximately 30 years, where he provided professional services to clients from various industries. He joined KPMG Manchester, England in 1979 and was transferred to Hong Kong in May 1986 and became a partner of KPMG Hong Kong in July 1993. From October 2000 to March 2002, he was a senior partner of KPMG Huazhen LLP Shanghai Office. Prior to his retirement in March 2010, he was a senior partner of KPMG Huazhen LLP Beijing Office and North China. He has extensive experience in providing audit services for PRC and overseas companies, and has a sound knowledge of advising on foreign direct investment in the PRC. Mr. Siu currently serves as an independent non-executive director of Guoco Land Limited, a company listed on the Singapore Exchange (Stock Code: F17), since December 2010, an independent non-executive director of CITIC Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 267), since May 2011, an independent non-executive director of China Communications Services Corporation Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 552), since June 2012, an independent non-executive director of CGN Power Co., Ltd., a company listed on the Hong Kong Stock Exchange (Stock Code: 1816), since March 2014, an independent director of Beijing Gao Hua Securities Company Limited since June 2015, and an independent non-executive director of BHG Retail Trust Management Pte. Ltd., since November 2015. Mr. Siu has been a fellow member of the ICAEW and the Hong Kong Institute of Certified Public Accountants since July 1994 and September 1993. He obtained a bachelor's degree in economics and accounting and financial management from The University of Sheffield, the United Kingdom, in July 1979.

Mr. Ben Shenglin (賁聖林), aged 53, has been appointed as a Director of our Company since May 2015. He held several positions in ABN Amro in China and London, including leadership roles such as senior vice president and China business head from March 2003 to February 2005. He served at HSBC China from February 2005 to April 2010 as a senior executive, including managing director and China country head of commercial banking from January 2007 to April 2010. From April 2010 to April 2014, he was with JP Morgan Chase as a member of the global leadership team at global corporate bank and the chief executive officer of J.P. Morgan Chase Bank (China). Mr. Ben currently serves as an independent director of Bank of Ningbo Co., Ltd., a company listed on the Shenzhen Stock Exchange (Stock Code: 2142), since September 2014, an independent non-executive director of Tsingtao Brewery Co., Ltd., a company listed on the Hong Kong Stock Exchange (Stock Code: 168), since June 2014, an independent director of Wuchan Zhongda Group Co., Ltd. (物產中大集團股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600704), since February 2016, and a supervisor of Industrial Bank Co., Ltd. (興業銀行股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 601166), since December 2016. He joined Zhejiang University since May 2014 and currently serves as a full-time professor and doctoral advisor. He is also the dean of Academy of Internet Finance since April 2015, and director of Center for Internet and Financial Innovation of the School of Management of Zhejiang University since December 2014. He also currently serves as an executive director of the International Monetary Institute in Renmin University of China since January 2014, a counsellor of the Zhejiang People's Government since August 2014, the chairman of Zhejiang Association of Internet Finance since September 2015, a member of the Guangdong Financial Experts Advisory

Committee since November 2017, a member of the International Cooperation Committee of the All-China Federation of Industry and Commerce since December 2018 and a member of the Economic Group under the Non-party Intellectuals Suggestion Group of The United Front Work Department of CPC Central Committee since February 2019. Mr. Ben obtained a bachelor's degree in engineering from Tsinghua University in July 1987, a master's degree in economics specializing in enterprise management from Renmin University of China in March 1990 and a doctoral degree in economics from Purdue University, the United States, in August 1994.

Supervisors

Mr. Gao Tao (高濤), aged 54, has been elected as the employee representative Supervisor and appointed as the Chairman of the Supervisory Committee of the Company since June 2017. He has been the chairman of the board of directors of CISC and chairman of executive committee of CISC since October 2015. From June 1991 to May 2005, he held several positions in China Construction Bank including vice director and general manager of the department of human resources of Anhui Branch, and the president of Huainan Branch. From May 2005 to September 2005, he served as a member of the Securities Restructuring Committee of China Jianyin Investment Co., Ltd. From September 2005 to September 2006, he held several positions in CISC including general manager of the department of human resources and vice president. From September 2006 to September 2012, he held several positions in Hong Yuan Securities Co., Ltd., including vice general manager, board secretary and vice chairman. From September 2012 to August 2015, he served as vice president of China Jianyin Investment Co., Ltd. Mr. Gao graduated with a bachelor's degree from Anhui Agricultural University (formerly known as "Anhui Agricultural College") in July 1986, and an executive master of business administration degree from Renmin University of China in January 2009.

Mr. Liu Haoling (劉浩凌), aged 47, has been appointed as a Supervisor of our Company since May 2015. He served as a preparatory group member for the establishment of ABN AMRO Xiangcai Fund Management Co. Ltd. from January 2002 to June 2002, manager of the legal and compliance department and secretary of the board of directors of China Euro Securities Limited from July 2003 to March 2007, and an associate of the compliance department of Goldman Sachs Gao Hua Securities Company Limited from April 2007 to February 2008. He held several positions in CIC, including the business head of the legal and compliance department and senior manager from March 2008 to April 2011. He also served as a director of New China Life Insurance Co. Ltd., a company listed on the Hong Kong Stock Exchange (Stock Code: 1336) and Shanghai Stock Exchange (Stock Code: 601336), from December 2009 to September 2010. He served as a supervisor of China Export & Credit Insurance Corporation from December 2012 to May 2017 and a deputy head of the general management department of Huijin from May 2011 to June 2016. He currently serves as a head of the general management department/banking institutions department II and a managing director of Huijin since July 2016 and July 2014, respectively. Mr.

Directors, Supervisors, Senior Management and Employees

Liu obtained a bachelor's degree in English from Peking University (北京大學) in July 1995, a bachelor's degree in law from China University of Political Science and Law (中國政法大學) in July 1997, a master's degree in law from The University of Iowa, the United States, in May 1998 and a master's degree in finance from London Business School of University of London, the United Kingdom, in September 2003.

Mr. Jin Lizuo (金立佐), aged 61, has been appointed as a Supervisor of our Company since May 2015. He participated in the establishment of our Company from 1994 to 1995. He served as the chairman of Beijing Integrity Investment Consulting Ltd. from 1995 to 1999, chairman of Beijing Integrity Management Consulting Ltd. from 1999 to 2004 and from 2016 to 2018, an independent non-executive director of COSCO Shipping Co. Ltd., a company listed on the Shanghai Stock Exchange (Stock Code: 600428), from August 2008 to March 2012, and an independent non-executive director of Huabao International Holdings Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 336), from August 2011 to August 2013. Mr. Jin currently serves as an independent non-executive director of Beijing Development (Hong Kong) Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 154), since September 2004, and a director of NetBrain Technologies Inc. since August 2012. Mr. Jin obtained a bachelor's degree in economics from Peking University in January 1982 and a doctoral degree in economics from Oxford University, the United Kingdom, in November 1993.

Senior Management

Mr. Bi Mingjian (畢明建), a Director, the Chief Executive Officer and Chairman of the Management Committee of our Company. See "- Directors" in this section for his profile.

Mr. Chu Gang (楚鋼), aged 55, has been appointed as the Chief Operating Officer and member of the Management Committee of our Company since April 2015. He joined the Group in May 2009 and held several positions, including Managing Director of the Research Department, Deputy Head of the Capital Markets Department and Deputy Chief Operating Officer. Prior to joining the Group, he held several positions in Citigroup, including Vice President, Emerging Market Risk Manager, Local Government Bonds Proprietary Trader, Fund Manager, Head of Latin America Stock Options Trading and Managing Director of Alternative Investments from September 1993 to August 2008. He currently serves as Director of a number of subsidiaries of our Company, including CICC HK Securities. Mr. Chu was qualified as a Chartered Financial Analyst of the CFA Institute in September 2002. He obtained a bachelor's degree in physics from University of Science and Technology of China (中國科學技術大學) in July 1987 and a doctoral degree in theoretical physics from Northeastern University, the United States, in September 1993. He also studied at Leonard N. Stern School of Business of New York University, the United States, until June 1997.

Mr. Wong King Fung (黃勁峯), aged 50, has been appointed as the Chief Financial Officer and member of the Management Committee of the Company since February 2017. He joined the Group in May 2016 and served as Managing Director in the Firm Management Department. Mr. Wong has 25 years of working experience in Mainland China, Hong Kong, Japan and the UK, with international commercial bank, international investment bank, domestic securities firm and in public accounting firm. Before joining the Group, Mr. Wong worked in Goldman Sachs and Beijing Gao Hua Securities Company Limited from March 2000 to May 2016; during which he held a number of positions in the asset management division of Goldman Sachs (Asia) from June 2008 to May 2016, including Asia Pacific COO, Asia Pacific ex Japan COO, Head of Product Development and Managing Director. From December 2006 to June 2008, he was responsible for coordinating the middle and back offices as well as risk management functions at Beijing Gao Hua Securities Company Limited. From March 2000 to June 2008, he served in a number of roles, including Head of FICC Product Financial Control, Head of Equities Product Financial Control, Head of Japan Product Financial Control, the Hong Kong Financial Controller and Executive Director at Goldman Sachs (Asia) and Goldman Sachs Japan. From July 1997 to February 2000, Mr. Wong worked at HSBC HK as Financial Manager of Capital Markets and Financial Manager of Money Foreign Exchange Markets. From September 1991 to May 1997, Mr. Wong worked in the audit department as Auditing and Accounting Trainee, Assistant Manager and Manager at KPMG (UK and HK). Mr. Wong has been a member of the HKICPA and ICAEW for over 20 years. He met the professional requirements by passing the exams and going through the required trainings for the ICAEW and officially became a member and a certified accountant of ICAEW in November 1994. He met the professional requirements of the HKICPA and officially became a member and a certified accountant of the HKICPA in October 1995. He is currently Director of CICC Hong Kong. Mr. Wong obtained a Bachelor's Degree in Mechanical Engineering from University of Bristol in June 1990.

Mr. Hu Changsheng (胡長生), aged 53, has been appointed as member of the Management Committee of the Company since June 2017. He has been the Vice Chairman and President of CISC since November 2011, and the Vice Chairman of Executive Committee of CISC since July 2012. From December 1998 to December 2005, he has successively served as the Deputy Director of the General Division of the Policy Research Office, member (at cadre level) of the Planning and Development Committee, Consultant of the Institution Supervision Division, and Commissioner of the Shenzhen Commissioner's Office under the CSRC. From December 2005 to January 2008, he has served as the Deputy Director and then Director of the capital market department of Huijin. From January 2008 to November 2011, he has acted as the Senior Business Head and Director of Capital Market Division of the non-bank department of Huijin. From December 2005 to April 2010, he held the position as Director, Vice Chairman of the board of directors and Acting President of China Galaxy Securities Co. Ltd., a company listed on the Hong Kong Stock Exchange (Stock Code: 06881) and Shanghai Stock Exchange (Stock Code: 601881). From January 2007 to September 2010, he served as Director of China Galaxy Financial Holdings Company Limited. From November 2007 to January 2010, he acted as a Director of China Everbright Industry Group Ltd. He also served as the Vice Chairman of the board of directors of China Securities Co., Ltd. from March 2011 to November 2012. He has acted as the Chairman of CISC Luckystone Investment Management Co., Ltd. since November 2011. He was the Chairman of CISC Changchun Venture Capital Fund Management Co., Ltd. from December 2012 to September 2015. Mr. Hu graduated with a doctor's degree in economics from the Graduate Division of Beijing Public Finance Science Research Institute of Ministry of Finance in July 1997.

Directors, Supervisors, Senior Management and Employees

Mr. Huang Zhaohui (黃朝暉), aged 55, has been appointed as member of the Management Committee and the Head of the Investment Banking Department of our Company since April 2015 and April 2013 respectively. He joined the Group in February 1998 and held several positions, including the Deputy Head and Co-Head of the Investment Banking Department. Prior to joining our Group, he joined China Construction Bank Corporation, a company listed on the Hong Kong Stock Exchange (Stock Code: 939) and Shanghai Stock Exchange (Stock Code: 601939), and served as Officer of the Ningbo branch office, Assistant Research Officer of the department of investment research, Senior Economist of the department of real estate financing, Deputy Director of department of international business and Director of the secretariat of the general administration office from July 1988 to January 1998. He currently serves as Director of CICC HK Securities. Mr. Huang obtained a bachelor's degree in physics from Wuhan University (武漢大學) in July 1985 and a master's degree in economics from Renmin University of China in July 1988.

Mr. Huang Haizhou (黃海洲), aged 56, has been appointed as member of the Management Committee and the Head of the Equities Department of our Company since April 2015 and May 2013 respectively. He joined the Group in December 2007 and held several positions, including the Co-head of the Sales and Trading Department, Chief Strategist and Co-Head of the Research Department. Prior to joining the Group, he served as Research Fellow at The London School of Economics and Political Science, the United Kingdom, from January 1995 to June 1998, Economist and then Senior Economist at the International Monetary Fund from July 1998 to August 2005, and Chief Economist and Head of Greater China Research of Barclays Capital from September 2005 to December 2007. He currently serves as a co-opted member of the Hong Kong Financial Services Development Council since March 2013. He currently serves as Director of a number of subsidiaries of our Company, including CICC Hong Kong and CICC HK Securities. Mr. Huang obtained a bachelor's degree in electrical engineering from Hefei University of Technology (合肥工業大學) in July 1983, a master's degree in systems engineering from University of Shanghai for Science and Technology (上海理工大學) in July 1987 and a doctoral degree in business from Indiana University, the United States, in July 1994.

Ms. Liang Hong (梁紅), aged 50, has been appointed as member of the Management Committee and the Head of the Research Department of our Company since April 2015 and May 2013 respectively. She joined the Group in November 2008 and held several positions, including Managing Director, the Head of the Capital Markets Department and Co-Head of the Sales and Trading Department. Prior to joining the Group, she served as Economist of the International Monetary Fund from June 1998 to August 2003 and the Chief China economist, Managing Director, and Co-Head of Asia Pacific Economic Research of Goldman Sachs (Asia) LLC from September 2003 to November 2008. She currently serves as Director of CICC Hong Kong and CICC HK Securities. Ms. Liang obtained a bachelor's degree in international relations from Peking University in July 1991, a master's degree in economics from University of Denver, the United States, in June 1993 and a doctoral degree in economics from Georgetown University, the United States, in July 1998.

Mr. Cheng Qiang (程 強), aged 51, has been appointed as member of the Management Committee and the Head of the FICC Department of our Company since April 2015. He joined the Group in October 2003 and held several positions, including a Vice President of the Capital Markets Department, Co-Head of the FICC Department, Head of the Trading Team, Head of the Product Division and Fixed Income Team of the Investment Banking Department. He served as Advisor to our Company from July 2012 to June 2014. Prior to joining the Group, he served as research staff of Advanced Technology Laboratories from January 1995 to December 1997, Associate of Barclays Capital New York from January 1998 to May 2000, Senior Vice President of China Network International from June 2000 to August 2002, Managing Director of Global Standard Investment from September 2002 to June 2003 and Vice President of ING Bank (Hong Kong) from August 2003 to September 2003. He currently serves as the Chairman of CICC Futures and Director of a number of other subsidiaries of our Company, including CICC Hong Kong. Mr. Cheng obtained a bachelor's degree in physics from the University of Mississippi, the United States, in August 1990, a master's degree in physics and a master's degree and a doctoral degree in economics from the University of Michigan, the United States, in August 1991, December 1993 and May 1998, respectively.

Mr. Ding Wei (丁瑋), aged 59, has been appointed as member of the Management Committee of the Company since January 2018. He currently serves as Managing Director and Head of Private Equity Investment Business of our Company, and CEO of CICC Capital Management Co., Ltd. From November 1987 to February 1999, Mr. Ding successively served as Economist, Project Officer, Department Manager and other positions in the Headquarter of World Bank in Washington. During such period, from March 1993 to March 1995, Mr. Ding seconded to the IMF as Senior Economist and Chief Representative in Albania. From March 1999 to September 2002, Mr. Ding served as Head of China Region in Deutsche Bank. From October 2002 to December 2010, he served in the Company as Managing Director, and from 2006 to 2010, as Executive Chairman of the Investment Banking Committee and Head of the Investment Banking Department. From February 2011 to December 2013, Mr. Ding served as Senior Managing Director, Head of China Region, member of the Temasek investment policy committee and member of the Temasek senior management committee at Temasek Investment Holdings in Singapore. From January 2014 to August 2015, Mr. Ding acted as private investor and also served as Director or Independent Director in several companies, including Hwa Bao Investments, CAR Inc., Hundsun Technologies Inc., Hikvision, First Trust Fund Management Company, etc. Prior to rejoining the Company, from September 2015 to May 2016, Mr. Ding served as a Vice Chairman of Asia of the investment banking division at Morgan Stanley. Mr. Ding obtained his bachelor's degree in finance and economics from Renmin University of China in June 1982, completed his doctoral study in economics from University of Texas at Austin as a Fulbright scholar in October 1987, and completed the World Bank executive management training program at Harvard Business School in October 1998.

Directors, Supervisors, Senior Management and Employees

Mr. Wu Bo (吳波), aged 41, has been appointed as member of the Management Committee of the Company since April 2018, and the Head of Wealth Management Department of the Company since February 2017. He joined the Group in May 2004 and held several positions, including the Head of the Sponsor Business Department, Deputy Head of the Growth Enterprise Investment Banking Department, member of the Operations Team of the Investment Banking Department and Secretary to the Board of Directors. Prior to joining the Group, from July 1999 to June 2002, Mr. Wu served as Auditor of Arthur Andersen Huaqiang Certified Public Accountants and Senior Auditor of PricewaterhouseCoopers Zhong Tian LLP. from July 2002 to April 2004. Mr. Wu obtained his bachelor's degree in economics from Peking University in July 1998.

Mr. Zhang Fengwei (張逢偉), aged 51, has been appointed as the Chief Risk Officer and the Head of the Risk Management Department of our Company since June 2017. He joined the Group in April 2004 and held several positions, including Senior Associate of the Operations Department, Vice President, Managing Director and Vice Director of the Risk Management Department. From March 2011 to February 2015, he served as the Chief Risk Officer of Zheshangjinhui Trust Co., Ltd., an associated company of the Group. Prior to joining our Group, he served as a Programmer and Network Engineer of STONE Group from July 1991 to March 1996, and Assistant Vice President of Bank One N.A. Beijing Branch from April 1996 to March 2004. Mr. Zhang obtained a bachelor's degree in Applied Mathematics from Tsinghua University in July 1991 and a master's degree in Economics from Peking University in July 1997.

Mr. Chen Gang (陳剛), aged 46, has been appointed as the Chief Compliance Officer and Head of the Legal and Compliance Department of our Company since August 2016. He joined the Group in April 2006 and held several positions, including the Legal Department Coordinator of our US office as well as the Chief Compliance Officer of CICC Investment Management (USA), Inc., and Compliance Counsel in our Beijing and Hong Kong offices until January 2014. Prior to joining the Group, he served as a Research Associate of the Development Research Center of the State Council from August 1996 to January 2001, and Senior Associate of the Broad & Bright Law Firm from September 2004 to April 2006. He served as a Managing Director in charge of legal and compliance matters of HOPU Investment Management Co., Ltd. from January 2014 to April 2016. He rejoined the Group in May 2016 and served as Managing Director of our Compliance Department. Mr. Chen is a registered attorney of the New York State and has obtained the PRC legal professional qualification. Mr. Chen obtained his bachelor of science degree in applied chemistry and master of business administration degree from Peking University in July 1996 and July 2001 respectively. He also obtained a Juris Doctor degree from the University of Pennsylvania Law School in May 2004.

Mr. Lu Xu (呂旭), aged 65, has been appointed as the Chief Technology Officer and Head of Information Technology Department of our Company since April 2015. He joined the Group in August 2000 and was the Head of Information Technology Department until March 2014. Prior to joining the Group, he served as Software Engineer of the Information Center, Ministry of Electronics Industry, from December 1984 to December 1987, Software Engineer of EG&G Washington Analytical Services Center, Inc. in United States from December 1990 to May 1992, a Senior Software Engineer of MLJ Consulting Telecommunication Engineers, Inc. in the United States from May 1992 to March 1995, Principal Software Engineer of LCC L.L.C in the United States from March 1995 to February 1996, Project Manager of MCI WorldCom in United States from February 1996 to August 2000 and Senior Managing Director of HOPU Investment Management Co., Ltd. from May 2014 to March 2015. Mr. Lu obtained a master's degree in computer science from North China Institute of Computing Technology (華北計算技術研究所) in December 1984, and a master's degree in computer science and technology from George Mason University, the United States, in January 1994.

Mr. Xu Yicheng (徐翌成), aged 44, has been appointed as the Secretary to the Board of Directors of our Company since April 2018, and Director of CISC since March 2018. Mr. Xu Yicheng is now the Head of both Strategic Development Department and Firm Office of the Company, and he has been appointed as Assistant President of the Company during March and April 2018. He joined the Investment Banking Department of the Company in January 2000, and became Managing Director in January 2008. As one of China's first batch of mergers and acquisitions (M&A) professionals, he founded and led the Company's M&A business since 2005. Mr. Xu was responsible for and closed a large number of landmark M&A transactions with a total value of more than USD150 billion and led the team to top the China M&A leaderboard for five consecutive years (2006-2010). In recent years, Mr. Xu assisted in formulating the Company's medium and long-term strategic planning, wealth management business strategy and other significant strategies, and took the lead in accomplishing important capital operations such as the acquisition of CISC. Mr. Xu obtained a bachelor's degree in English from Beijing Foreign Studies University in 1997 and a master's degree in finance from the Graduate School of the People's Bank of China in 2000.

Ms. Ma Kui (馬葵), aged 47, has been appointed as the Financial Controller and Head of Entity and Process Department of our Company since May 2015 and September 2011 respectively. She joined the Group in April 1998 and held several positions including the Head of the Finance Department, Head of the Market Risk Department, Head of the Planning and Analysis Department, Head of Operation Support Department, Assistant Chief Financial Officer, and chairman of the board of directors of CICC Pucheng. Ms. Ma has been the Director of CICC Jiacheng, a subsidiary of our Company, since June 2014. Prior to joining the Group, she served as, among other things, an accountant in Motorola (China) Electronics Co., Ltd. from May 1995 to August 1997. She currently serves as Director of a number of our subsidiaries, including CICC Hong Kong, CICC Jiacheng, CICC Futures, CICC HK Securities, CICC HK AM and CICC HK Futures. Ms. Ma obtained a bachelor's degree in international economic cooperation and a master's degree in international finance from the University of International Business and Economics (對外經濟貿易大學) in June 1993 and June 1996 respectively.

Directors, Supervisors, Senior Management and Employees

Mr. Wang Sheng (王晟), aged 41, has been appointed as the Assistant President of the Company since March 2018. Mr. Wang Sheng is currently the Deputy Head and Managing Director of the Investment Banking Department of CICC. Mr. Wang Sheng joined CICC in 2002. He successively participated in the reforms and restructurings of a number of industries, including telecommunications, finance, energy and pharmaceuticals, and led numerous landmark capital market transactions. Mr. Wang Sheng has been covering a number of leading domestic and foreign enterprises all the year round, and has been holding key management positions at the Investment Banking Department of CICC since 2010. Mr. Wang Sheng graduated from the School of Economics and Management of Tsinghua University, and obtained a Bachelor's and a Master's degree in 2000 and 2002 respectively.

Ms. Yang Xinping (楊新平), aged 63, has been appointed as the Assistant President of the Company since February 2017. She was the Chief Compliance Officer of the Company from December 2007 to August 2016. She joined the Company in October 1999 and had served a number of positions, including Head of the Legal Department in 2000 and Head of the Compliance Department in 2004. Prior to joining the Company, she served as a Lawyer in Paul Weiss, Rifkind, Wharton and Garrison Beijing Office, C&C Law Office and held various positions with other institutions in China, Australia and the United States from February 1980 to September 1999. She served as a member of the Issuance Appraisal Committee of CSRC from January 2001 to September 2003, member of the M&A Committee of the Issuance Appraisal Committee of CSRC from March 2002 to February 2004 and member of the Disciplinary and Supervisory Committee of SAC from February 2008 to February 2012. She has served as a Vice Chairman of the Compliance Committee of the SAC since October 2009, member of the Compliance Committee of the Securities Association of Beijing since December 2013, and the Company's representative of the exchange participants of the Shanghai Stock Exchange and Shenzhen Stock Exchange since December 2012. She has also been selected as an expert appraiser of the SAC for innovative business of securities firms since August 2008. Ms. Yang obtained her juris doctor degree from School of Law, University of Connecticut, the United States in May 1986, LLM from Cornell University Law School, the United States, in May 1991, diploma from the Law Extension Committee of Sydney University Law School, Australia, in May 1993, certificate from the English Language Center, Beijing Institute of International Economics and Management (北京國際經濟管理學院經濟英語培訓中心), in January 1981, and her university study at the English Department of Shanghai Institute of Foreign Languages (上海外國語學院英語系) was completed in January 1980.

III. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(i) Change in Directors and Composition of Board Committees

The Board of Directors considered and approved the appointment of Mr. Shi Jun as a member of the Strategy Committee of the Board, with effect from June 1, 2018. The aforesaid details in the change were disclosed in the announcement dated June 1, 2018 as published by the Company.

(ii) Change in Supervisors

During the Reporting Period, there have been no changes in Supervisors.

(iii) Change in Senior Management

The Board of Directors considered and approved to appoint Mr. Ding Wei as a member of the Management Committee of our Company, with effect from January 31, 2018.

The Board of Directors considered and approved to appoint Mr. Xu Yicheng as Assistant President of our Company, with effect from March 2, 2018.

The Board of Directors considered and approved to appoint Mr. Wang Sheng as Assistant President of our Company, with effect from March 7, 2018.

Mr. Lin Shoukang ceased to serve as a member of the Management Committee due to changes in work arrangements, with effect from March 14, 2018.

The Board of Directors considered and approved to appoint Mr. Wu Bo as a member of the Management Committee of our Company, with effect from April 20, 2018. On the same day, Mr. Wu Bo ceased to serve as the Secretary to the Board of Directors of our Company.

The Board of Directors considered and approved to appoint Mr. Xu Yicheng as the Secretary to the Board of Directors of our Company, with effect from April 20, 2018. On the same day, Mr. Xu Yicheng ceased to serve as the Assistant President of our Company.

Save from the above-mentioned changes, as at the Latest Practicable Date, there has been no other change in Directors, Supervisors and senior management of our Company.

Directors, Supervisors, Senior Management and Employees

IV. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Remuneration Committee is responsible for developing and implementing a performance evaluation system that is adaptive to the changing market, a competitive remuneration policy, and reward and punishment measures that are linked to the operation and performance of our Company, according to the characteristics of the financial and securities industries, the main scopes, duties and importance of the positions of Directors and members of senior management, and the remuneration levels of the relevant positions in comparable companies. The Remuneration Committee reviews and approves the management's remuneration proposals with reference to the corporate goals and objectives formulated by the Board of Directors and makes recommendations to the Board of Directors on our Company's policy and structure for remuneration of all Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy. The Remuneration Committee carries out annual performance appraisals on the Directors and members of senior management and makes recommendations to the Board of Directors on the remuneration packages of Directors and senior management (including non-monetary benefits, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment)). The Remuneration Committee shall consider factors such as characteristics of the financial and securities industries, salaries paid by comparable companies, time commitment and responsibilities of the Directors and senior management, individual performance, employment conditions elsewhere in our Company when considering remuneration packages.

The remuneration of the Directors and Supervisors is subject to approval by the Shareholders at general meetings whereas the remuneration of members of senior management is subject to approval by the Board of Directors.

The remuneration (net of tax) our Directors and Supervisors have received (including fees, salaries, discretionary bonus, contributions to defined contribution benefit plans (including pension), housing and other allowances, as well as other benefits in kind) in 2018 was RMB9.73 million.

Please refer to "Notes to the Consolidated Financial Statements – 13 Directors' and Supervisors' Remuneration" of this report for further details.

The aggregate amount of fees, salaries, discretionary bonus, contributions to defined contribution benefit plans (including pension), housing and other allowances, as well as other benefits in kind paid to five highest paid individuals of our Company in 2018 was RMB94.21 million.

Please refer to "Notes to the Consolidated Financial Statements – 14 Individuals with Highest Emoluments" of this report for further details.

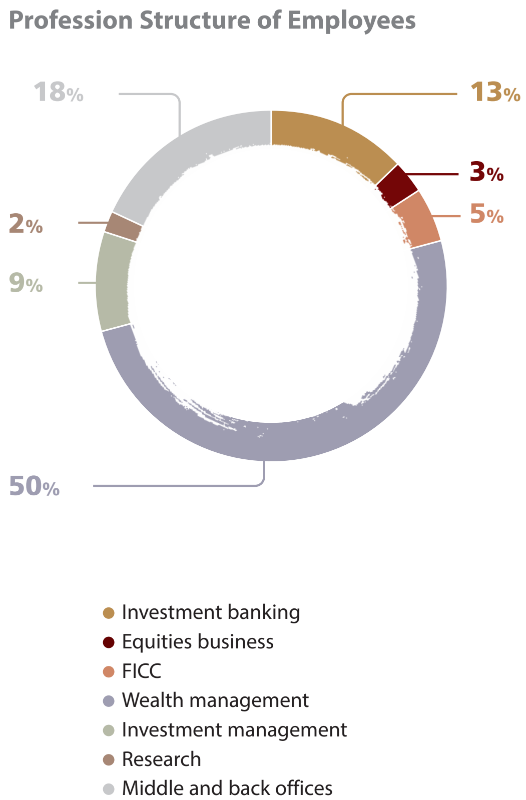
V. EMPLOYEES AND REMUNERATION

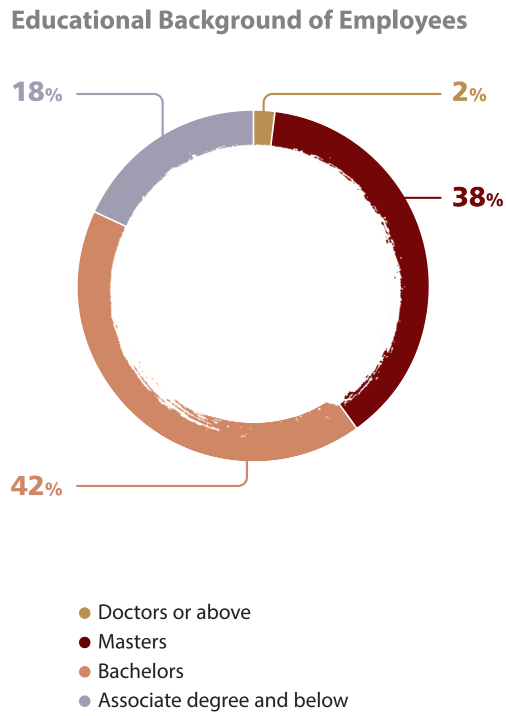
Number and Composition of Employees

As at December 31, 2018, we had 7,576 employees, among whom 7,076 employees were based in the PRC and 500 employees were based in Hong Kong, Singapore, the United States and the United Kingdom, representing 93% and 7%, respectively, of the total number of our employees. Approximately 41% and 41% of our employees had obtained bachelor's degrees or master's degrees and above, respectively. Moreover, approximately 23% of our employees and 55% of our managing directors had overseas education or working experience. The breakdown details are as follows:

		The Group		Our Company	
Items		**Number of employees**	**Percentage of total (%)**	**Number of employees**	**Percentage of total (%)**
Business Functions	Investment banking	996	13%	878	30%
	Equities business	220	3%	143	5%
	FICC	385	5%	177	6%
	Wealth management	3,789	50%	599	20%
	Investment management	650	9%	154	5%
	Research	172	2%	147	5%
	Middle and back offices	1,364	18%	872	29%
	Total	7,576	100%	2,970	100%
Educational Background	Doctors or above	136	2%	67	2%
	Masters	2,909	38%	1,823	61%
	Bachelors	3,149	42%	909	31%
	Associate degree and below	1,382	18%	171	6%
	Total	7,576	100%	2,970	100%

Directors, Supervisors, Senior Management and Employees





We consider that an outstanding and motivated talent pool is the foundation for our sustainable growth, and we have made significant investment in human resources development. We recruit and cultivate talented professionals through a range of human resources management tools, including a strict recruitment and selection process, a competitive remuneration structure, an efficient performance evaluation system and long-term employee development schemes.

Remuneration of Employees

Consistent with market practice, the remuneration structure of our employees consists of basic salary, which is determined according to the particular position, requirements of qualifications, working experience and market demand, and a bonus which is determined according to the employee's performance. We provide employees based in China with benefit plans required by PRC laws and regulations, including pension insurance, medical insurance, workplace injury insurance, unemployment insurance, maternity insurance and housing provident funds, and we also provide supplementary medical insurance for employees. A small portion of our supporting employees are contracted through third-party employment agencies and we pay salaries and statutory social welfare contributions for these employees. We provide employees of overseas offices with benefits in compliance with local laws and regulations. Our Company encourages the employees to hold directly or indirectly, on a voluntary basis, the Shares of our Company on the premise that the requirements of applicable laws, regulations and other relevant regulatory authorities have been complied with.

Training Plans

Our Company has adopted a comprehensive performance evaluation system to converge career development with our Company's development. We also provide various types of training programs for employees, including new employee orientation, professional skills training, qualification training, management skills training and an executive development training program to improve their skills. In addition, our Company also organized a number of thematic trainings for specific target audience during the Reporting Period to promote the culture of risk awareness, enhance employees' understanding of and compliance with applicable laws, regulations, regulatory guidelines and internal policies.

Relationship with Employees

During the Reporting Period and up to the Latest Practicable Date, we had not experienced any labor strikes or other material labor disputes of our employees that affected our operations. We have maintained good relationship with our employees.

Corporate Governance Report

I. OVERVIEW OF CORPORATE GOVERNANCE

As a premier China-based investment bank with international reach and a company incorporated in Mainland China and listed in Hong Kong, our Company has operated its business in strict compliance with the requirements of the laws, regulations and regulatory documents issued in Mainland China and Hong Kong. Our Company recognizes the importance of good corporate governance and has established an open and transparent governance structure with checks and balances. Our Company is of the view that upholding and attaining high standards of corporate governance differentiate us from other companies and foster well-built relationships with our shareholders. Our Company endeavors to maximize its shareholders' value and ensures all decisions of the Board are made on the principles of trust and fairness so as to protect the interests of shareholders as a whole. The shareholders' general meetings, Board meetings and meetings of the Supervisory Committee of our Company are convened in accordance with the Articles of Association and the relevant rules of procedures.

During the Reporting Period, save for Provision A.2.1 of the Corporate Governance Code, our Company strictly complied with the Corporate Governance Code, followed all code provisions and met the requirements of part of the recommended best practices set out in the Corporate Governance Code. For details of Provision A.2.1 of the Corporate Governance Code, please refer to " — V. Chairman and Chief Executive Officer" in this section.

The organization chart of our Company is set out in "Company Profile – II. Introduction to our Company – Corporate Organization and Structure" in this report.

II. SHAREHOLDERS AND GENERAL MEETINGS

(i) Rights of Shareholders' General Meetings and Shareholders

The shareholders' general meeting is the body exercising the highest authority of our Company and shall exercise the duties and powers in accordance with the laws, the Articles of Association and the Rules of Procedures of the Shareholders' General Meeting of CICC. Our Company convened the shareholders' general meetings in strict compliance with the relevant rules and procedures such that all shareholders are treated equally and can exercise their rights fully. During the Reporting Period, our Company convened one shareholders' general meeting in total.

(ii) Overview of Shareholders' General Meetings

During the Reporting Period, our Company convened one shareholders' general meeting, the details and resolutions of which are as follows:

1. On May 18, 2018, the 2017 annual general meeting of our Company was convened and the following resolutions were considered and adopted: Proposal regarding the 2017 Work Report of the Board of Directors of the Company; Proposal regarding the 2017 Work Report of the Supervisory Committee of the Company; Proposal regarding the 2017 Annual Report of the Company; Proposal regarding the 2017 Profit Distribution Plan of the Company; Proposal regarding the Re-appointment of the Accounting Firms of the Company; Proposal regarding Grant of a General Mandate to the Board of Directors to Issue Shares; Proposal regarding the Increase of the Issuance Size of the Debt Financing Instruments and Extension of the Validity Period of the Resolution; and Proposal regarding the Amendment to the Articles of Association.

(iii) Attendance of the Directors at the Shareholders' General Meetings

During the Reporting Period, one shareholders' general meeting was held and the attendance of the Directors at the shareholders' general meeting was as follows:

Name of Directors	Required attendance at shareholders' general meetings	Attendance in fact	Attendance rate
Bi Mingjian	1	1	100%
Zhao Haiying	1	1	100%
David Bonderman	1	0	0%
Liu Haifeng David	1	1	100%
Shi Jun	1	1	100%
Cha Mou Daid Johnson	1	1	100%
Edwin Roca Lim	1	1	100%
Liu Li	1	1	100%
Siu Wai Keung	1	1	100%
Ben Shenglin	1	1	100%

III. BOARD OF DIRECTORS AND PERFORMANCE OF DUTIES

(i) Duties of the Board of Directors and the Management

The Board exercises the powers and duties set out in the Articles of Association, and shall be accountable to the shareholders' general meeting. The duties of the Board include but are not limited to being responsible for convening the shareholders' general meetings and reporting its work thereto; implementing resolutions adopted at the shareholders' general meetings; deciding the business plans and investment programs of our Company; formulating profit distribution plans and loss recovery plans of our Company; making decisions on the establishment of our Company's internal management bodies; appointing or dismissing the senior management of our Company and deciding on matters concerning the remuneration of the senior management; and other functions and powers prescribed by the relevant laws, regulations, securities regulatory rules or the Articles of Association and authorized by the shareholders' general meeting. The management of our Company is responsible for carrying out the resolutions or decisions of the Board and other duties specified in the Articles of Association.

Corporate Governance Report

(ii) Composition of the Board of Directors

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

As at the end of the Reporting Period, the Board of our Company comprises ten Directors, including one executive Director (Mr. Bi Mingjian), five non-executive Directors (Ms. Zhao Haiying, Mr. David Bonderman, Mr. Liu Haifeng David, Mr. Shi Jun and Mr. Cha Mou Daid Johnson) and four independent non-executive Directors (Mr. Edwin Roca Lim, Mr. Liu Li, Mr. Siu Wai Keung and Mr. Ben Shenglin). None of the Directors, Supervisors and senior management is related to other Directors, Supervisors and members of the senior management of our Company. For the details in the changes of Directors, please refer to "Directors, Supervisors, Senior Management and Employees – III. Changes in Directors, Supervisors and Senior Management" in this report.

Directors are elected by the shareholders' general meeting to serve a term of three years and are eligible for re-election upon the expiration of the term where the term of re-election shall not exceed six years for independent non-executive Directors. Our Company has received the annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Our Company believes that each independent non-executive Director is independent as specified in the Listing Rules. Independent non-executive Directors are able to exercise independent and objective judgments and protect the interests of minority shareholders.

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

(iii) Meetings of the Board of Directors

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

1. On January 31, 2018, the 25th meeting of the first session of the Board was convened and at the meeting: the Board heard the Report on the 2017 Performance Review and the Three-year Strategic Plan Objectives (2018-2020) of the Company; considered and adopted the Proposal regarding the 2017 Firm-wide Compensation of the Company; considered and adopted the Proposal regarding the 2018 Operating Plan of the Company; considered and adopted the Proposal regarding Authorization for the Remuneration Committee of the Board of Directors to Determine the 2017 Compensation of the Senior Management; considered and adopted the Proposal regarding the Appointment of Mr. Ding Wei as a Member of the Management Committee of the Company; considered and adopted the Proposal regarding the setting up of New Branches of the Company; and considered and adopted the Proposal regarding the Adjustment of the Internal Organization of the Company.

2. On March 23, 2018, the 26th meeting of the first session of the Board was convened and at the meeting: the Board heard the IT Briefing of the Company; considered and adopted the Proposal regarding the 2017 Work Report of the Board of Directors of the Company; considered and adopted the Proposal regarding the 2017 Annual Report and the 2017 Annual Results Announcement of the Company; considered and adopted the Proposal regarding the 2017 Profit Distribution Plan of the Company; considered and adopted the Proposal regarding the Re-appointment of the Accounting Firms of the Company; considered and adopted the Proposal regarding the Grant of a General Mandate by the Shareholders' General Meeting to the Board of Directors to Issue Shares; considered and adopted the Proposal regarding the Increasing of the Issuance Size of the Company's Onshore and Offshore Corporate Debt Financing Instruments and Extending the Validity Period of the Resolution by the Shareholders' General Meeting; considered and adopted the Proposal regarding the Amendments to the Articles of Association of the Company; considered and adopted the Proposal regarding the 2017 Compliance Annual Report of the Company; considered and adopted the Proposal regarding the 2017 Internal Control Assessment Report of the Company; considered and adopted the Proposal regarding the 2017 Risk Assessment Report of the Company; considered and adopted the Proposal regarding the Amendment to the Risk Appetite Statement of the Company; and considered and adopted the Proposal regarding the Request to Convene the 2017 Annual General Meeting of the Company.

3. On April 4, 2018, the 27th meeting of the first session of the Board was convened and at the meeting: the Board considered and adopted the Proposal regarding Designation of the Chairman of the Remuneration Committee of the Board of Directors of the Company to Approve the Dealings in the Company's Securities by Chairman of the Board of Directors.

4. On April 20, 2018, the 28th meeting of the first session of the Board was convened and at the meeting: the Board considered and adopted the Proposal regarding the Appointment of Wu Bo as a Member of the Management Committee of the Company; and considered and adopted the Proposal regarding the Change of the Secretary to the Board of Directors and Joint Company Secretary of the Company.

5. On June 1, 2018, the 29th meeting of the first session of the Board was convened and at the meeting: the Board considered and adopted the Proposal regarding the Adjustment to the Composition of the Strategy Committee of the Board of Directors of the Company.

6. On July 13, 2018, the 30th meeting of the first session of the Board was convened and at the meeting: the Board considered and adopted the Proposal regarding the Adjustment of Internal Organization of the Company.

7. On August 22, 2018, the 31st meeting of the first session of the Board was convened and at the meeting: the Board heard the CCM Business and Operation Report.

8. On August 24, 2018, the 32nd meeting of the first session of the Board was convened and at the meeting: the Board considered and adopted the Proposal regarding the 2018 Interim Report and the 2018 Interim Results Announcement of the Company; considered and adopted the Proposal regarding the Commencement of the Construction of the CISC Building; heard the 2018 Interim Compliance Management Report of the Company; and heard the 2018 Interim Risk Assessment Report of the Company.

9. On November 13, 2018, the 33rd meeting of the first session of the Board was convened and at the meeting: the Board heard the CICC 2018 Q1-Q3 Performance Review; and heard the reports on the EQ business and other issues of the Company.

Corporate Governance Report

(iv) Attendance of Directors at Board meetings

During the Reporting Period, the Board of Directors convened nine meetings and the attendance of Directors at the Board meetings is as follows:

Name of Directors	Required attendance at Board meetings	Attendance in person	Attendance by proxy
Bi Mingjian	9	9	0
Zhao Haiying	9	8	1
David Bonderman	9	7	2
Liu Haifeng David	9	6	0
Shi Jun	9	8	0
Cha Mou Daid Johnson	9	9	0
Edwin Roca Lim	9	9	0
Liu Li	9	8	0
Siu Wai Keung	9	8	1
Ben Shenglin	9	7	1

(v) Training for Directors

Our Company recognizes the importance of training and continuous professional development of the Directors to ensure that the Directors are kept abreast of the latest developments of our Company and their responsibilities under the relevant laws and regulations as well as our Company's business and governance policies, so as to assist them in performing their duties as Directors. In 2018, our Company arranged trainings for the Directors related to the duties and responsibilities as a director of a company listed in Hong Kong in a variety of ways such as providing video training materials from time to time. The training covered a broad range of topics including corporate governance requirements update in 2018, appointment of independent non-executive directors, independent non-executive directors' role, Directors' attendance at meetings and dividend policy, and corporate governance requirements applicable to the weighted-voting-right issuers.

IV. BOARD COMMITTEES AND PERFORMANCE OF DUTIES

In accordance with the relevant PRC laws and regulations, the Articles of Association and the corporate governance practice prescribed in the Listing Rules, our Company has established five Board Committees, namely, the Strategy Committee, the Remuneration Committee, the Nomination and Corporate Governance Committee, the Audit Committee and the Risk Management Committee, to each of which certain responsibilities are delegated, so as to assist the Board in performing its duties from various aspects. As at the end of the Reporting Period, the composition of each Board Committee is listed as follows:

Name of Committees	Members of Committee
Strategy Committee	Bi Mingjian(Note 1), Zhao Haiying, David Bonderman, Liu Haifeng David, Shi Jun(Note 2), Cha Mou Daid Johnson and Edwin Roca Lim
Remuneration Committee	Edwin Roca Lim (Chairman), Cha Mou Daid Johnson, Siu Wai Keung and Ben Shenglin
Nomination and Corporate Governance Committee	Liu Li (Chairman), Zhao Haiying, Edwin Roca Lim and Ben Shenglin
Audit Committee	Siu Wai Keung (Chairman), Shi Jun and Liu Li
Risk Management Committee	Ben Shenglin (Chairman), Bi Mingjian, Shi Jun, Liu Li and Siu Wai Keung

Note 1: Mr. Ding Xuedong has resigned from the office of the Chairman of the Board, non-executive Director, the Chairman of the Strategy Committee and member of the Nomination and Corporate Governance Committee, with effect from February 27, 2017. Mr. Bi Mingjian has started to perform the duties of the Chairman of the Board and the Chairman of the Strategy Committee from March 1, 2017 and till the new Chairman of the Board is elected.

Note 2: Mr. Shi Jun has been appointed as a member of the Strategy Committee with effect from June 1, 2018.

(i) Strategy Committee

1. Functions of the Committee

The primary duties of the Strategy Committee include, but are not limited to, the following: (i) conducting research on our Company's short-, medium- and long-term development strategies or the relevant issues; (ii) providing suggestions for our Company's long-term development strategies, major investments, reforms and other major decisions; and (iii) performing other duties stipulated in laws, regulations and the Listing Rules and authorized by the Board.

Corporate Governance Report

2. **Work Summaries and Meetings of the Committee**

In January 2018, the Strategy Committee members, together with other Directors, heard the Report on the 2017 Performance Review and the Three-year Strategic Plan Objectives (2018-2020) of the Company at the Board meeting.

(ii) Remuneration Committee

1. **Functions of the Committee**

The primary duties of the Remuneration Committee include, but are not limited to, the following: (i) deliberating on the appraisal and remuneration management system for Directors and members of senior management and giving opinions; (ii) conducting appraisal of Directors and members of senior management and making recommendations; and (iii) performing other duties stipulated in laws, regulations and the Listing Rules and authorized by the Board. For details, please refer to the Terms of Reference of the Remuneration Committee of the Board of Directors of CICC available on the websites of our Company and the Hong Kong Stock Exchange.

2. **Work Summaries and Meetings of the Committee**

In 2018, the Remuneration Committee has convened five meetings. Details of the meetings of the Remuneration Committee are set out below:

On January 30, 2018, the 2018 first meeting of the Remuneration Committee of the Board was held, at which the Remuneration Committee (i) made a preliminary review of and agreed to submit the Proposal regarding the 2017 Firm-wide Compensation Pool to the Board for review, and (ii) heard the introduction to the talent management of the Company.

On February 12 and 13, 2018, the 2018 second meeting of the Remuneration Committee of the Board was held, at which the Remuneration Committee (i) heard the Report on the 2017 Divisional Allocation Analysis of the Company, (ii) heard the Report on the 2017 Compensation Market Trends, (iii) heard the Report on the 2017 Performance Review of the Senior Management of the Company, and (iv) considered and adopted the Proposal regarding the 2017 Compensation of the Senior Management of the Company.

On March 22, 2018, the 2018 third meeting of the Remuneration Committee of the Board was held, at which the Remuneration Committee heard the Report on the 2018 Senior Management Work Plan of the Company.

On August 23, 2018, the 2018 fourth meeting of the Remuneration Committee of the Board was held, at which the Remuneration Committee (i) heard the Report of Director's Compensation Review, (ii) heard the Report of PMD Program Implementation Progress, and (iii) heard the Report of 2018 Senior Management's Mid-year Performance Review.

On November 12, 2018, the 2018 fifth meeting of the Remuneration Committee of the Board was held, at which the Remuneration Committee (i) heard the Methodology of Long-term Incentive Bonus Distribution for the Participating Managing Directors (PMDs), and (ii) considered and adopted the Proposal regarding the 2017 Long-term Incentive Bonus Distribution Plan for the Senior Management of the Company.

3. Attendance of Members of the Committee

Name	Required attendance at meetings	Actual attendance at meetings
Edwin Roca Lim	5	5
Cha Mou Daid Johnson	5	5
Siu Wai Keung	5	5
Ben Shenglin	5	4

(iii) Nomination and Corporate Governance Committee

1. Functions of the Committee

The primary duties of the Nomination and Corporate Governance Committee include, but are not limited to, the following: (i) deliberating on selection and appointment standards and procedures of Directors and members of senior management and giving opinions, searching for qualified candidates of Directors and members of senior management and reviewing the qualification criteria of the candidates for Directors and members of senior management and making recommendations; (ii) promoting the formulation and enhancement of the corporate governance standards; (iii) conducting appraisal of corporate governance structure and governance standards and making recommendations; and (iv) performing other duties stipulated in laws, regulations and the Listing Rules and authorized by the Board. For details, please refer to the Terms of Reference of the Nomination and Corporate Governance Committee under the Board of Directors of CICC available on the websites of our Company and the Hong Kong Stock Exchange.

With respect to nomination for new directors and re-election of directors, our Company follows a considered and transparent nomination policy. Under the nomination policy for Directors, the Nomination and Corporate Governance Committee shall nominate suitable candidates to the Board for consideration and make recommendations to the Shareholders regarding election and re-election of Directors. The nomination of Directors shall be made in accordance with the nomination policy for Directors and all appointments of Directors will be merit-based with due regard for the objective criteria (including gender, age, cultural and educational background, relevant or professional experience, ethnicity, skills, knowledge, etc.) as set out under the Board of Directors Diversity Policy. The ultimate decision will be made based on meritocracy and contribution that the selected candidates can bring to the Company and the Board.

The factors used as reference by the Nomination and Corporate Governance Committee in assessing the suitability of a proposed candidate include, but are not limited to, integrity and character; accomplishment and experience in the financial services industry; professional qualifications, skills and knowledge that are relevant to our Company's business and corporate strategy; commitment in respect of available time; diversity; independent criteria as required under the Listing Rules for candidates for independent non-executive Directors; etc.. These factors are not meant to be exhaustive and decisive. The Nomination and Corporate Governance Committee has the discretion to nominate any person, as it considers appropriate.

Corporate Governance Report

In short, proposed candidates will be asked to submit the necessary personal information, together with their written consent to be appointed as a Director and to the public disclosure of their personal data on any documents or the relevant websites for the purpose of their standing for election as a Director. The Nomination and Corporate Governance Committee will review such information of the potential candidates and may request candidates to provide additional information and documents if it considers necessary. A meeting of Nomination and Corporate Governance Committee will be called for the members to discuss the credentials of the proposed candidates and assess their qualifications based on the factors set out above. The Nomination and Corporate Governance Committee may also invite nominations of suitable candidates (if any) from the Board members for consideration by the Nomination and Corporate Governance Committee prior to its meeting. For filling a casual vacancy, the Nomination and Corporate Governance Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election and re-election at a general meeting, the Nomination and Corporate Governance Committee shall make nominations to the Board for its consideration and recommendation.

2. Work Summaries and Meetings of the Committee

In 2018, the Nomination and Corporate Governance Committee has convened three meetings. Details of the meetings of the Nomination and Corporate Governance Committee are set out below:

On January 30, 2018, the 2018 first meeting of the Nomination and Corporate Governance Committee of the Company was held, at which the Nomination and Corporate Governance Committee made a preliminary review of and agreed to submit the Proposal regarding the Appointment of Ding Wei as a Member of the Management Committee of the Company to the Board for consideration.

On April 9, 2018, the 2018 second meeting of the Nomination and Corporate Governance Committee of the Company was held, at which the Nomination and Corporate Governance Committee made a preliminary review of and agreed to submit the following proposals to the Board for consideration: the Proposal regarding the Appointment of Wu Bo as a Member of the Management Committee and the Proposal regarding the Change of the Secretary of the Board and the Joint Company Secretary of the Company.

On November 13, 2018, the 2018 third meeting of the Nomination and Corporate Governance Committee of the Company was held, at which the Nomination and Corporate Governance Committee heard and discussed the Report on the Composition of the Board and the Diversity of the Board Members of the Company.

3. Attendance of Members of the Committee

Name	Required attendance at meetings	Actual attendance at meetings
Liu Li	3	3
Zhao Haiying	3	3
Edwin Roca Lim	3	3
Ben Shenglin	3	3

(iv) Audit Committee

1. Functions of the Committee

The primary duties of the Audit Committee include, but are not limited to, the following: (i) supervising annual audit work, making judgment on the truthfulness, accuracy and completeness of audited financial information and submitting the same to our Board for consideration; (ii) proposing engagement or replacement of external audit firm and supervising the practice of external audit firm; (iii) being responsible for communication between internal and external auditors; and (iv) performing other duties stipulated in laws, regulations and the Listing Rules and authorized by the Board. For details, please refer to the Terms of Reference of the Audit Committee of the Board of Directors of the Company available on the websites of our Company and the Hong Kong Stock Exchange.

Corporate Governance Report

2. Work Summaries and Meetings of the Committee

In 2018, the Audit Committee has convened five meetings. Details of the meetings of the Audit Committee are set out below:

On March 20, 2018, the 2018 first meeting of the Audit Committee of the Board was held, at which the Audit Committee (i) considered and adopted the Proposal regarding the 2017 Audit Report of the Company, (ii) made a preliminary review of and agreed to submit the Proposal regarding the 2017 Annual Report and the 2017 Annual Results Announcement of the Company to the Board for review, (iii) made a preliminary review of and agreed to submit the Proposal regarding the Re-appointment of the Accounting Firms of the Company to the Board for consideration, (iv) made a preliminary review of and agreed to submit the Proposal regarding the 2017 Internal Control Assessment Report of the Company to the Board for consideration, (v) considered and adopted the Proposal regarding the 2017 Report on the Effectiveness Evaluation of the Internal Control and Comprehensive Risk Management of the Company, (vi) considered and adopted the Proposal regarding the Proposal regarding the 2017 Work Report of the Internal Audit Department of the Company, and (vii) heard the Work Report from January to March 2018 of the Internal Audit Department of the Company.

On May 10, 2018, the 2018 second meeting of the Audit Committee of the Board was held, at which the Audit Committee considered and adopted the Proposal regarding Results Announcement for the Three Months Ended March 31, 2018 of the Company.

On May 17, 2018, the 2018 third meeting of the Audit Committee of the Board was held, at which the Audit Committee (i) heard the report on the progress of the internal control of CISC, (ii) considered and adopted the Proposal regarding the Review Schedule for 2018 Interim Financial Statements of the Company, (iii) heard the Work Report for April 2018 of the Internal Audit Department of the Company, and (iv) heard the Work Report on the Business Continuity Plan of the Company.

On August 22, 2018, the 2018 fourth meeting of the Audit Committee of the Board was held, at which the Audit Committee (i) heard the report on the progress of the internal control of CISC, (ii) made a preliminary review of and agreed to submit the Proposal regarding the 2018 Interim Report and the 2018 Interim Results Announcement of the Company to the Board for review, and (iii) heard the Work Report from May to July 2018 of the Internal Audit Department of the Company.

On November 12, 2018, the 2018 fifth meeting of the Audit Committee of the Board was held, at which the Audit Committee (i) considered and adopted the Proposal regarding the Results Announcement for the Nine Months Ended September 30, 2018 of the Company, (ii) considered and adopted the Proposal regarding the 2018 Audit Plan of the Company, (iii) considered and adopted the Proposal regarding the 2019 Work Plan of Internal Audit Department of the Company, (iv) heard the Work Report from August to October 2018 of the Internal Audit Department of the Company, (v) heard the 2018 Report on the Progress of the Effectiveness Evaluation of the Internal Control and Comprehensive Risk Management of the Company, and (vi) heard and discussed the Briefing on the Conversion of Management Report to PRC GAAP.

3. Attendance of Members of the Committee

Name	Required attendance at meetings	Actual attendance at meetings
Siu Wai Keung	5	5
Shi Jun	5	5
Liu Li	5	5

(v) Risk Management Committee

1. Functions of the Committee

The primary duties of the Risk Management Committee include, but are not limited to, the following: (i) considering and making recommendations on the overall goals and policies for compliance management and risk management; (ii) considering and making recommendations on the establishment and duties of compliance management and risk management organizations; (iii) evaluating and making recommendations on the risks of important decisions and solutions for significant risks requiring consideration of the Board; (iv) reviewing and making recommendations on compliance reports and risk assessment reports requiring consideration of the Board; and (v) performing other duties stipulated in laws, regulations and the Listing Rules and authorized by the Board. For details, please refer to the Terms of Reference of the Risk Management Committee of the Board of Directors of CICC available on the websites of our Company and the Hong Kong Stock Exchange.

2. Work Summaries and Meetings of the Committee

In 2018, the Risk Management Committee has convened four meetings. Details of the meetings of the Risk Management Committee are set out below:

On March 20, 2018, the 2018 first meeting of the Risk Management Committee of the Board was held, at which the Risk Management Committee made a preliminary review of and agreed to submit the following proposals to the Board for review: (i) the Proposal regarding the 2017 Compliance Annual Report of the Company, (ii) the Proposal regarding the 2017 Risk Assessment Report of the Company, and (iii) the Proposal regarding the Amendments to the Risk Appetite Statement of the Company.

On May 17, 2018, the 2018 second meeting of the Risk Management Committee of the Board was held, at which the Risk Management Committee (i) considered and adopted the Proposal regarding the 2018 First Quarter Compliance Management Report of the Company, and (ii) considered and adopted the Proposal regarding the 2018 First Quarter Risk Assessment Report of the Company.

On August 22, 2018, the 2018 third meeting of the Risk Management Committee of the Board was held, at which the Risk Management Committee (i) considered and adopted the Proposal regarding the 2018 Interim Compliance Management Report of the Company, and (ii) considered and adopted the Proposal regarding the 2018 Interim Risk Assessment Report of the Company.

On November 12, 2018, the 2018 fourth meeting of the Risk Management Committee of the Board was held, at which the Risk Management Committee (i) considered and adopted the Proposal regarding the 2018 Third Quarter Compliance Management Report of the Company, and (ii) considered and adopted the Proposal regarding the 2018 Third Quarter Risk Assessment Report of the Company.

Corporate Governance Report

3. Attendance of Members of the Committee

Name	Required attendance at meetings	Actual attendance at meetings
Ben Shenglin	4	4
Bi Mingjian	4	4
Shi Jun	4	4
Liu Li	4	4
Siu Wai Keung	4	4

V. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Ding Xuedong has resigned from the office of the Chairman of the Board and legal representative of the Company due to work rearrangement, with effect from February 27, 2017. As approved by the Board, Mr. Bi Mingjian, the executive Director and Chief Executive Officer, has started to perform the duties of the Chairman of the Board and legal representative since March 1, 2017 and till the new Chairman of the Board is elected (hereinafter referred to as the "Transitional Arrangement").

Although the aforesaid Transitional Arrangement deviates from the requirements of Provision A.2.1 of the CG Code, in order to avoid any disruption to the operation of the Board and the daily operation of the Company, the Board considers that the Transitional Arrangement is appropriate until the nomination and election of the candidate for the Chairman of the Board is completed, and that such arrangement will not undermine the balance of power and authority between the Board and the management of the Company. Given that (i) the nomination and election of the candidate for the Chairman of the Board require a certain period of time and is subject to statutory procedures; (ii) Mr. Bi Mingjian has approximately 30 years of experience in the financial industry and has participated in the establishment of our Company and has an in-depth understanding of the operation, management and culture of the Company; (iii) Board resolutions are required to be approved by at least a majority of the Directors while Mr. Bi Mingjian is the only executive Director among the Board members and two-fifth of the Board members are independent non-executive Directors, there is sufficient balance of power; and (iv) the strategies, business, operation, finance and other material aspects of the Company are decided collectively by the Board and the management, including but not limited to the Strategy Committee, the Audit Committee and the Management Committee, upon discussion.

It is only a transitional arrangement for Mr. Bi Mingjian to perform the duties of the Chairman of the Board, and the Company is actively bringing forward the nomination and election of the candidate for the Chairman of the Board to fulfill the requirements under Provision A.2.1 of the Corporate Governance Code.

For the details in the change of Directors, please refer to "Directors, Supervisors, Senior Management and Employees – III. Changes in Directors, Supervisors and Senior Management" in this report.

VI. SUPERVISORY COMMITTEE AND PERFORMANCE OF DUTIES

(i) Powers and Duties of the Supervisory Committee

The Supervisory Committee is the supervisory body of our Company and is accountable to the shareholders' general meeting. The powers and duties of the Supervisory Committee include but are not limited to reviewing financial reports and profits distribution plans to be submitted by the Board at the shareholders' general meeting; examining the financial affairs of our Company; supervising the performance of duties by the Directors and senior management; and other duties and powers prescribed by relevant regulations and the Articles of Association or authorized by shareholders' general meetings. The Supervisory Committee is also entitled to engage professional institutions such as accounting firms and law firms to assist its work when necessary.

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

(ii) Composition of the Supervisory Committee

Our Company strictly complied with the Articles of Association and relevant rules in respect of the appointment of the Supervisors. Our Company's Supervisory Committee currently comprises three Supervisors, including one employee representative supervisor (Mr. Gao Tao) and two Shareholders representative supervisors (Mr. Liu Haoling and Mr. Jin Lizuo).

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

(iii) Meetings of the Supervisory Committee

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

On January 31, 2018, the tenth meeting of the first session of the Supervisory Committee was convened and at the meeting: the Supervisory Committee considered and adopted the Proposal regarding the 2017 Work Summary and 2018 Work Plan of the Supervisory Committee of the Company.

On March 23, 2018, the eleventh meeting of the first session of the Supervisory Committee was convened and at the meeting, the Supervisory Committee considered and adopted the following proposals: the Proposal regarding the 2017 Work Report of the Supervisory Committee of the Company; the Proposal regarding the 2017 Annual Report and the 2017 Annual Results Announcement of the Company; the Proposal regarding the 2017 Profit Distribution Plan of the Company; the Proposal regarding the 2017 Compliance Annual Report of the Company; the Proposal regarding the 2017 Internal Control Assessment Report of the Company; and the Proposal regarding the 2017 Risk Assessment Report of the Company.

On August 24, 2018, the twelfth meeting of the first session of the Supervisory Committee was convened and at the meeting: the Supervisory Committee considered and adopted the Proposal regarding the 2018 Interim Report and the 2018 Interim Results Announcement of the Company; heard the Report on the 2018 Interim Compliance Management Report of the Company; and heard the Report on the 2018 Interim Risk Assessment Report of the Company.

On November 13, 2018, the thirteenth meeting of the first session of the Supervisory Committee was convened and at the meeting: the Supervisory Committee heard the Report on the 2018 Third Quarter Compliance Management Report of the Company and the Report on the 2018 Third Quarter Risk Assessment Report of the Company.

Corporate Governance Report

(iv) Attendance of Supervisors at the Meetings of the Supervisory Committee

During the Reporting Period, the Supervisory Committee convened four meetings, the Supervisors' attendance of which is as follows:

Name of Supervisor	Required Attendance at Meetings	Actual Attendance
Gao Tao	4	4
Liu Haoling	4	3
Jin Lizuo	4	4

VII. OTHER RELEVANT MATTERS

(i) Rights of Shareholders

Our Company convenes and holds shareholders' general meetings according to the Articles of Association and the Rules of Procedures of the Shareholders' General Meeting of CICC to guarantee all Shareholders enjoy equal rights and can exercise their rights fully and transparently. The Directors, Supervisors and the senior management of the Company shall attend the shareholders' general meeting and answer the questions raised by the Shareholders.

(ii) Compliance with the Model Code for Securities Transactions

Our Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions. Our Company has made specific enquiries to all Directors and Supervisors concerning their compliance with the Model Code. All Directors and Supervisors confirmed that they had strictly observed all standards set out in our Company's code of conduct regarding Directors' securities transactions during the Reporting Period.

(iii) Responsibilities of Directors for the Financial Statements

The following responsibility statement of Directors regarding the financial statements shall be read in conjunction with the responsibility statement of the independent auditor included in the independent auditor's report. Each responsibility statement shall be interpreted separately.

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

(iv) Appointment and Remuneration of Auditing Firm

Our Company appointed KPMG Huazhen LLP and KPMG as the domestic and international accounting firms, respectively, for 2018.

Change in the accounting firm appointed during the Reporting Period: No.

Remuneration for accounting firms: Our Company has agreed on the payment of RMB6.91 million to KPMG Huazhen LLP and KPMG as fees for the auditing of the statutory financial statements, the reviewing of the interim financial statements and performing the agreed-upon procedures over quarterly financial statements for 2018. In 2018, our Company has paid RMB0.43 million and RMB0.66 million to KPMG Huazhen LLP and KPMG, for related service fees arising from the debt securities issued, and non-audit service fees, respectively.

On January 29, 2019, the Board has resolved the non-renewal of KPMG Huazhen LLP and KPMG as our Company's domestic and international accounting firms and the appointment of Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu respectively as our Company's domestic and international accounting firms, respectively, conditional upon the approval by the Shareholders of the Company at the shareholders' general meeting of the Company.

(v) Review by Audit Committee

The Audit Committee has reviewed the 2018 consolidated financial statements of our Company.

(vi) Joint Company Secretaries

Mr. Wu Bo has resigned as Secretary to the Board and a joint company secretary of the Company with effect from April 20, 2018. On the same day, Mr. Xu Yicheng has been appointed to succeed Mr. Wu Bo as Secretary to the Board and a joint company secretary of the Company by the Board, with effect from April 20, 2018.

Mr. Xu Yicheng, the Secretary to the Board and the joint company secretary of our Company, is responsible for making recommendations and proposals to the Board on issues related to corporate governance, and ensuring that Board policies and procedures as well as applicable laws, rules and regulations are strictly followed. In order to maintain sound corporate governance and to ensure compliance with the Listing Rules and applicable Hong Kong laws, Mr. Zhou Jiaxing, a managing director of the legal and compliance department of our Company, has previously been appointed, and will continue to be the other joint company secretary, to assist Mr. Xu Yicheng in discharging the duties of a company secretary.

Both Mr. Xu Yicheng and Mr. Zhou Jiaxing have confirmed that they received not less than 15 hours of relevant professional training during the year ended December 31, 2018.

(vii) Communication with Shareholders

The shareholders' general meeting is the body exercising the authority of our Company and shall exercise the duties and powers in accordance with the law, the Articles of Association and the Rules of Procedures of the shareholders' general meeting of the Company. The rights of the Shareholders are clearly specified in the Articles of Association. Our Company convened the shareholders' general meetings in strict compliance with the relevant rules and procedures such that all Shareholders are treated equally and can exercise their rights fully.

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

Corporate Governance Report

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

Our Company welcomes all Shareholders to attend shareholders' general meetings and makes appropriate arrangement for the shareholders' general meetings to encourage Shareholders' participation. Our Company's Directors, Supervisors and senior management will attend the shareholders' general meetings, and shall also ensure that the external auditors will attend annual general meetings to answer the relevant questions raised by the Shareholders.

The Shareholders may propose to convene an extraordinary general meeting or shareholders' class meeting or put forward proposals pursuant to the Articles of Association. The Shareholders may attend and vote at the shareholders' general meetings in person or by proxy. The resolutions and the attendance records signed by the attending Shareholders and instruments of proxy shall be kept at our Company's principal address. The Shareholders may inspect the copy of the resolutions of the meetings during our Company's business hours free of charge. The Articles of Association is set out on the websites of our Company and the Hong Kong Stock Exchange.

Our Company shall arrange the Directors, Supervisors and senior management to answer the questions raised by the Shareholders during the 2018 annual general meeting. Detailed procedures of voting and resolutions to be voted by way of poll will be contained in the circular to be dispatched to the Shareholders.

(viii) Investor Relations

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

In 2018, our Company actively received visits from domestic and overseas institutional investors and analysts, organized various forms of investor and analyst exchanges, received over 200 visits from investors and analysts, and participated in more than 140 times of the group/one-to-one telephone/video conference with investors and analysts, effectively enhancing the investor's understanding of our Group's strategic layout and growth prospects; continuously upgraded and improved the investor relations sector on the official website of our Company so that investors could keep updated with the latest developments of our Group.

On May 18, 2018, the Company held the annual general meeting, on which Directors, Supervisors and Management attended the meeting and answered questions from investors. In conjunction with the announcement of the annual and interim reports, the Company held the 2017 annual result press conference and analysts' conference, conducted 2017 Annual Report and 2018 Interim Results Roadshow in Beijing, Shanghai, Shenzhen, Hong Kong, Singapore, etc. and participated in the Company's Investment Forum and the Corporate Day activities in New York and London.

(ix) Board of Directors Diversity Policy

The Nomination Committee has adopted a Board of Directors Diversity Policy concerning the diversity of Board members pursuant to Provision A.5.6 of the Corporate Governance Code. Our Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development. In designing the composition of the Board, diversity of the Board members has been considered from a number of aspects, including but not limited to gender, age, cultural, educational background, professional experience and other factors. All appointments of the Board will be based on meritocracy, and candidates will be considered against objective criteria with due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, the ultimate decision will be made based on meritocracy and contribution that the selected candidates can bring to the Board. The composition of the Board will be disclosed in the Corporate Governance Report annually. For further details about the Board of Directors Diversity Policy, please refer to Appendix I to the Terms of Reference of the Nomination and Corporate Governance Committee of the Board of Directors of our Company, which has been published on the websites of our Company and the Hong Kong Stock Exchange.

The Nomination and Corporate Governance Committee annually reviews and monitors the implementation of the Board of Directors Diversity Policy to ensure its effectiveness. The Nomination and Corporate Governance Committee heard and discussed about the Report on the Composition of the Board and the Diversity of the Board Members of the Company on November 13, 2018 and no revision was needed out of the diversity considerations.

(x) Amendments to the Articles of Association

The Articles of Association of our Company was amended twice during the Reporting Period. The Company completed issuance of Subscription Shares to Tencent Mobility Limited on March 23, 2018. In order to reflect the corresponding change in the registered capital of the Company as a result thereof, the Company has amended the corresponding provisions of the Articles of Association under the mandate approved at the 2016 annual general meeting held on June 12, 2017. Such amendments took effect on March 23, 2018. Meanwhile, the annual general meeting of the Company was convened on May 18, 2018 to approve the amendments to the Articles of Association, for compliance with Article 11 of the Measures for the Compliance Management of Securities Companies and Securities Investment Fund Management Companies, which requires the articles of association of securities and fund institutions shall provide for, among others, the responsibilities, conditions and procedure for appointment and dismissal of the compliance officer. Such amendments took effect on July 29, 2018.

(xi) Internal Control

1. Establishment of the Internal Control System

Our Company has been emphasizing on building a corporate internal control system since its establishment. Our Company's corporate internal control system has been gradually taking shape and enhanced in compliance with the PRC requirements of the "Guidelines for Internal Control of Securities Companies" and with reference to the "Basic Norms of Internal Control for Enterprises", and has taken the development of internal control throughout the operational development of our Company.

As of the end of the Reporting Period, our Company has established an internal control system suitable for its business nature, scale and complexity, and has achieved results in ensuring the legality of operations, the safety of assets and the authenticity and completeness of financial reports and relevant information, and improving operational efficiency and effectiveness.

2. Major Characteristics of the Internal Control System

Our Company has established a reasonable, effective and balanced internal control system, with clear division of work among the Board of Directors, the Supervisory Committee, the Management, functional departments, business departments and their branches within the structure of the entire internal control system and their duties and responsibilities are as follows:

- The Board of Directors is responsible for the sound establishment and effective implementation of internal control. The Board has established the Audit Committee which is responsible for reviewing the internal control of our Company, supervising the effective implementation of internal control and conducting self-evaluation on internal control, coordinating internal control audits and other relevant matters.

- The Supervisory Committee supervises the establishment and implementation of internal control by the Board.

- The management is responsible for organizing and steering the daily operation of the internal control of our Company.

- Each of the business departments and their branches will formulate and implement its business policy, internal process and control. Our Company requires all employees who participate in business operations to comply with the policies and processes in the ordinary course of business. Each of the business departments will conduct self-evaluation and assessment on the specific internal control procedures and measures for its scope of business, and will be responsible for reporting deficiencies of the internal control procedures to the management of our Company.

- The internal audit department is independent of the business departments of our Company and will report directly to the Audit Committee of the Board. The internal audit department will conduct reviews, appraisals, make reports and recommendations, independently and objectively, on the overall internal control environment, the design and implementation of the internal control measures and risk assessment measures in various business departments of our Company on a regular basis, in order to prevent risks, enhance the internal control standards and utilize resources properly and effectively.

- The functional departments participating in the internal control system including the Risk Management Department, Legal and Compliance Department and other middle and back office departments, will actively manage market risk, credit risk, operational risk, liquidity risk, compliance risk and legal risk faced by our Company's businesses and identify risks in the implementation of internal control and make recommendations to improve internal control deficiencies.

3. Procedures for Evaluating the Effectiveness of the Internal Monitoring System and Rectifying Material Internal Control Deficiencies

Our Company has established an internal audit department which is independent of other departments in our Company and report directly to the Audit Committee of the Board. The internal audit department will conduct reviews, appraisals, make reports and recommendations independently on risk management and the adequacy of the design and the effectiveness of the implementation of internal control for various business lines. For issues discovered during internal audits, the internal audit department will formulate improvement measures jointly with various departments and on a regular basis will assist the management in following up on the issues which are discovered in the audits and require improvement and on the implementation progress of improvement measures. As for continuing connected transactions of the Company, the Company implements a complete series of internal control measures to ensure legal compliance, while the internal audit department will also conduct regular reviews of relevant internal control measures over the continuing connected transactions.

During 2018, the internal audit department has conducted internal audits mainly on the investment banking business under the Investment Banking segment; brokerage business, capital business, custody business and fund services business under the Equities Business segment; transactional services business, capital business and financial product sales business under the Wealth Management segment; trading and principal investment business, financing and structured products business under the FICC segment; asset management and private equity investment funds business under the Investment Management segment; the support functions of financial management in Hong Kong, the design and implementation of internal control of CICC Futures, CICC Fund Management and the US, UK and Singapore subsidiaries of CICC, and brokerage business, financial product sales business, credit business, internet finance business, asset management business, support functions of human resources management, financial management and general management department of CISC and China Investment Tianqi Futures. It has conducted employee resignation audit and off-post audit according to the regulatory requirement in Mainland China. Meanwhile, the internal audit department has also conducted audits on the application control of the relevant IT systems relating to the above Mainland China and overseas business as and on the IT general control of information systems. According to the relevant audit results of the internal audit department, no material abnormalities or material deficiencies in the internal control system have been discovered.

Through reviewing the work and investigation results of the internal audit department on a regular basis, the Audit Committee appraised on behalf of the Board the effectiveness of risk management and internal control system on a regular basis.

4. Procedures for Processing and Releasing Inside Information

With approval from the Board and pursuant to the requirements of domestic and foreign laws and regulations, Listing Rules and Articles of Association as well as the practical conditions of our Company, the "Policy on Information Disclosure Management of China International Capital Corporation Limited" has been formulated by our Company to determine the division of duties and responsibilities on information disclosure, the procedures for processing and releasing inside information and other information required to be disclosed. Pursuant to this system, our Company must, as soon as any inside information comes to its knowledge or a false market may be established, disclose the information to the public to the reasonable and practicable extent.

Corporate Governance Report

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

5. Appraisal of Internal Control

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

As internal control has inherent restrictions, we can only reasonably guarantee that the above objectives may be achieved. Furthermore, the effectiveness of internal control may also change according to our Company's internal and external environment and operating conditions. Our Company has set up an inspection and supervision mechanism through which our Company can take measures to rectify deficiencies in the internal control once identified.

The Board concluded that, pursuant to the requirements of the relevant laws, regulations and regulatory rules of the "Guidelines for Internal Control for Securities Companies" and with reference to the requirements of the "Basic Norms of Internal Control for Enterprises" and the provisions of its ancillary guidelines, an appraisal on the internal control of the Group was conducted as at the reference date (as at December 31, 2018) of the "2018 Internal Control Assessment Report of China International Capital Corporation Limited", and the Group was not aware of any material defect in internal control of the Group. The Board is of the view that the Group has established an effective internal control system, which achieves our objectives of internal control and is free of material defect and significant defect.

During the course of the financial statements audit, in accordance with the China's Auditing Standards for the Chinese Certified Public Accountants No. 1211 – Identifying and Assessing the Risk of Material Misstatements through Understanding the Entity and its Environment, KPMG Huazhen LLP understood our Company's internal control in connection with the preparation of financial statements, in order to evaluate the risks of material misstatement and determine the nature, timing and scope of the audit procedures. Besides, KPMG Huazhen LLP performed tests on the relevant internal controls of our Company in accordance with the China's Auditing Standards for the Chinese Certified Public Accountants No. 1231 – The Response to Assessed Risks of Material Misstatements. Based on the above understanding, testing and evaluation of the internal controls during the audit, and KPMG Huazhen LLP was not aware of any material weaknesses of the internal controls, in connection with the preparation of the financial statements as at December 31, 2018, that may lead to material misstatements of the financial statements which are not timely prevented or detected, and issued the "2018 Internal Control Report of China International Capital Corporation Limited".

(xii) Dividend Policy

Our Board of Directors is responsible for submitting proposals in respect of dividend payments, if any, to the shareholders' general meeting for approval. The determination of whether to pay a dividend and in what amount is based on factors including our results of operations, cash flows, financial condition, capital adequacy ratio, dividends we receive from our subsidiaries, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Board of Directors deems relevant.

According to our Articles of Association, we will distribute dividends by way of cash or Shares out of our distributable profit after tax of the year only after we have made the following allocations from our profit after tax of the year:

- recovery of losses, if any;
- allocations to the statutory reserve fund equivalent to 10% of our profit after tax, and, when the statutory reserve fund reaches and is maintained at or above 50% of our registered capital, no further allocations to this statutory reserve fund will be required;
- allocations to the general risk reserve in accordance with the relevant requirements in the PRC;
- allocations to the trading risk reserve in accordance with the relevant requirements in the PRC; and
- allocation to discretionary reserve fund according to resolutions of the shareholders' general meeting.

In accordance with our Articles of Association, dividends may be paid only out of distributable profits.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE *Report*

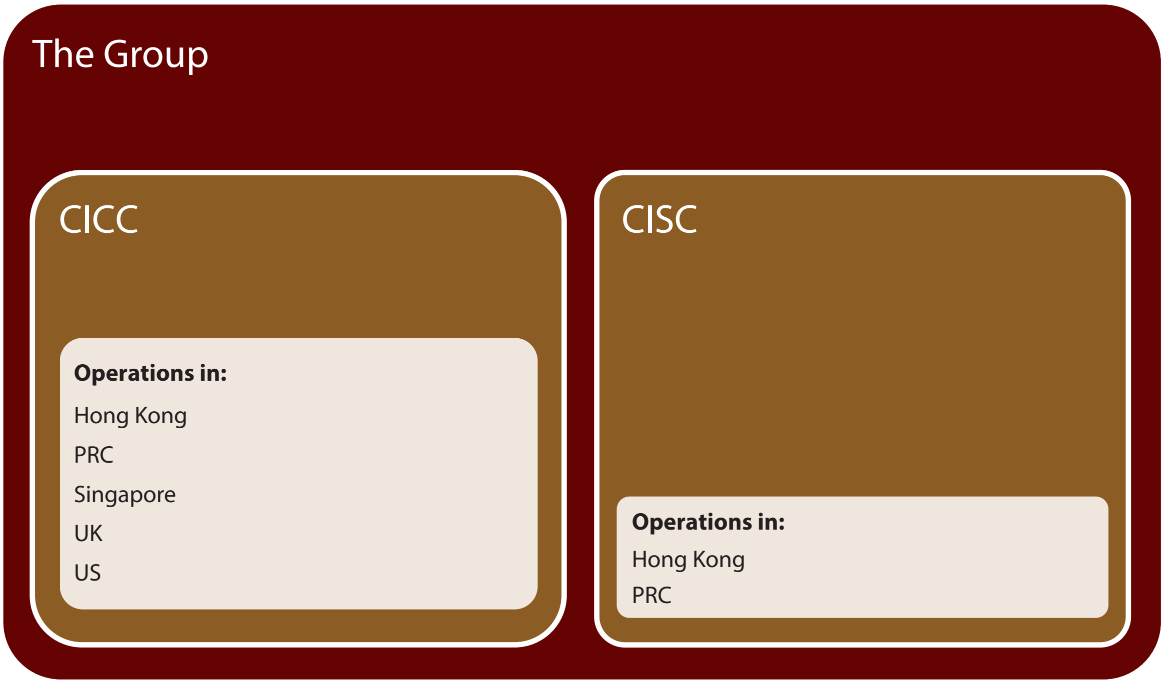
Environmental, Social and Governance Report

1. ABOUT THIS SECTION

a. Reporting Standard and Scope

This Environmental, Social and Governance ("ESG") section is prepared in accordance with the requirements of the ESG Reporting Guide, Appendix 27 to the Listing Rules.

To fully reflect the Group's ESG impact, this section includes data from China International Capital Corporation Limited (together with subsidiaries except for CISC, called "CICC") and the significant and relevant operations of its wholly-owned subsidiary China Investment Securities Company Limited ("CISC"). The following is an overview of the operational scope covered in this section:



This section offers an overview of the Group's policies, initiatives and performance highlights for the Reporting Period.

Information relating to corporate governance and financial metrics can be found in the relevant sections of this annual report. To facilitate greater navigability and transparency, a detailed HKEx ESG content index is included at the end of this section.

b. Materiality Assessment

To prepare this section, an independent consultant was commissioned to conduct an internal stakeholder engagement exercise. The Group distributed an online survey to all CICC and CISC staff members to gather their views and suggestions on various ESG issues. Employees were also asked to rank the importance of various Aspects under the subject areas as well as express their opinions on the Group's performance and future strategies in relation to ESG issues.

HKEx recommends that companies disclose information on sustainability issues that are "material" to the company's operations. Materiality is defined by HKEx as "the threshold at which ESG issues become sufficiently important to investors and other stakeholders that they should be reported". To identify material sustainability issues for disclosure, the Group undertook a three-step materiality assessment in general.

Step 1: Identification

A comprehensive peer benchmarking was conducted. The independent consultant reviewed the ESG disclosures of local and international peer companies to identify the material issues faced by the industry in general.

CICC and CISC's employees were invited to complete an online survey to rank the importance of ESG issues faced by the Group.

Step 2: Prioritisation

Results from the peer benchmarking exercise and online survey were consolidated to identify a prioritised list of potential material ESG issues for the Group.

Step 3: Validation

The findings from steps 1 and 2 were consolidated and discussed with the Group's senior management team. With consideration of relevance in relation to business operations, a set of material Aspects and Key Performance Indicators ("KPIs")[i] were confirmed for disclosure.

2. GOVERNANCE STRUCTURE FOR SUSTAINABILITY

a) Anti-corruption

As stated in our Employee Code of Conduct ("Code"), we maintain a high standard of business ethics and adhere to stringent anti-corruption policies and control measures. All employees are required to comply with national laws and regulations. Our employees are expected to act with distinction and in line with the requirements for financial industry practitioners who are required to conduct their duties in a moral, honest and fair manner.

Our Code explicitly prohibits employees from engaging in corruption, bribery, money laundering, and deceitful or fraudulent behaviour. Also contained within are provisions for the reporting of illegal acts and accountability mechanisms for persons who violate these laws and regulations.

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i Appendix 27 "Environmental, Social and Governance Reporting Guide" of the Listing Rules issued by the HKEx is organised into two ESG subject areas – Environmental and Social. There are various Aspects under the two subject areas and each Aspect sets out key performance indicators ("KPIs") for listed companies to disclose so as to demonstrate their performance.

Moreover, to further minimise the risk of the aforementioned fraudulent behaviour and other unethical conduct, we implemented and executed our "Anti-commercial Bribery Policy", "Anti-Money Laundering Policy", "Procurement Policy" and counter-terrorist financing policies.

Our "Anti-Commercial Bribery Policy" clearly defines bribe-offering, bribery-taking, and duty encroachment or corruption. In addition to this, the policy also makes detailed provisions on ex-ante approval, whistle-blowing, corporate investigation and accountability mechanisms for excessive gifts and entertainment.

Our "Anti-Money Laundering Policy" clearly defines money laundering behaviour, clarifies the anti-money laundering responsibilities of our employees, and makes provisions on the basic working rules of four aspects including: client identity identification, data custody, large amount and suspicious transaction reports, and cash and third party deposits and withdrawals. We empower our Compliance Department to revise and interpret our "Anti-Money Laundering Policy" in order to ensure that our "Anti-Money Laundering Policy" is consistent with international and domestic regulatory trends.

Our "Procurement Policy" provides detailed guidance related to product and service provider selections, price comparisons, and contract signings. The policy also clarifies the reporting mechanism for fraudulent behaviour and establishes a complete and fully monitored procurement system to prevent corruption and other non-compliance issues that may arise during the procurement process.

Our counter-terrorist financing policies provide guidance to employees on the identification of high-risk transactions, and specify follow up procedures including client on-boarding and data management. The policies also specify the duties and accountabilities of senior management and front-office staff to minimise the risk of the Group being used as a platform for financing terrorist activities.

During the Reporting Period, there were no legal cases regarding corrupt practices brought against the Group.

b) Product Responsibility and Consumer Data Protection

We have formulated a series of management systems and business processes to fulfil our obligations for maintaining customer information confidentiality:

CISC's "Brokerage Business Practices" clearly defines the process for account information transfers, filings and access. The account information is saved at a dedicated location, managed by qualified professionals, and only authorised personnel have the rights to access this information.

Our "Information Security Management System" and "Information System Data Management System" strictly control back-end data access permissions to prevent improper access to customer information.

CISC's "Measures for the Administration of Access Permission to Centralised Over-the-counter Trading System" clearly stipulates the principles of access permissions, the scope of personnel to which such permission can be granted, and the application, granting, and approval of access permissions. Bulk downloading of customer information is managed by our data minimisation principles. In cases where our employees need to download customer information for preparing reports, they are required to apply for such rights and permissions. The heads of the branch offices and headquarters shall approve and authorise designated personnel to oversee this process. In addition, we require regulatory authorities, public security organs and other authorities to hold legal instruments and complete registration before copying customer information.

3. OUR HUMAN CAPITAL

a) Working Conditions

Employees are the cornerstone of our business and we are fully committed to creating a positive, respectful and collaborative work environment in which everyone is treated fairly and with respect. Our employees are offered competitive remuneration packages and other benefits commensurate with experience and responsibilities. We act beyond the statutory requirements of purchasing "Five Social Insurance and One Housing Fund" which include Endowment Insurance, Medical Insurance, Unemployment Insurance, Occupational Health and Safety Insurance, Maternity Insurance and Housing Fund, and acquired complementary insurance plans for our employees, such as critical illness insurance and accident and disability insurance.

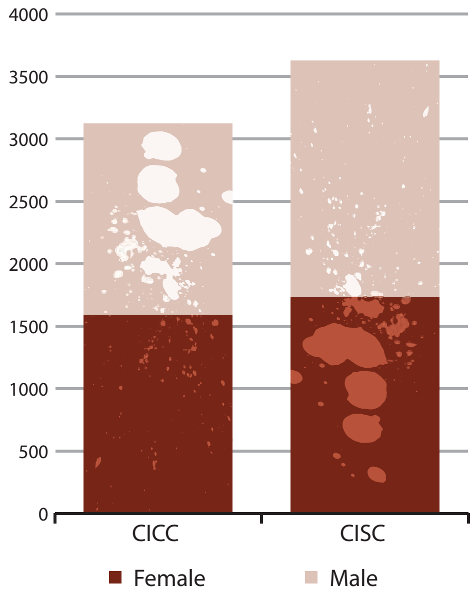
We also promote work-life balance as a component of our company culture. At CISC, the staff club organises a variety of activities to allow our colleagues to build strong personal relationships and encourage a healthy lifestyle. This year, numerous sports training sessions and competitions were arranged, such as tennis, ping-pong, football and basketball. As a company that cares about employees, we celebrate special occasions and birthdays with cakes and fruits. If an unfortunate situation befalls one of our employees which requires hospitalisation, we will organise visits and provide necessary support.

To ensure that our staff management is transparent and fair, we outline expectations for professional conduct in the Staff Manual and ensure that all employees are familiarised with the document. Employees' performances are assessed by following a stringent performance appraisal system.

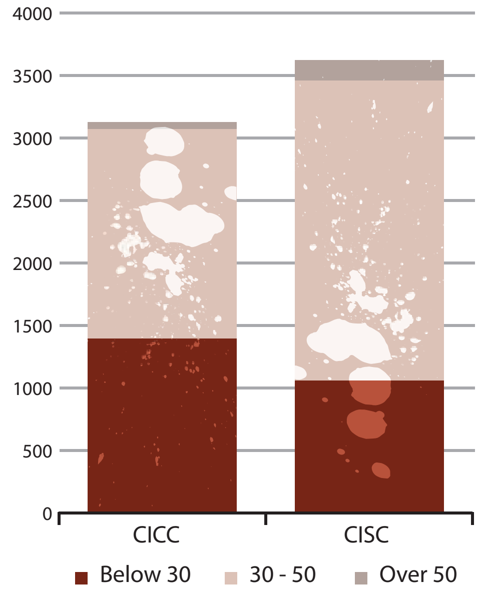
Environmental, Social and Governance Report

For the Reporting Period, the Group had a total of 7,478 full-time employees; within this figure, 52% are female. An additional detailed breakdown of employee data for each operation is presented in the Performance Data Summary of this section.

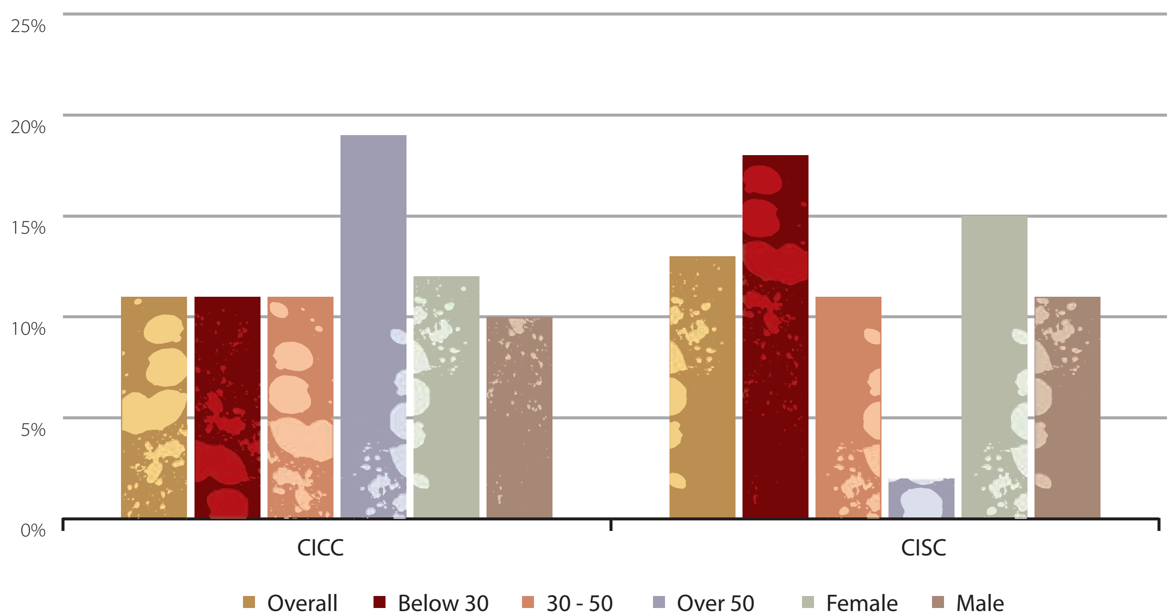
Total workforce by gender



Total workforce by age



Employee turnover rate by age and gender



For the Reporting Period, there have been no confirmed cases of non-compliance with national and regional economic and labour laws and regulations. CICC Hong Kong manages its tax affairs in compliance with all Hong Kong tax laws and pays all Hong Kong taxes, duties and levies for which it is liable, and expects the same of all employees, both in Hong Kong and in other countries in which they have tax liabilities.

b) Staff Development and Training

As a "people-oriented" company, we encourage and organise job-specific training and development opportunities in order to further improve work performance and enhance career development within the Group. Our aim is to create an environment for our employees to gain up-to-date knowledge and skill sets to remain competitive in the industry. We believe that this strategy will help us attract and retain talented individuals. To suit the different needs of our staff and meet the Group's strategic and business development goals, we identify and arrange tailor-made training sessions on a range of topics. To achieve a high degree of efficiency and suitability, we allow CISC to arrange their own training programmes to address their specific needs and company culture.

At CICC, our training and development work is based on the "CICC Training Management Regulations". The document describes our training and development objectives, different training programmes and our training plan. It also has clear, detailed, and specific requirements for the division of labour and responsibilities, training cost management and resource management. In 2018, we initiated the establishment of our "CICC Institute" where a range of training courses covering topics such as business development and strategy, leadership skills, company culture and history are being developed for our employees.

Case Study 1

It is our belief that unveiling the potential of future talents is key to facilitating the business development of the Group. This year, CICC offered a 5-day training programme in July 2018 for 252 new staff members across 21 departments. During the training, our employees participated in a structured trainings and learned about CICC's strategic business plans to address risks and opportunities in the coming year. The training stimulated collaboration and team cohesiveness, and inspired creative thinking and new ideas that can be carried back into daily work.

At present, we have six main training programmes covering all levels of staff and a wide range of topics, including senior management, key middle-level management personnel, junior staff, new staff hires, industry research, and compliance and regulatory qualification examinations.

1) Senior Management Training includes executive in-house training, and Executive Development Programme courses for the company's Executive Director/Managing Director. The curriculum focuses on corporate strategy and leadership.

2) Key Middle-Level Management Personnel Training focuses on communication skills, leadership skills and management skills for the Company's new VPs as representatives of middle-level management.

3) Junior Staff Training through the CICC Open Class is held once every two months; all employees are eligible to participate. The curriculum covers numerous topics including front-line business knowledge, compliance and regulations, human resources and office skills.

4) New Staff Induction Training is an annual one-week programme required for all new recruits. The content covers a comprehensive introduction of the company and its relevant departments. Upon completion of the training at the company level, the departments will conduct work-related skills training including the Investment Banking, Equities, Research, FICC, Asset Management and Mutual Funds.

Environmental, Social and Governance Report

5) Department Training covers internal training on business knowledge according to business needs. Amongst all, the internal training of the investment banking department and the industry research training of the research department stand out. The training covers all business line related personnel. In addition to internal programmes, departments will send relevant personnel to participate in training provided by regulators, associations and industry.

6) Compliance and Regulatory Personnel Qualification Examination and Follow-up Training include training and examination to expand staff knowledge on legal compliance. We apply for futures qualification examination 5 or more times per year. We also provide follow-up training for securities, fund, futures and insurance practitioners.

In addition to the above training programmes, we also encourage employees to participate in other work related qualification examinations. The Company will reimburse employees for the examination, registration and membership fees required to maintain the validity of the qualification.

At CISC, the training and development work is guided by CISC's "Interim Measures on Staff Training Management" including establishing and continuously improving the training system, formulating the annual plan and budgeting, coordinating and planning specific training programmes and courses, organising and building the company's internal trainer team, and collecting training information and resources. CISC's training activities include new staff induction training and continuous vocational and qualification training for financial practitioners.

Case Study 2

Cultivating leadership within the Group is essential for our continuing success in the business environment. To further equip our staff with management skills, CICC is delivering our "How to Become a Manager" training programme in 2018. As part of the training programme, a total of 88 employees from 24 departments in CICC participated in a workshop in July 2018. During the workshop, participants simulated different work scenarios to prepare themselves for the challenge of becoming managers. Our future leaders will continue with our training programme and further progress in their career pathways.

c) Occupational Health & Safety

As a company that cares about employees, the health and safety of our employees is of utmost importance. In line with those views, we have adopted a series of measures to encourage our employees to lead healthy lifestyles.

We actively organise lectures and training on related topics, and provide our staff with medical insurance, annual physical examinations, psychological counselling and influenza vaccinations.

To help our employees maintain their fitness, and to facilitate the use of fitness facilities, CICC provides significant membership discounts every year for employees to join fitness clubs.

4. OUR ENVIRONMENT

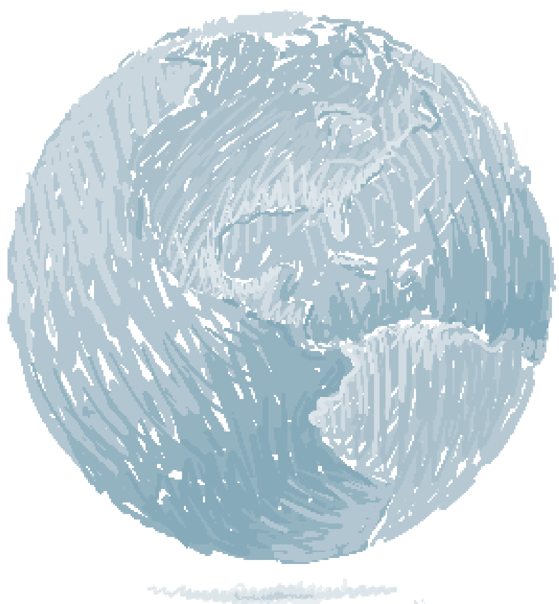
The Group recognises our corporate social responsibility to be environmentally friendly in all our operations. We are committed to reducing our negative impacts and to raising our employees' awareness of environmental protection.

a) Emissions and Energy Use

The Group takes a proactive approach to managing environmental performance. Since 2014, we have had a working group focused on internal energy saving and emissions reduction initiatives. It is led by our General Administration department and attended by the IT and HR departments. The working group tracks energy and emission measures, and initiates plans in compliance with relevant requirements. We also submit the "CICC Energy Conservation and Emission Reduction Summary Report" to the Beijing Municipal Bureau of Financial Work on an annual basis.

Office operations and staff commutes account for the majority of our energy consumption, as such we have implemented energy efficiency enhancements in our offices through various initiatives. The following initiatives were implemented in 2018:

- Replace obsolete light fixtures with LED lighting in public areas, offices and control rooms to save 59,587 kWh.
- Reminder notices are placed near light switches to reduce unnecessary energy consumption.
- Reminders to employees to switch their computers off or to 'standby mode' when not in-use.
- Installation of light sensor controls within certain areas of the office to minimise electricity use. Lights are turned off automatically after a fixed time period.
- CICC operations in the US plan to build the first LED-certified office which will purchase ENERGY STAR certified products for all IT facilities.
- Replacement of water-cooled air conditioning systems with energy efficient models in CICC data centres.
- Arranged building security teams to check that all electrical switches and appliances are turned off during weekends.
- Installed systems to automatically turn off lighting fixtures and air conditioners after office hours.
- Implementation of a permission system to control the usage of air conditioners during overtime hours.
- Air conditioning temperature control systems are in placed within CISC offices. Temperature settings are restricted to above 26°C in summer and below 20°C in winter.

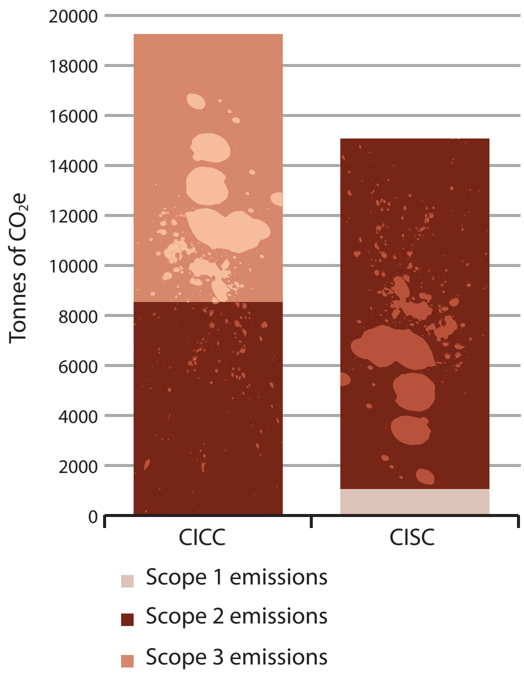


Environmental, Social and Governance Report

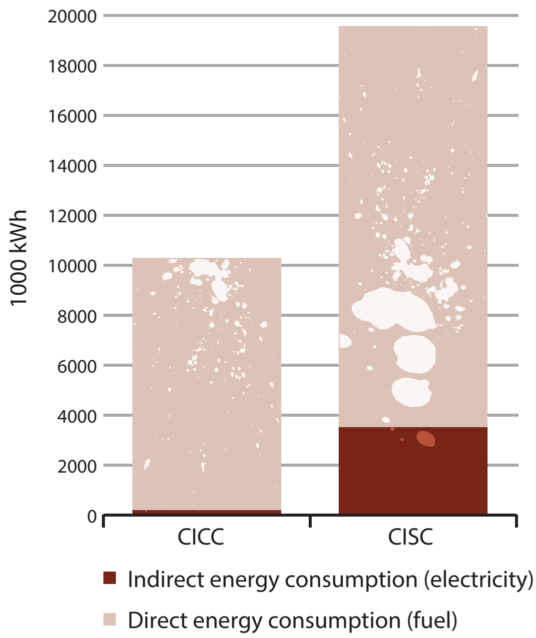
In 2018, we continued to promote "sustainable commutes" to our employees. Instead of using private vehicles, we encourage employees to adopt public transportation, carpooling, cycling or walking. Through this initiative, we are able to reduce emissions as well as contribute to better air quality in urban areas. Our Beijing office runs company bus lines, which provides a more convenient way for employees to come to work while reducing the carbon footprint of their daily lives. We advocate the use of video conferences, telephones, e-mail and other means of communication in place of face-to-face meetings to minimise non-essential business trips. Through our business trip approval control, CICC was able to reduce greenhouse gas ("GHG") emissions by 13% this year.

During the Reporting Period, our total GHG emissions equated to 35,004 tonnes of CO_2e, arising mainly from electricity consumption. Our total energy consumption was 31,648,140 kWh.

Greenhouse gas emissions



Energy consumption



Case Study 1 – Singapore Green Office Award

CICC operations in Singapore were granted the "2018 BCA Green Mark – Office Interior – Version 1.1" Award, which is a green building rating system to evaluate the environmental impact and performance for a building. The rating system was established in 2005 by the Singapore Building and Construction Authority in line with the government's plan to encourage corporates to consider green building principles to support sustainable development. CICC Singapore has achieved this award for its efforts in the following areas:

- Reduction in natural resource usage, including energy, water and other materials
- Reduction of potential negative environmental impacts
- Improvement of indoor air quality and health and well-being of building users
- Provision of clear direction and continuous improvements in sustainability

b) Waste Management

Waste management, especially within our offices, is an important component of the Group's sustainability plans. We continue to provide recycling bins in all offices and encourage the collection of plastic, cardboard, batteries and other forms of waste. We have engaged office cleaners to help to identify office waste and to follow the proper recycling procedures. We employ specialised agencies and vendors to handle toner cartridges and other consumables in a safe and proper manner.

Recycling Bins, Battery Recycling Boxes and Donation Boxes in CICC's Offices

Environmental, Social and Governance Report

We encourage our employees to minimise waste by re-using stationery such as envelopes, letter heads, courier bags and other office materials. We organise regular "Earth Recycling Station Project" donation activities to collect used clothes, books and stationery. The collected items are sent to less fortunate communities in rural China. In 2018, our Beijing office has donated over 300 items over 4 months. CICC also organises the "CICC No Disposable Lunchboxes and Cutleries Day" twice a month across offices globally as well as encouraging our employees to "Bring Your Own Cutlery". These initiatives aim to encourage staff to reduce waste by avoiding disposable lunchboxes and cutlery.

In our conference rooms, we provide glasses to minimise the use of disposable cups. During our procurement processes, we strive to utilise all available office equipment and supplies before purchasing new ones.

Case Study 2 – Go Paperless

We advocate a paperless workplace by systemising and digitalising our workflow as much as possible which also encourages the recycling and reuse of paper. In 2018, we developed an IT system which migrated some of our workflow online and reduced the use and circulation of printed materials. The system has capabilities to handle human resources registration for new employees and to store e-documents on a company online platform. We also started using facial recognition technology as a replacement for paper registrations of visitors and employees. Furthermore, e-greeting cards are used in place of traditional paper cards.

c) Building Awareness of Environmental Protection

We extended our efforts in environmental protection to the community by organising and participating in various environmental programmes. We organised a "Charity Green Walk" and encouraged our employees to choose sustainable travel options whenever possible to minimise negative environmental impacts.

Case Study 3 – Earth Hour

In order to support energy-saving initiatives and raise employee awareness, we joined the international "Earth Hour" 2018 campaign organised by World Wildlife Fund (WWF).

5. POVERTY ALLEVIATION AND CHARITY

a) Objectives, Scope and Vision

The Group supports the local community by conducting numerous charity events contributing a total of RMB20,947,454 in 2018 in the form of donations to support a diverse set of projects within the PRC.

Objectives

- Uphold principles of corporate social responsibility
- Promote the development of social welfare

Scope

- Poverty alleviation in the financial, industrial, educational, charity and consumption areas
- Help sick and injured individuals
- Help victims of natural disasters and large-scale emergencies
- Assist the government to improve medical and health conditions in poverty-stricken areas
- Assist the government to improve conditions of schools in poverty-stricken areas
- Subsidise and support education programmes
- Protect the environment and natural resources

Vision

- Focus on education and future development of students

b) Poverty Alleviation

CICC actively fulfilled its social responsibilities and paired up with and assisted Guzhang County of Hunan Province, Yuexi County of Anhui Province, Kaizhou District and Fengjie County of Chongqing Municipality. CICC Futures, our subsidiary, paired up with and assisted Qilian County of Qinghai Province. The Company is currently joining efforts with CISC to promote the poverty alleviation in Huining County of Gansu Province.

The Company has formed working principles in poverty alleviation including financial support as the focus to support the financing and industrial development in poverty-stricken areas; educational support to equip the poor population with knowledge and strength to shake off poverty; targeted measures as the future direction to help registered poor households with tailor-made measures. We have made contributions to the development of poor regions by providing support in multiples areas including financial services, industrial development, eduction, public welfare and consumption.

c) CICC Charity Foundation and Corporate Social Welfare Events

The CICC Charity Foundation was set up in Beijing, which acts as a valuable platform for the Group to conduct charity events and encourage our employees to take part in social welfare activities. We are committed to cultivating our corporate social responsibility culture. In 2018, the CICC Charity Foundation projects focused on assisting poverty-stricken areas. Great efforts were made to support community building, improve quality of education, enhance medical and sanitation facilities, and protect the natural environment.

2018 Poverty Alleviation and Charity Projects

Improve the quality of education and subsidise costs for less-fortunate students:

- **Anjiazao Primary School Renovation Project – Yanggao County, Shanxi Donation of RMB1,000,000**

  The Group continued to support the progress of school renovations and improvement of teaching conditions. Further, in 2018, we subsidised costs for five staff members to attend training sessions and obtain teaching experience at Beijing Daxing Dandelion Middle School.

Environmental, Social and Governance Report

- **Primary School Education Subsidy Project – Maixieticun, Xinjiang Uygur Autonomous Region Donation of RMB274,020**

  We upgraded the school playground and provided uniform and meal subsidies to underprivileged students.

- **Primary School Education Subsidy Project – Nima County, Tibet Autonomous Region Donation of RMB52,734**

  Through this donation, 132 students received a gift of cotton jackets to protect against the cold winter weather.

- **Education Subsidy Project – Guzhang County, Hunan Donation of RMB2,000,000**

  We provided subsidies to less-fortunate students in Guzhang County in continuous support of their education.

- **Huiyu China Project – Huachi County, Gansu Donation of RMB100,000**

  The Group provided a transportation and training allowance to the volunteers and project supervisors of the "Huiyu China Project".

- **Huiyu China Project – Huining County, Gansu Donation of RMB3,000,000**

- **Huiyu China Project – Guzhang County, Hunan Donation of RMB1,500,000**

- **Huiyu China Project – Nyemo County, Tibet Autonomous Region Donation of RMB1,000,000**

  We provide voluntary home visits to rural families to promote a holistic approach to the development of infants and young children to help break intergenerational poverty.

- **"One to One" Warm-hearted Education Aid Programme – Huining County, Gansu Donation of RMB200,000**

  The Group continues to support education for students of different backgrounds. In 2018, the programme entered its second phase where 200 primary and secondary students from poverty-affected families in Huining received subsidies to help overcome financial difficulties and allow them to continue with their education.

- **Playground construction in Huining Siyuan Experimental School – Huining County, Gansu Donation of RMB2,000,000**

  We have subsidised improvements and upgrades for school facilities and in 2018, our donation helped to build an all-new sports field and playground.

Subsidising underprivileged families in poverty-stricken areas:

- **"End Poverty Loop – Illness Prevention" Fund – Yuexi County, Anhui Donation of RMB1,000,000**

  We subsidise Yuexi County's illness prevention programme to aid registered families affected by poverty.

- **“Poverty Alleviation Targeting Industry – Beef Cattle Breeding for Precision Poverty Alleviation” Project – Huining County, Gansu Donation of RMB2,000,000**

  Along with Shenwan Hongyuan Securities, we continued to provide subsidies to underprivileged families for cattle breeding.

- **“Poverty Alleviation Through Consumption – Purchasing High-Quality Specialties” Project – Huining County, Gansu Donation of RMB4,094,717**

  CICC and CISC purchased a number of Huining County’s local specialties, of which 6,060 boxes of local specialties were donated to disabled and poverty stricken people in Yuexi County, Anhui and Guzhang County, Hunan.

- **“Poverty Alleviation” Project for Huining County Service Centre – Huining County, Gansu Donation of RMB2,000,000**

  CISC made donations to Huining County Service Centre to support their construction projects and subsidise their members.

- **“Village Poverty Alleviation Training” Programme – Huining County, Gansu Donation of RMB335,500**

  Our donation has subsidised the second phase of the “Village Poverty Alleviation Training” programme. The programme benefited 566 helpers from the “Village Poverty Alleviation Team” in support of 130 poverty-affected villages.

- **“Caring for Vulnerable Families” Charity donation – Huining County, Gansu Donation of RMB147,000**

  CISC’s labour union and the CISC Communist Youth League Committee of China coordinated a series of fundraising campaigns focused on “Grass-root foundations – Caring for Vulnerable Families”. The donation supported families that are primarily made up of senior citizens and young children. Educational materials and daily essentials were purchased and distributed.

Environmental, Social and Governance Report

Case Study 1:
Beijing Daxing Dandelion Middle School in Daxing, Beijing

The Group provides continuous support to the Beijing Daxing Dandelion Middle School. Established in 2005, it is the first private not-for-profit school focused on providing education to migrant children. Since then, the Group has donated RMB5,000,000 in support of over 400 teachers. We also organised other fundraising campaigns to support the school's maintenance through the CICC Teacher Development Fund. In 2018, we donated RMB400,000 for this project.

Case Study 2:
School Renovation Project in Yanggao County, Shanxi

The Group and the CICC Charity Foundation subsidised a renovation project for Anjiazao Primary School.

In 2018, 2 of our employees volunteered their time to provide assistance to the school from 7-18 May 2018. Their main responsibilities were to improve the school's internal management system and to oversee the projects supported by our donations.

On 10 September 2018, representatives from CICC and CICC Charity Foundation attended a ceremony to commemorate the opening of a new building for the school.

Following our "Poverty Alleviation Through Consumption" initiative, CICC Charity Foundation donated materials worth over RMB10,000 to the school, including basketballs, local food products from Hunan, flour from Xinjiang and apples from Gansu. Through this donation, we support both local producers and the school's students.

Case Study 3:
"Huiyu China" Project in Guzhang County, Hunan; Nyemo County, Tibet Autonomous Region and Huining County, Gansu

The Group and CICC Charity Foundation provided early educational support and conducted regular home visits to families in need via the "Huiyu China" project. In 2018, we continued this project with a donation of RMB480,000 and distributed nutrition packs to young children to assist their growth and development. By first identifying the needs of local families, we were able to provide nutritional care and education for these young children. We are dedicated to promoting the well-rounded development of infants and to the elimination of intergenerational poverty. We treat this project as an important step in supporting early childhood development.

In 2018, this project expanded to locations beyond Guzhang County, including Nyemo County, Tibet Autonomous Region and Huining County, Gansu.

Case Study 4:
Maternal and Child Healthcare Association Village Doctor Training Programme in Tibet Autonomous Region

The Group and the CICC Charity Foundation continue to provide support for prenatal and postnatal care, increasing hospital maternity delivery rates and lowering the maternal and infant mortality rate in Lhasa, Tibet Autonomous Region.

In 2018, we donated RMB480,000 in support of medical programmes which provide maternity and childcare training to village doctors in Tibet's farming and rural areas. The project also raises villagers' awareness of maternity and childcare.

Case Study 5:
"2018 CICC Charity Family Summer Camp"

CICC and Shanghai Adream Foundation worked together to organise a summer camp from 27-31 July 2018 via "Village Poverty Alleviation Actions". In total 50 participants from Beijing, Shanghai, Shenzhen, Hong Kong and Singapore visited the families in Yuexi county, Anhui. Through this event, we were able to raise RMB835,976 for local schools.

Case Study 6:
2018 "Sharing-Love Charity Auction Dinner"

On 27 October 2018, Kitty Liu from our Equities Department led and coordinated the "2018 Sharing-Love Charity Auction Dinner – Boundless Goodliness Growing Dreams" together with Shanghai Adream Foundation, China CITIC Bank Credit Card Centre and Shenzhen Marriott Hotel. The auction dinner welcomed 300 industrial experts to collaborate and help raise funds for the "Dream Centres Project", which supports children in need living in rural areas. Through this event, 56 items were auctioned raising a total of RMB68,529,200. We hope the funds will help the next generation to grow up with confidence and the tools to succeed.

Environmental, Social and Governance Report

6. PERFORMANCE DATA SUMMARY

KPI A1.2 – Greenhouse gas emissions data in total and intensity

	CICC		CISC	
	Tonnes of CO_2e	Tonnes of CO_2e per FTE[ii]	Tonnes of CO_2e	Tonnes of CO_2e per FTE
Scope 1 emissions (Fuel use)	9.29	0.003	1,284.37	0.33
Scope 2 emissions (Electricity use)	10,499.20	2.88	13,150.78	3.43
Scope 3 emissions (Business air travel)	9,350.00	2.57	709.93	0.19
Total	19,858.48	5.45	15,145.08	3.95

KPI A2.1 – Direct and indirect energy consumption and intensity

	CICC		CISC	
	Consumption (in 1,000 kWh)	Consumption Intensity (kWh per FTE)	Consumption (in 1,000 kWh)	Consumption Intensity (kWh per FTE)
Total direct energy consumption from fuel use	31.22	8.57	4,319.12	1,126.24
Total indirect energy consumption from the use of electricity	12,203.87	3,349.95	15,093.93	3,935.84

KPI A2.2 – Water consumption in total and intensity

	CICC		CISC	
	Total (m^3)	Intensity (m^3 per FTE)	Total (m^3)	Intensity (m^3 per FTE)
Water consumption in total	52,441.40	14.40	172,426.00	44.96

KPI B1.1 – Total workforce by gender, age group, employment type and geographical location

CICC			Age Group			Gender	
		Total	Below 30	30 – 50	Over 50	Female	Male
Hong Kong	Full-time	365	125	220	20	176	189
	Part-time	0	0	0	0	0	0
PRC	Full-time	3,203	1,412	1,760	31	1,675	1,528
	Part-time	0	0	0	0	0	0
Singapore	Full-time	20	3	17	0	12	8
	Part-time	0	0	0	0	0	0
UK	Full-time	20	5	14	1	11	9
	Part-time	0	0	0	0	0	0
US	Full-time	35	13	16	6	18	17
	Part-time	0	0	0	0	0	0
Total		3,643	1,558	2,027	58	1,892	1,751

[ii] FTE: Full time equivalent employees. The total number of CICC's and CISC's FTE in 2018 are 3,643 and 3,835 respectively.

CISC		Total	Age Group Below 30	30 – 50	Over 50	Gender Female	Male
Hong Kong	Full-time	58	15	38	5	26	32
	Part-time	0	0	0	0	0	0
PRC	Full-time	3,777	886	2,703	188	1,783	1,994
	Part-time	0	0	0	0	0	0
Total		3,835	901	2,741	193	1,809	2,026

KPI B1.2 – Employee turnover rate by gender, age group and geographical region

CICC	Age Group Below 30	30 – 50	Over 50	Gender Female	Male
Hong Kong	24%	12%	5%	17%	15%
PRC	12%	10%	3%	9%	12%
Singapore	0%	0%	0%	0%	0%
UK	20%	43%	0%	45%	22%
US	31%	50%	0%	33%	35%
All locations	13%	11%	3%	11%	12%
CICC overall rate			11%		

CISC	Age Group Below 30	30 – 50	Over 50	Gender Female	Male
Hong Kong	80%	68%	80%	62%	81%
PRC	26%	12%	2%	12%	17%
All locations	27%	13%	4%	13%	18%
CISC overall rate			15%		

KPI B3.1 – Percentage of employees trained by employee category and gender

	CICC	CISC
General Staff	77%	95%
Middle Managers	80%	96%
Senior Managers	78%	100%
Female	81%	96%
Male	76%	95%
Overall	79%	96%

KPI B3.2 – Average training hours completed per employee by employee category and gender

	CICC	CISC
General Staff	194.00	97.90
Middle Managers	165.60	82.82
Senior Managers	98.40	20.26
Female	152.67	69.44
Male	152.67	64.55
Overall	152.67	66.99

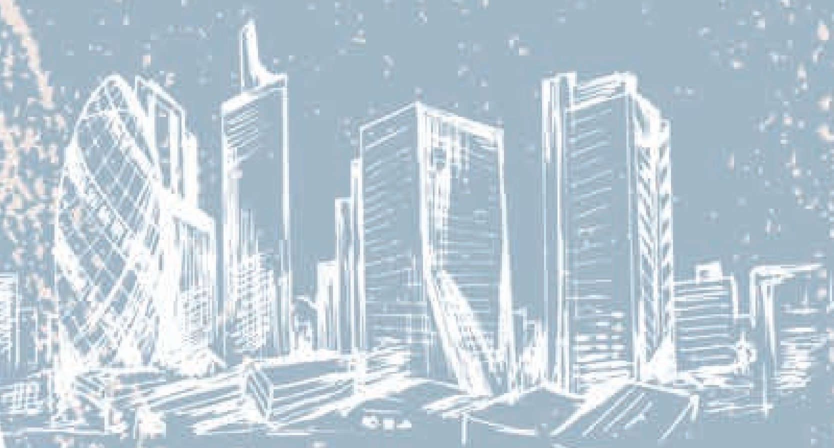
Environmental, Social and Governance Report

7. HKEX ESG GUIDE CONTENT INDEX

Aspect	HKEx KPI	Description	Page Number/Remarks
A. Environmental			
A1 Emissions	A1	General Disclosure	P158-P161
	A1.1	The type of emissions and respective emissions data	According to the materiality assessment result, this topic is regarded as not material to the Group.
	A1.2	Greenhouse gas emissions in total and intensity	P167
	A1.3	Total hazardous waste produced	According to the materiality assessment result, this topic is regarded as not material to the Group.
	A1.4	Total non-hazardous waste produced	According to the materiality assessment result, this topic is regarded as not material to the Group
	A1.5	Description of measures to mitigate emissions and results achieved	P158-P160
	A1.6	Description of how hazardous & non-hazardous wastes are handled, reduction initiatives & results achieved	P160-P161
A2 Use of Resources	A2	General Disclosure	P158-P161
	A2.1	Direct and indirect energy consumption by type in total and intensity	P167
	A2.2	Water consumption in total and intensity	P167
	A2.3	Energy use efficiency initiatives and results achieved	P158-P160
	A2.4	Issue in sourcing water, water efficiency initiatives	According to the materiality assessment result, this topic is regarded as not material to the Group.
	A2.5	Total packaging material used for finished products	Not applicable to the Group.
A3 The Environment and Natural Resources	A3	General Disclosure	P158-P161
	A3.1	Description of the significant impacts of activities on the environment and natural resources	P158-P161

Aspect	HKEx KPI	Description	Page Number/Remarks
B Social			
B1 Employment	B1	General Disclosure	P154-P155
	B1.1	Total workforce by gender, employment type, age group and geographical region	P167-P168
	B1.2	Employee turnover rate by gender, age group and geographical region	P168
B2 Health and Safety	B2	General Disclosure	P157
	B2.3	Occupational health & safety measures	P157
B3 Development and Training	B3	General Disclosure	P156-P157
	B3.1	Percentage of employees trained by gender and employee category	P168
	B3.2	Average training hours completed per employee by gender and employee category	P168
B4 Labour Standards	B4	General Disclosure	We abide by relevant employment ordinances and statutory requirements in all locations of our operations. No relevant cases of non-compliance were recorded.
B5 Supply Chain Management	B5	General Disclosure	P152
B6 Product Responsibility	B6	General Disclosure	P153-P154
	B6.4	Description of quality assurance process and recall procedures	P153-P154
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	P153-P154
B7 Anti-corruption	B7	General Disclosure	P152-P153
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	P153
	B7.2	Preventive measures and whistle-blowing procedures, how they are implemented and monitored	P152-P153
B8 Community Investment	B8	General Disclosure	P162
	B8.1	Focus areas of contribution	P162-P166
	B8.2	Resources contributed to the focus area	P162-P166

INDEPENDENT AUDITOR'S *Report*



Independent Auditor's Report

Independent auditor's report to the shareholders of

CHINA INTERNATIONAL CAPITAL CORPORATION LIMITED

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

Opinion

We have audited the consolidated financial statements of China International Capital Corporation Limited ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with the ethical requirements that are relevant to our audit of the financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Revenue recognition: Fee and commission income

Refer to note 6 to the consolidated financial statements and the accounting policies on page 224.

The Key Audit Matter	How the matter was addressed in our audit
Fee and commission income represented 48.26% of the total revenue of the Group for the year ended 31 December 2018. Fee and commission income principally comprises brokerage commission income, underwriting and sponsoring fees, financial advisory fees, investment advisory fees and asset management fees. Brokerage commission income arising from brokerage trading of securities is recognised on the trade date. Underwriting and sponsoring fees, financial advisory fees, investment advisory fees and asset management fees are recognised when or as the performance obligations in the contract are satisfied. The determination of the timing of recognition of underwriting and sponsoring fees, financial advisory fees, investment advisory fees and asset management fees can involve significant management judgement in assessing when the Group is entitled to receive the fees.	Our audit procedures to assess the recognition of fee and commission income included the following: • assessing the design, implementation and operating effectiveness of key internal controls which govern revenue recognition; • reading client service agreements, on a sample basis and considering the Group's accounting policies for the recognition of revenue with reference to the terms of the agreements and the requirements of the prevailing accounting standards; • for brokerage commission income, reconciling the daily transaction volume recorded by the Group with the transaction data received from the exchanges and clearing houses and comparing the commission rates for individual clients with the relevant client service agreements, on a sample basis; • selecting underwriting and sponsoring fees and financial advisory fees recognised during the current year, on a sample basis, performing the following procedures: – inquiring of the project teams about the status of the selected projects; – reading client correspondence and information published on the websites of regulators or exchanges to ascertain the status of completion of the selected projects; – comparing the fee income recognised with details in the related client service agreement and client correspondence;

Independent Auditor's Report

<table>
<tr><td colspan="2">Revenue recognition: Fee and commission income (continued)</td></tr>
<tr><td colspan="2">Refer to note 6 to the consolidated financial statements and the accounting policies on page 224.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>We identified the recognition of fee and commission income as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk that the timing of revenue could be manipulated to meet specific targets or expectations and because the determination of the timing of recognition of fee and commission income can require management judgement, which could have a significant impact on the Group's net profit.</td><td>• selecting investment advisory fees and asset management fees recognised during the current year, on a sample basis, reading the client service agreements and relevant client correspondence and assessing whether the revenue recorded by the Group was recognised in accordance with the terms of the client service agreements and the Group's accounting policies for the recognition of revenue;

• comparing underwriting and sponsoring fees, financial advisory fees, investment advisory fees and asset management fees recognised subsequent to the financial year end with the relevant client service agreement and client correspondence, on a sample basis and making inquiries of management to assess whether the related revenue was recognised in the appropriate accounting period;

• inspecting manual adjustments to revenue raised during and after the reporting period, on a sample basis, enquiring of management about the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation;

• for the key underlying systems used for processing transactions in relation to fee and commission income, utilizing our information technology specialists to assess the design, implementation and operating effectiveness of a selection of relevant automated controls within these systems. We also assessed the design, implementation and operating effectiveness of the key controls over these underlying systems, including controls over access to these systems and controls over data and change management.</td></tr>
</table>

<table>
<tr><td colspan="2">Assessing the fair value of financial instruments</td></tr>
<tr><td colspan="2">Refer to note 52 to the consolidated financial statements, the accounting policies on page 218 and the accounting judgement and estimates on page 229.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>As at 31 December 2018, the carrying amount of the Group's financial assets and liabilities measured at fair value totalled RMB156,014 million and RMB18,475 million, respectively.

The valuation of the Group's financial instruments is based on a combination of market data and valuation models which often require a considerable number of inputs.

Many of these inputs are obtained from readily available data for liquid markets. Where such observable data is not readily available, as in the case of level 3 financial instruments, estimates need to be developed which can involve significant management judgement.

The Group has developed its own models to value certain financial instruments, which also involves significant management judgement.</td><td>Our audit procedures to assess the fair value of financial instruments included the following:

• assessing the design, implementation and operating effectiveness of key internal controls over the valuation, independent price verification, front office/back office reconciliations and valuation model approval for financial instruments;

• assessing the fair values of financial instruments traded in active markets on a sample basis by comparing the fair values applied by the Group with publicly available market data;

• reading investment agreements entered into during the current year, on a sample basis, to understand the relevant investment terms and identify any conditions that were relevant to the valuation of financial instruments;</td></tr>
</table>

Independent Auditor's Report

Assessing the fair value of financial instruments (continued)	
Refer to note 52 to the consolidated financial statements, the accounting policies on page 218 and the accounting judgement and estimates on page 229.	
The Key Audit Matter	**How the matter was addressed in our audit**
We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the significant degree of judgement exercised by management in determining the inputs used in the valuation models.	• engaging our internal valuation specialists to assist us in evaluating the valuation models used by the Group to value certain financial instruments and to perform, on a sample basis, independent valuations of the financial instruments and compare these valuations with the Group's valuations. This included comparing the Group's valuation models with our knowledge of current and emerging practice, testing inputs to the fair value calculations and establishing our own valuation models to perform revaluations; • assessing whether the disclosures in the consolidated financial statements reflected the Group's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards; • for the key underlying systems used for processing transactions in relation to financial instruments, utilizing our information technology specialists to assess the design, implementation and operating effectiveness of a selection of relevant automated controls within these systems. We also assessed the design, implementation and operating effectiveness of the key controls over these underlying systems, including controls over access to these systems and controls over data and change management.

<table>
<tr><td colspan="2">Consolidation of structured entities</td></tr>
<tr><td colspan="2">Refer to note 49 to the consolidated financial statements and the accounting judgement and estimates on page 229.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire or retain an ownership interest in, or act as a sponsor of, a structured entity through issuing or acquiring a wealth management product, an investment fund, an asset management scheme, a trust product or an asset-backed security.

In determining whether a structured entity is required to be consolidated by the Group, management is required to consider the power the Group is able to exercise over the activities of the entity and its exposure to and ability to influence its own returns from the entity. In certain circumstances the Group may be required to consolidate a structured entity even though it has no equity interest therein.

The factors which the Group needs to consider when determining whether a structured entity should be consolidated or not are not purely quantitative and both qualitative and quantitative factors need to be considered collectively.</td><td>Our audit procedures to assess the consolidation of structured entities included the following:

• making enquiries of management and inspecting documents relating to the judgement process over whether a structured entity is consolidated or not to assess whether the Group has a robust process in this regard;

• selecting significant structured entities for each key product type, on a sample basis and performing the following procedures for each entity selected:

– inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity;</td></tr>
</table>

Independent Auditor's Report

<table>
<tr><td colspan="2">Consolidation of structured entities (continued)</td></tr>
<tr><td colspan="2">Refer to note 49 to the consolidated financial statements and the accounting judgement and estimates on page 229.</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>As at 31 December 2018, the carrying amount of the Group's interests in structured entities sponsored by third party institutions which were not consolidated by the Group was RMB47,947 million. The amount of assets held by the Group in the structured entities sponsored by the Group which the Group did not consolidate but in which it held an interest was RMB6,115 million.

We identified the consolidation of structured entities as a key audit matter because it involves significant management judgement in determining whether a structured entity is required to be consolidated by the Group or not and because the impact of consolidating a structured entity on the Group's consolidated statement of financial position could be significant.</td><td>– reviewing the risk and reward structure of the structured entity including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns to assess management's judgement as to exposure, or rights, to variable returns from the Group's involvement in such an entity;

– reviewing management's analysis of the structured entity including qualitative analysis and calculations of the magnitude and variability associated with the Group's economic interests in the structured entity to assess management's judgement over the Group's ability to influence its own returns from the structured entity;

– evaluating management's judgement over whether the structured entity should be consolidated or not;

• assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.</td></tr>
</table>

<table>
<tr><th colspan="2">Impairment assessment of goodwill</th></tr>
<tr><td colspan="2">Refer to note 22 to the consolidated financial statements, the accounting policies on page 206 and page 222 and the accounting judgement and estimates on page 229.</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The Company acquired China Investment Securities Company Limited ("CISC") in 2017 and paid the consideration of RMB16,701 million as the cost of the combination. The difference between the consideration and the fair value of the net identifiable assets attributable to the Company was RMB1,583 million, which was recognised as goodwill.

There is a risk that the carrying value of goodwill may not be recoverable in full through the future cash flows to be generated from the relevant cash-generating units (the "CGUs") to which the goodwill has been allocated. In order to assess the recoverable amount of goodwill, management calculated the present value of the estimated future cash flows of the relevant CGUs using a cash flow forecast compiled by management.</td><td>Our audit procedures to assess the impairment of goodwill included the following:

• assessing the design, implementation and operating effectiveness of key internal controls over preparation of the discounted cash flow forecast on which the estimation of the recoverable amount of goodwill is based;

• engaging our internal valuation specialists to evaluate the methodology and assumptions adopted in the discounted cash flow forecasts complied by management, with reference to the requirements of the prevailing accounting standards;

• assessing the assumptions and critical judgements adopted in the discounted cash flow forecasts by comparing key inputs, including forecasted income, the average long-term growth rate and forecasted margins with the financial budgets approved by board of directors and industry statistics;

• evaluating the risk adjusted discount rates applied in the discounted cash flow forecasts by benchmarking the discount rates against that of similar companies in the same industry;</td></tr>
</table>

Independent Auditor's Report

Impairment assessment of goodwill (continued)	
Refer to note 22 to the consolidated financial statements, the accounting policies on page 206 and page 222 and the accounting judgement and estimates on page 229.	
The Key Audit Matter	**How the matter was addressed in our audit**
We identified the impairment assessment of goodwill as a key audit matter because of its significance to the consolidated financial statements, and because determining whether any impairment is required is highly subjective as significant judgement and estimation is required to be exercised, particularly in terms of the key assumptions regarding forecasted income, the average long-term growth rate, forecasted margins and determining appropriate risk adjusted discount rates when forecasting future cash flows, all of which can be inherently uncertain and could be subject to management bias.	• obtaining management sensitivity analysis for the key assumptions adopted in the discounted cash flow forecast and assessing the impact of changes in the key assumptions to the conclusions reached by management in its impairment assessment and whether there were any indicators of management bias; • performing a retrospective review by comparing the prior year's forecast with the current year's results to assess the historical accuracy of management's forecasting process and if any management bias; • assessing the disclosures in the consolidated financial statements in relation to the impairment assessment of goodwill with reference to the requirements of the prevailing accounting standards.

<table>
<tr><td colspan="2">Transition adjustments in relation to the change of financial instruments standard</td></tr>
<tr><td colspan="2">Refer to the accounting policies on page 198 (note 2(c)).</td></tr>
<tr><td>The Key Audit Matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Group has adopted International Financial Reporting Standard 9, Financial instruments (“IFRS 9”), since 1 January 2018.

IFRS 9 replaced the previous International Accounting Standard 39, Financial instruments: Recognition and measurement (“IAS 39”), and introduced new requirements for classification and measurement framework of financial instruments and a more complex expected credit loss model to assess impairment.

The Group is required to retrospectively apply the classification and measurement (including impairment) requirements and recognise any difference between the original carrying amount and the new carrying amount at the date of initial application of IFRS 9 (i.e. 1 January 2018) in the opening equity.</td><td>Our audit procedures relating to the transition to IFRS 9 included the following:

• assessing the design, implementation and operating effectiveness of key internal controls related to the change of financial instruments standard;

• obtaining the classification results of financial instrument at the date of initial application, selecting samples to assess the contractual cash flow characteristics and reading relevant documents in relation to the business models to evaluate the accuracy of the classification of financial instruments;

• obtaining information on the valuation method and key parameters used for financial assets that are now required to be measured at fair value due to changes in classification and evaluating the validity of the valuation method and key parameters and performing, on a sample basis, independent valuations of the financial assets and comparing these valuations with the Group’s valuations through the involvement of our internal valuation specialists.</td></tr>
</table>

Independent Auditor's Report

Transition adjustments in relation to the change of financial instruments standard (continued)	
Refer to the accounting policies on page 198 (note 2 (c)).	
The Key Audit Matter	**How the matter was addressed in our audit**
We identified the transition to IFRS 9 as a key audit matter because of the complexity of the transition process which involves changes in internal controls over financial reporting process and the accounting treatment, and requires management judgement.	• assessing the reliability of the expected credit loss model applied by management in determining loss allowances on transition with the assistance of our internal impairment specialists, and assessing the validity, accuracy and completeness of data used for the key parameters in the expected credit loss model; • obtaining journal entries relating to adjustments made on transition to IFRS 9, assessing the accuracy and completeness of the journal entries by comparing them with the classification list of financial instruments, the carrying amounts of respective account captions before and after the transition, and selecting samples to assess if the accounting treatment is in compliance with IFRS 9; • selecting samples to recalculate the new carrying amount of the financial instruments and assessing the accuracy of the opening balance at the date of initial application (i.e. 1 January 2018); • assessing whether the relevant disclosures related to the transition to IFRS 9 in the consolidated financial statements are in compliance with prevailing accounting standard.

Information other than the consolidated financial statements and auditor's report thereon

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

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

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

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

Responsibilities of the directors for the consolidated financial statements

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Independent Auditor's Report

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Yuen Shan.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

29 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2018 (Expressed in Renminbi ("RMB"), unless otherwise stated)

	Note	Year ended 31 December 2018	2017 (Note)
Revenue:			
Fee and commission income	6	**8,820,404,216**	8,282,173,466
Interest income	7	**4,586,925,312**	2,979,663,857
Investment income	8	**4,871,046,846**	4,008,480,883
Total revenue		**18,278,376,374**	15,270,318,206
Other operating income/(losses), net	9	**261,277,486**	(10,075,646)
Total revenue and other income		**18,539,653,860**	15,260,242,560
Expenses:			
Fee and commission expenses	10	**868,605,501**	822,372,888
Interest expenses	11	**4,870,885,014**	3,267,583,160
Staff costs	12	**5,737,844,920**	5,522,433,419
Depreciation and amortisation expenses	15	**301,902,598**	230,367,714
Tax and surcharges		**72,320,091**	61,843,589
Other operating expenses and costs	16	**2,345,135,899**	1,883,727,379
Provision for/(reversal of) impairment losses	17	**74,176,168**	(58,606,487)
Total expenses		**14,270,870,191**	11,729,721,662
Operating profit		**4,268,783,669**	3,530,520,898
Share of profits of associates and joint ventures		**118,564,684**	70,522,462
Profit before income tax		**4,387,348,353**	3,601,043,360
Less: Income tax expense	18	**852,726,740**	789,880,653
Profit for the year		**3,534,621,613**	2,811,162,707
Attributable to:			
Shareholders of the Company and holders of other equity instruments		**3,492,157,669**	2,766,349,249
Non-controlling interests		**42,463,944**	44,813,458
Basic and diluted earnings per share (in RMB per share)	20	**0.83**	0.76

The notes on pages 197 to 320 form part of these financial statements.

	Year ended 31 December	
	2018	2017 (Note)
Profit for the year	**3,534,621,613**	2,811,162,707
Other comprehensive income for the year		
Items that may be reclassified to profit or loss in subsequent periods:		
Financial assets at fair value through other comprehensive income:		
– Changes in fair value	**408,925,202**	–
– Expected credit losses	**6,834,257**	–
– Tax effect	**(69,959,604)**	–
– Reclassified to profit or loss as investment income	**(184,090,116)**	–
Available-for-sale financial assets:		
– Changes in fair value	**–**	51,648,278
– Tax effect	**–**	53,374,400
– Reclassified to profit or loss as investment income	**–**	(307,842,578)
Interest in associates and joint ventures:		
– Share of other comprehensive income	**–**	3,935,459
– Tax effect	**–**	(983,865)
Exchange differences on translation of financial statements of overseas subsidiaries	**274,812,565**	(306,026,863)
Total other comprehensive income for the year, net of tax	**436,522,304**	(505,895,169)
Total comprehensive income for the year	**3,971,143,917**	2,305,267,538
Attributable to:		
Shareholders of the Company and holders of other equity instruments	**3,928,679,973**	2,260,425,866
Non-controlling interests	**42,463,944**	44,841,672

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 197 to 320 form part of these financial statements.

Consolidated Statement of Financial Position

as at 31 December 2018 (Expressed in RMB, unless otherwise stated)

	Note	As at 31 December 2018	2017 (Note)
Non-current assets:			
Property and equipment	21	**597,207,220**	474,933,404
Goodwill	22	**1,582,678,646**	1,582,678,646
Intangible assets	23	**272,225,643**	227,205,975
Interest in associates and joint ventures	24	**1,266,950,588**	1,128,283,260
Financial assets at fair value through profit or loss	25	**2,471,319,697**	–
Available-for-sale financial assets	26	**–**	1,177,822,837
Financial assets held under resale agreements ("reverse REPOs")	27	**739,070,482**	1,015,578,267
Refundable deposits	28	**3,489,936,509**	2,785,186,146
Deferred tax assets	29	**1,156,997,727**	1,151,148,106
Other non-current assets	30	**1,330,803,662**	1,362,139,896
Total non-current assets		**12,907,190,174**	10,904,976,537
Current assets:			
Accounts receivable	31	**11,879,143,696**	9,401,697,222
Receivable from margin clients	32	**17,716,209,967**	21,882,853,461
Financial assets at fair value through other comprehensive income	33	**35,699,665,877**	–
Financial assets at fair value through profit or loss	25	**112,313,583,432**	97,011,710,932
Available-for-sale financial assets	26	**–**	17,719,553,617
Reverse REPOs	27	**18,814,063,861**	13,422,695,660
Derivative financial assets	34	**5,529,536,148**	3,447,916,489
Interest receivable		**–**	1,470,485,414
Cash held on behalf of brokerage clients	35	**37,902,902,736**	44,226,142,219
Cash and bank balances	36	**22,424,488,162**	18,130,922,701
Other current assets		**233,756,299**	192,995,384
Total current assets		**262,513,350,178**	226,906,973,099
Total assets		**275,420,540,352**	237,811,949,636

The notes on pages 197 to 320 form part of these financial statements.

	Note	As at 31 December 2018	2017 (Note)
Current liabilities:			
Financial liabilities at fair value through profit or loss	38	**15,094,248,271**	12,194,242,171
Derivative financial liabilities	34	**3,381,209,869**	3,448,340,994
Accounts payable to brokerage clients	39	**41,317,904,126**	47,346,517,792
Placements from financial institutions	40	**8,533,803,872**	10,280,774,792
Short-term debt securities issued	41	**14,061,377,785**	10,626,880,896
Financial assets sold under repurchase agreements ("REPOs")	42	**48,650,756,322**	30,653,643,454
Employee benefits payable		**3,938,854,639**	4,681,413,346
Income tax payable		**759,950,938**	350,740,606
Long-term debt securities issued due within one year	44	**12,993,890,883**	5,098,498,424
Other current liabilities	43	**32,129,167,430**	28,479,611,982
Total current liabilities		**180,861,164,135**	153,160,664,457
Net current assets		**81,652,186,043**	73,746,308,642
Total assets less current liabilities		**94,559,376,217**	84,651,285,179
Non-current liabilities:			
Non-current employee benefits payable		**834,544,875**	628,212,952
Long-term debt securities issued	44	**48,998,790,985**	44,835,943,007
Deferred tax liabilities	29	**270,866,094**	226,771,876
Other non-current liabilities	45	**2,078,437,686**	2,067,919,722
Total non-current liabilities		**52,182,639,640**	47,758,847,557
Net assets		**42,376,736,577**	36,892,437,622

The notes on pages 197 to 320 form part of these financial statements.

Consolidated Statement of Financial Position

as at 31 December 2018 (Expressed in RMB, unless otherwise stated)

	Note	As at 31 December 2018	2017 (Note)
Equity:			
Share capital	46	**4,192,667,868**	3,985,130,809
Other equity instruments	47	**1,000,000,000**	1,000,000,000
Reserves	46	**27,863,594,595**	24,607,398,949
Retained profits		**9,127,261,314**	7,114,159,008
Total equity attributable to shareholders of the Company and holders of other equity instruments		**42,183,523,777**	36,706,688,766
Non-controlling interests		**193,212,800**	185,748,856
Total equity		**42,376,736,577**	36,892,437,622

Approved and authorised for issue by the board of directors on 29 March 2019.

Bi Mingjian	**Wong King Fung**	
Chief Executive Officer	*Chief Financial Officer*	*Company chop*

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 197 to 320 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018 (Expressed in RMB, unless otherwise stated)

	Attributable to shareholders of the Company and holders of other equity instruments										
			Reserves								
	Share capital (Note 46(i))	Other equity instruments (Note 47)	Capital reserve (Note 46(ii))	Surplus reserve (Note 46(ii))	General reserves (Note 46(ii))	Investment revaluation reserve (Note 46(ii))	Foreign currency translation reserve (Note 46(ii))	Retained profits	Total	Non-controlling interests	Total equity
Balance at 31 December 2017	3,985,130,809	1,000,000,000	22,721,145,372	347,068,722	2,030,134,969	(135,103,088)	(355,847,026)	7,114,159,008	36,706,688,766	185,748,856	36,892,437,622
Adjustment on initial application of IFRS 9 (net of tax) (Note)	–	–	–	–	–	15,213,647	–	(48,226,392)	(33,012,745)	–	(33,012,745)
Balance at 1 January 2018	3,985,130,809	1,000,000,000	22,721,145,372	347,068,722	2,030,134,969	(119,889,441)	(355,847,026)	7,065,932,616	36,673,676,021	185,748,856	36,859,424,877
Profit for the year	–	–	–	–	–	–	–	3,492,157,669	3,492,157,669	42,463,944	3,534,621,613
Other comprehensive income for the year	–	–	–	–	–	161,709,739	274,812,565	–	436,522,304	–	436,522,304
Total comprehensive income for the year	–	–	–	–	–	161,709,739	274,812,565	3,492,157,669	3,928,679,973	42,463,944	3,971,143,917
Appropriation to surplus reserve	–	–	–	185,426,954	–	–	–	(185,426,954)	–	–	–
Appropriation to general reserves	–	–	–	–	572,974,932	–	–	(572,974,932)	–	–	–
Distributions to holders of perpetual subordinated bonds	–	–	–	–	–	–	–	(57,000,000)	(57,000,000)	–	(57,000,000)
Dividends to shareholders of the Company	–	–	–	–	–	–	–	(670,826,859)	(670,826,859)	–	(670,826,859)
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(36,000,000)	(36,000,000)
Issuance of H shares	207,537,059	–	2,101,457,583	–	–	–	–	–	2,308,994,642	–	2,308,994,642
Contribution by non-controlling interests	–	–	–	–	–	–	–	–	–	1,000,000	1,000,000
Others	–	–	–	–	(55,399,774)	–	–	55,399,774	–	–	–
Balance at 31 December 2018	4,192,667,868	1,000,000,000	24,822,602,955	532,495,676	2,547,710,127	41,820,298	(81,034,461)	9,127,261,314	42,183,523,777	193,212,800	42,376,736,577

The notes on pages 197 to 320 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018 (Expressed in RMB, unless otherwise stated)

	Attributable to shareholders of the Company and holders of other equity instruments										
			Reserves								
	Share capital (Note 46(i))	Other equity instruments (Note 47)	Capital reserve (Note 46(ii))	Surplus reserve (Note 46(ii))	General reserves (Note 46(ii))	Investment revaluation reserve (Note 46(ii))	Foreign currency translation reserve (Note 46(ii))	Retained profits	Total	Non-controlling interests	Total equity
Balance at 1 January 2017	2,306,669,000	1,000,000,000	7,705,668,325	255,669,229	1,663,056,264	64,793,432	(49,820,163)	5,500,908,886	18,446,944,973	49,813,207	18,496,758,180
Profit for the year	–	–	–	–	–	–	–	2,766,349,249	2,766,349,249	44,813,458	2,811,162,707
Other comprehensive income for the year	–	–	–	–	–	(199,896,520)	(306,026,863)	–	(505,923,383)	28,214	(505,895,169)
Total comprehensive income for the year	–	–	–	–	–	(199,896,520)	(306,026,863)	2,766,349,249	2,260,425,866	44,841,672	2,305,267,538
Appropriation to surplus reserve	–	–	–	91,399,493	–	–	–	(91,399,493)	–	–	–
Appropriation to general reserves	–	–	–	–	367,078,705	–	–	(367,078,705)	–	–	–
Distributions to holders of perpetual subordinated bonds	–	–	–	–	–	–	–	(57,000,000)	(57,000,000)	–	(57,000,000)
Dividends to shareholders of the Company	–	–	–	–	–	–	–	(637,620,929)	(637,620,929)	–	(637,620,929)
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	–	(17,831,593)	(17,831,593)
Issuance of shares for acquisition	1,678,461,809	–	14,993,768,126	–	–	–	–	–	16,672,229,935	–	16,672,229,935
Acquisition of subsidiary with contribution by non-controlling interests	–	–	–	–	–	–	–	–	–	106,199,132	106,199,132
Contribution by non-controlling interests	–	–	–	–	–	–	–	–	–	2,850,000	2,850,000
Others	–	–	21,708,921	–	–	–	–	–	21,708,921	(123,562)	21,585,359
Balance at 31 December 2017 (Note)	3,985,130,809	1,000,000,000	22,721,145,372	347,068,722	2,030,134,969	(135,103,088)	(355,847,026)	7,114,159,008	36,706,688,766	185,748,856	36,892,437,622

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 197 to 320 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2018 (Expressed in RMB, unless otherwise stated)

	Year ended 31 December	
	2018	2017 (Note)
Cash flows from operating activities:		
Profit before income tax	**4,387,348,353**	3,601,043,360
Adjustments for:		
Interest expenses on debt securities issued and other financing expenses	**3,048,256,908**	1,765,748,590
Depreciation and amortisation expenses	**301,902,598**	230,367,714
Provision for/(reversal of) impairment losses	**74,176,168**	(58,606,487)
Net losses on disposal of property, equipment and other assets	**11,934,189**	2,573,588
Fair value (gains)/losses on financial instruments at fair value through profit or loss	**(970,816,023)**	167,181,505
Foreign exchange (gains)/losses	**(105,008,766)**	136,769,861
Net gains on disposal of investments in financial assets and associates	**(66,919,104)**	(331,665,056)
Dividend income from investments in financial assets, and share of profits of associates and joint ventures	**(160,969,378)**	(149,150,929)
Operating cash flows before movements in working capital	**6,519,904,945**	5,364,262,146
Decrease/(increase) in receivables from margin clients	**4,547,930,491**	(743,230,511)
Increase in accounts receivable, other receivables and prepayments	**(3,100,692,290)**	(2,581,807,978)
Increase in reverse REPOs	**(4,968,387,345)**	(3,847,999,109)
Increase in financial instruments at fair value through profit or loss	**(10,619,210,123)**	(32,433,412,715)
Increase in financial assets at fair value through other comprehensive income/ available-for-sale financial assets	**(18,251,749,393)**	(17,026,996,431)
Decrease in cash held on behalf of brokerage clients	**6,328,630,073**	3,105,609,386
Decrease/(increase) in restricted bank deposits	**305,593,849**	(112,808,981)
Increase in refundable deposits	**(704,340,551)**	(1,635,602,432)
Decrease in accounts payable to brokerage clients	**(6,036,229,946)**	(729,012,823)
Increase in REPOs	**17,937,809,498**	10,330,187,180
Increase in other liabilities	**1,929,255,744**	10,891,635,650
Cash used in operating activities, before tax	**(6,111,485,048)**	(29,419,176,618)
Income taxes paid	**(478,866,130)**	(1,065,361,648)
Net cash used in operating activities	**(6,590,351,178)**	(30,484,538,266)

The notes on pages 197 to 320 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2018 (Expressed in RMB, unless otherwise stated)

	Note	Year ended 31 December **2018**	2017 (Note)
Cash flows from investing activities:			
Cash and cash equivalents from acquisition of a subsidiary		**–**	7,631,792,908
Proceeds from sales of investments		**33,485,021**	670,903,195
Investment returns received		**153,815,425**	439,114,897
Proceeds from disposal of property, equipment and other assets		**745,164**	4,096,476
Payment for acquisition of investments		**(1,477,639,615)**	(713,833,956)
Payment for the purchase of property, equipment and other assets		**(447,657,156)**	(305,779,090)
Net cash (used in)/generated from investing activities		**(1,737,251,161)**	7,726,294,430
Cash flows from financing activities:			
Cash received from beneficiary certificates issued		**49,066,845,400**	18,545,294,000
Cash received from corporate bonds issued		**9,500,000,000**	16,500,000,000
Cash received from medium-term notes ("MTN") issued		**7,152,300,000**	1,122,578,000
Cash received from structured notes issued		**6,416,379,004**	703,549,967
Cash received from subordinated bonds issued		**2,500,000,000**	3,600,000,000
Proceeds from share issuance		**2,308,994,642**	–
Capital contribution from non-controlling interests		**1,000,000**	2,850,000
Cash received relating to asset-backed securities ("ABS") issued		**–**	1,900,000,000
Cash received relating to other financing activities		**471,201,876**	2,048,028,117
Repayment of beneficiary certificates		**(46,919,649,400)**	(11,295,297,509)
Repayment of structured notes		**(5,056,301,166)**	–
Repayment of subordinated bonds		**(4,000,000,000)**	–
Repayment of corporate bonds		**(3,500,000,000)**	–
Cash paid for interest		**(2,800,781,718)**	(1,011,067,377)
Repayment of MTN		**(1,769,912,000)**	–
Dividends paid to shareholders of the Company		**(670,826,859)**	(637,620,929)
Dividends paid to non-controlling interests		**(36,000,000)**	(17,831,593)
Distribution to holders of other equity instruments		**(57,000,000)**	(57,000,000)
Transition period profit paid to Central Huijin Investment Ltd. ("Huijin")		**–**	(736,164,495)
Cash paid relating to other financing activities		**(33,210,310)**	(113,647,932)
Net cash generated from financing activities		**12,573,039,469**	30,553,670,249
Net increase in cash and cash equivalents		**4,245,437,130**	7,795,426,413
Cash and cash equivalents at the beginning of the year		**17,412,367,179**	9,898,842,564
Effect of changes in foreign exchange rate		**297,183,335**	(281,901,798)
Cash and cash equivalents at the end of the year	37	**21,954,987,644**	17,412,367,179
Net cash generated from/(used in) operating activities including:			
Interest received		**5,510,705,659**	4,740,792,742
Interest paid		**(1,923,341,141)**	(1,486,129,540)

Note: The Group has initially applied IFRS 9 and IFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2(c).

The notes on pages 197 to 320 form part of these financial statements.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

1 GENERAL INFORMATION

China International Capital Corporation Limited (中國國際金融股份有限公司) (the "Company") was established on 31 July 1995 in the People's Republic of China ("PRC") as approved by the People's Bank of China ("PBOC").

Pursuant to a conversion completed on 1 June 2015, the Company was converted into a joint stock company with limited liability.

The Company was listed on the Main Board of The Stock Exchange of Hong Kong on 9 November 2015.

The Company acquired 100% equity interests in China Investment Securities Company Limited ("CISC") in March 2017 and issued 1,678,461,809 domestic shares to Huijin as a consideration of this acquisition. After the completion of the acquisition, the registered capital and share capital of the Company increased to RMB3,985,130,809.

The Company issued 207,537,059 new H shares to Tencent Mobility Limited in March 2018. After the completion of the issuance, the registered capital and share capital of the Company increased to RMB4,192,667,868.

The registered address of the Company is the 27th and 28th Floor, China World Trade Center 2, 1 Jian Guo Men Wai Avenue, Beijing.

The Company and its subsidiaries (together "the Group") are principally engaged in investment banking business, equities business, fixed-income, currency and commodity ("FICC") business, investment management business, wealth management business and other business activities.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Group has prepared the financial statements, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (the "financial statements") in accordance with International Financial Reporting Standards ("IFRSs") and related interpretations issued by the International Accounting Standards Board (the "IASB"), and the applicable disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued a number of new and revised IFRSs that are first effective for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

For the purpose of preparing the financial statements, the Group has adopted all applicable new and revised IFRSs in issue which are effective for the accounting year ended 31 December 2018 and relevant to the Group for the year.

The Group has not adopted any new standards or interpretations that are not yet effective for the accounting year ended 31 December 2018, except for the amendments to IFRS 9, *Prepayment features with negative compensation*, which have been adopted at the same time as IFRS 9. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year ended 31 December 2018 are set out in Note 5.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements

The financial statements have been prepared on the historical cost basis except that the following assets and liabilities are measured at their fair value: derivative financial assets and liabilities, non-derivative financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income and available-for-sale financial assets. The methods used to measure fair value are discussed further in Note 2(h)(vi).

The Company's functional currency is RMB and these financial statements are presented in RMB. Functional currency is determined by the Company and its subsidiaries on the basis of the currency in which major income and costs are denominated and settled. Some of the Company's subsidiaries have functional currencies that are different from the Company's functional currency. Their financial statements have been translated based on the accounting policy set out in Note 2(f)(ii).

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.

The accounting policies set out below have been consistently applied to all periods presented in the financial statements.

(c) Changes in accounting policies

The IASB has issued a number of new standards and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*
- IFRIC 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as IFRS 9.

Details of the changes in accounting policies are discussed below.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation*

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

The following table summarises the impact of transition to IFRS 9 on retained profits, reserves and the related tax impact at 1 January 2018.

	In RMB
Investment revaluation reserve	
Transferred to retained profits relating to financial assets now measured at fair value through profit or loss (FVTPL)	(18,492,068)
Recognition of expected credit losses under IFRS 9 for debt investments at fair value through other comprehensive income (FVTOCI)	13,294,302
Related tax effect	20,270,493
Impact as at 1 January 2018	15,072,727
Attributable to:	
Shareholders of the Company and holders of other equity instruments	15,213,647
Non-controlling interests	(140,920)

	In RMB
Retained profits	
Transferred from investment revaluation reserve relating to financial assets now measured at FVTPL	18,492,068
Recognition of expected credit losses under IFRS 9	(57,134,657)
Related tax effect	(9,442,883)
Impact as at 1 January 2018	(48,085,472)
Attributable to:	
Shareholders of the Company and holders of other equity instruments	(48,226,392)
Non-controlling interests	140,920

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* *(continued)*

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

- ***Classification of financial assets and financial liabilities***

IFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, FVTOCI and FVTPL. These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under IAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with IAS 39 to those determined in accordance with IFRS 9.

	Classification under IAS 39	Classification under IFRS 9	IAS 39 carrying amount at 31 December 2017	Remeasurement	IFRS 9 carrying amount at 1 January 2018
Assets:					
Loans and accounts receivable	Loans and accounts receivable	Financial assets at amortised cost	112,551,462,144	(43,840,355)	112,507,621,789
Available-for-sale debt investments	Available-for-sale financial assets	Financial assets at FVTOCI	16,639,005,561	–	16,639,005,561
Available-for-sale debt investments	Available-for-sale financial assets	Financial assets at FVTPL	787,109,410	–	787,109,410
Available-for-sale equity investments	Available-for-sale financial assets	Financial assets at FVTPL	1,471,261,483	–	1,471,261,483
Financial assets held for trading, financial assets designated as at FVTPL and derivative financial assets	Financial assets at FVTPL	Financial assets at FVTPL	100,459,627,421	–	100,459,627,421
Total			231,908,466,019	(43,840,355)	231,864,625,664

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under IFRS 9, see respective accounting policy notes in Note 2(h).

The measurement categories for all financial liabilities remain the same.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* *(continued)*

- ***Impairment***

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model. Under the ECL model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The ECL model also requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the ECL model to the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, reverse REPOs, trade and other receivables and loans to associates);

– contract assets as defined in IFRS 15;

– debt securities measured at FVTOCI.

For further details on the Group's accounting policy for accounting for credit losses, see Note 2(h)(v).

The following table reconciles the closing loss allowance determined in accordance with IAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with IFRS 9 as at 1 January 2018.

	In RMB
Loss allowance as at 31 December 2017 under IAS 39	71,264,134
Additional credit loss recognised at 1 January 2018 on:	
– Reverse REPOs	22,796,131
– Receivable from margin clients	21,044,224
– Financial assets at fair value through other comprehensive income	13,317,597
– Available-for-sale financial assets	(23,295)
Loss allowance as at 1 January 2018 under IFRS 9	128,398,791

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

IFRS 9, *Financial instruments*, including the amendments to IFRS 9, *Prepayment features with negative compensation* *(continued)*

- ***Hedge accounting***

  The Group has elected to adopt the new general hedge accounting model in IFRS 9. Depending on the complexity of the hedge, this new accounting model allows a more qualitative approach to assessing hedge effectiveness compared to IAS 39 to be applied and the assessment is always forward-looking. The adoption of the IFRS 9 hedge accounting model does not have any material impact on the Group's financial statements in this regard.

- ***Transition***

  Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

  – Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

  – The determination of the business model within which a financial asset is held has been assessed on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group).

  – If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

  – All hedging relationships designated under IAS 39 at 31 December 2017 met the criteria for hedge accounting under IFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships. Changes to hedge accounting policies have been applied prospectively.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Changes in accounting policies *(continued)*

IFRS 15, *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18, *Revenue*, IAS 11, *Construction contracts* and IFRIC 13, *Customer loyalty programs*.

The standard contains a single model that applies to contracts with customers and two approaches to recognise revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates, which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and comparative information has not been restated and continues to be reported under IASs 11 and 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The adoption of IFRS 15 does not have any material impact on the Group's financial statements.

IFRIC 22, *Foreign currency transactions and advance consideration*

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset or liability, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the Group's financial statements.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as well as the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

(ii) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised gains arising from intra-group transactions are eliminated in full when preparing the financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Group, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between holders of non-controlling interests and shareholders of the Company.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Basis of consolidation *(continued)*

(ii) Subsidiaries and non-controlling interests *(continued)*

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(h)) or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (see Note 2(d)(iii)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(n)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(iii) Associates and joint ventures

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(n)). Any acquisition-date excess over cost, the Group's share of the post-acquisition post-tax results of the investees and any impairment losses for the year are recognised in the Group's profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the Group's other comprehensive income.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Basis of consolidation *(continued)*

(iii) Associates and joint ventures *(continued)*

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(h)).

In the Group's consolidated statement of financial position, investments in associates and joint ventures are accounted for under the equity method, unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each CGU, or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(n)).

On disposal of a CGU during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Foreign currency

(i) Translation of foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rates ruling at the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the exchange rates that approximate the spot exchange rate ruling at the transaction dates.

A spot exchange rate is quoted by the PBOC, the State Administration of Foreign Exchange, or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is determined by a systematic and rational method, normally the average exchange rate of the current period.

Monetary assets and liabilities denominated in foreign currencies are translated to RMB at the spot exchange rates ruling at the end of the year. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowing used to hedge a net investment in a foreign operation that are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated to RMB using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to RMB using the foreign exchange rates ruling at the dates the fair value is measured. The exchange differences are recognised in profit or loss, except for the exchange differences arising from the translation of non-monetary available-for-sale financial assets which are recognised in other comprehensive income.

(ii) Foreign operations

The results of foreign operations are translated to RMB at the exchange rates approximating the spot exchange rate ruling at the transaction dates. Statement of financial position items are translated to RMB at the closing foreign exchange rates at the end of the year. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the foreign currency translation reserve.

Upon disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, demand deposits with banks and other institutions, and short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

(1) Financial assets – Policy applicable since 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVTOCI – (including debt investment and equity investment); or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVTOCI if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial instruments *(continued)*

(ii) Classification and subsequent measurement *(continued)*

(1) Financial assets – Policy applicable since 1 January 2018 *(continued)*

All financial assets not classified as measured at amortised cost or FVTOCI as described above are measured at FVTPL. This includes all derivative financial assets (see Note 34). On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

– the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;

– how the performance of the portfolio is evaluated and reported to the Group's management;

– the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

– how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and

– the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial instruments *(continued)*

(ii) Classification and subsequent measurement *(continued)*

(1) Financial assets – Policy applicable since 1 January 2018 (continued)

Financial assets – Assessing whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

– contingent events that would change the amount or timing of cash flows;

– terms that may adjust the contractual coupon rate, including variable-rate features;

– prepayment and extension features; and

– terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual paramount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial instruments *(continued)*

(ii) Classification and subsequent measurement *(continued)*

(1) Financial assets – Policy applicable since 1 January 2018 (continued)

Financial assets – Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss. See Note 34(a) for derivatives designated as hedging instruments.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVTOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVTOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(2) Financial assets – Policy applicable before 1 January 2018

The Group classified its financial assets into one of the following categories:

– loans and receivables;

– held to maturity;

– available for sale; and

– at FVTPL, and within this category as:

  – held for trading;

  – derivative instruments; or

  – designated as at FVTPL.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial instruments *(continued)*

(ii) Classification and subsequent measurement *(continued)*

(2) Financial assets – Policy applicable before 1 January 2018 (continued)

Financial assets – Subsequent measurement and gains and losses

Financial assets at FVTPL	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss. See Note 34(a) for derivatives designated as hedging instruments.
Held-to-maturity financial assets	Measured at amortised cost using the effective interest method.
Loans and receivables	Measured at amortised cost using the effective interest method.
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the investment revaluation reserve. When these assets were derecognised, the gain or loss accumulated in equity was reclassified to profit or loss.

(3) Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial instruments *(continued)*

(iii) Derecognition *(continued)*

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(v) Impairment of financial assets

(1) Policy applicable since 1 January 2018

The Group recognises loss allowances for ECLs on the following items:

- financial assets measured at amortised cost;
- debt investment measured at FVTOCI; and
- contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial instruments *(continued)*

(v) Impairment of financial assets *(continued)*

(1) Policy applicable since 1 January 2018 *(continued)*

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

– the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

– the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial instruments *(continued)*

(v) Impairment of financial assets *(continued)*

(1) Policy applicable since 1 January 2018 *(continued)*

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVTOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVTOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off policy

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial instruments *(continued)*

(v) Impairment of financial assets *(continued)*

(2) Policy applicable before 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVTPL (e.g. trade and other receivables, available-for-sale investments and held-to-maturity debt securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment.

Objective evidence that financial assets are impaired includes, but not limited to:

– significant financial difficulty of the borrower or issuer;

– a breach of contract by the borrower, such as a default or delinquency in interest or principal payments;

– it was becoming probable that the borrower would enter bankruptcy or other financial reorganization;

– disappearance of an active market for financial assets because of financial difficulties of the issuer;

– significant changes in the technological, market, economic or legal environment that had an adverse effect on the borrower; or

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loans and receivables

The Group first assessed whether objective evidence of impairment exists individually for loans and receivables that was individually significant. If there was objective evidence of impairment, the impairment loss was recognised in the profit or loss. The Group performed a collective assessment for all other loans and receivables that were not individually significant or for which impairment had not yet been identified by including the asset in a group of loans and receivables with similar credit risk characteristics and collectively assessed them for impairment. The objective evidence of impairment mainly included that, though it was unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there was an observable indication of a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets.

The impairment loss was calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that had not been incurred) discounted at the original effective interest rate. All impairment losses were recognised in profit or loss.

If, in a subsequent period, the amount of an impairment loss decreases and the decrease could be related objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeded the amortised cost at the date of the reversal had the impairment not been recognised.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial instruments *(continued)*

(v) Impairment of financial assets *(continued)*

(2) Policy applicable before 1 January 2018 *(continued)*

Held-to-maturity investments

The impairment loss was calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that had not been incurred) discounted at the original effective interest rate. All impairment losses were recognised in profit or loss.

If in a subsequent period the amount of an impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment loss had been recognised, the impairment loss was reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeded the amortised cost at the date of the reversal had the impairment not been recognised.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the investment revaluation reserve in equity to profit or loss. The cumulative loss that was reclassified from equity to profit or loss was the difference between the acquisition cost net of any principal repayment and amortisation and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method were reflected as a component of interest income.

For the available-for-sale equity investment, objective evidence included a significant or prolonged decline in the fair value of an investment below its cost. The determination of what was "significant" or "prolonged" requires judgement. "Significant" was evaluated against the original cost of the investment and "prolonged" against the period in which the fair value had been below its original cost.

If, in a subsequent period, the fair value of an impaired available-for-sale debt investments increased and the increase could be related objectively to an event occurring after the impairment loss had been recognised, then the impairment loss was reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity investment was recognised in other comprehensive income.

For investments in equity instruments measured at cost, the amount of any impairment loss was measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss. Any impairment loss in respect of available-for-sale equity investments carried at cost was not reversed.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial instruments *(continued)*

(vi) Fair value measurement principles

If there is an active market for a financial asset or financial liability, the quoted market price without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, the quoted price is the current asking price. Quoted prices from an active market are prices that are readily and regularly available from an exchange, dealer, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the year. Where other pricing models are used, inputs are based on market data at the end of the year.

In estimating the fair value of a financial asset or financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset or financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

(vii) Derivative financial instruments and hedge accounting

(1) Derivative financial instruments

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments other than those designated as hedging instrument are recognised in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate.

A derivative instrument is recognised as an asset when the fair value is positive and as a liability when the fair value is negative.

Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Financial instruments *(continued)*

(vii) Derivative financial instruments and hedge accounting *(continued)*

(2) Hedge accounting

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting and are therefore treated as derivatives held for trading with fair value gains or losses recognised in profit or loss. Hedges which meet the strict criteria for hedge accounting are accounted for in accordance with the Group's accounting policy as set out below.

(3) Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or unrecognised firm commitment, that is attributable to a particular risk and could affect the profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and the gains and losses from both are taken to profit or loss.

For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item and the face value is amortised over the remaining term of the original hedge using the effective interest rate method. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. If the hedged items are derecognised, the unamortised fair value is recorded in profit or loss.

(i) Financial assets held under resale agreements and financial assets sold under repurchase agreements

Financial assets purchased under agreements to resell are reported not as purchases of the assets but as receivables and are carried in the statement of financial position at amortised cost.

Financial assets sold subject to a simultaneous agreement to repurchase these assets are retained in the statement of financial position and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Interest earned on resale agreements and interest incurred on repurchase agreements are recognised respectively as interest income and interest expenses over the life of each agreement using the effective interest method.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Property and equipment

(i) Recognition and measurement

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(n)). Property and equipment under construction is stated at cost less impairment losses (see Note 2(n)).

The cost of a purchased property and equipment asset comprises the purchase price, related taxes, and any expenditure directly attributable to bringing the asset into working condition for its intended use.

All direct and indirect costs that are related to the construction of property and equipment and incurred before the assets are ready for their intended use are capitalised as the cost of construction in progress.

(ii) Subsequent costs

The subsequent costs including the cost of replacing part of an item of property or equipment are recognised in the carrying amount of the item if the recognition criteria are satisfied, and the carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of property and equipment. Where the individual component parts of an item of property and equipment have different useful lives or provide benefits to the Group in different patterns, each part is depreciated separately. The estimated useful lives and the rate of net residual values of each class of property and equipment are as follows:

	Estimated useful life	Estimated rate of net residual value
Buildings	20 – 35 years	3% – 5%
Office equipment	2 – 5 years	0% – 10%
Furniture and fixtures	3 – 5 years	0% – 10%
Motor vehicles	3 – 5 years	0% – 10%
Leasehold improvements	Benefit period	–

No depreciation is provided in respect of property and equipment under construction.

Depreciation methods, useful lives and net residual values are reassessed at the end of the reporting period.

(iv) Gains or losses from the retirement or disposal

Gains or losses arising from the retirement or disposal of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss on the date of disposal or retirement.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Assets acquired under finance lease

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property and equipment and the corresponding liabilities, net of finance charges, are recorded as long-term finance leases payable. Depreciation is provided at rates which write off the cost over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in Note 2(j). Impairment losses are accounted for in accordance with the accounting policy as set out in Note 2(n). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(l) Intangible assets

Intangible assets are stated in the statement of financial position at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(n)).

Amortisation of an intangible asset with finite useful life is charged to profit or loss on a straight-line basis over its estimated useful life. Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Contract assets and contract liabilities

A contract asset is recognised when the Group recognises revenue (see Note 2(r)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in Note 2(h)(v) and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see Note 2(r)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis. When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see Note 2(r)(v)).

(n) Impairment of non-financial assets

Internal and external sources of information are reviewed at the end of year to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property and equipment (other than properties carried at revalued amounts);
- intangible assets;
- investments in subsidiaries, associates and joint ventures; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amounts are estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a CGU).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Impairment of non-financial assets *(continued)*

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the CGU to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(o) Provisions and contingent liabilities

Provisions are recognised when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Pursuant to the relevant laws and regulations in the PRC, the Group participated in the social pension schemes for employees arranged by local government labour and security authorities. The Group makes contributions to the retirement schemes at the applicable rates based on the amount stipulated by the government. The contributions are charged to profit or loss on an accrual basis. When employees retire, the local labour and security authorities are responsible for the payment of the basic retirement benefits to the retired employees.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Employee benefits *(continued)*

(ii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit of loss in the period in which they arise.

(iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(q) Offsetting

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(r) Revenue and other income

Income is classified by the Group as revenue when it arises from the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a variable consideration, the Group estimates the amount of consideration which it will be entitled in exchange for transferring the promised goods or services to a customer and includes in the transaction price some or all of the variable consideration estimated, such that revenue is only recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in IFRS 15 *Revenue from contracts with customers* and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Revenue and other income *(continued)*

(i) Underwriting and sponsoring fees, financial advisory fees and investment advisory fees

Underwriting fees are recognised when the Group has fulfilled its obligations under the underwriting contract.

Depending on the nature of the services and the contract terms, sponsoring fees, financial advisory fees and investment advisory fees are recognised in profit or loss over time using a method that depicts the Group's performance, or at a point in time when the service is completed.

(ii) Asset management fees

Asset management fees include periodic management fees calculated based on assets under management and performance-based fee. The fees are recognised progressively over time using a method that depicts the Group's performance, to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

(iii) Brokerage commission income

Brokerage commission income includes commission income from brokerage trading of securities and leasing out trading seats. Commission income from brokerage trading of securities is recognised on the trade date basis when the relevant transactions are executed. Commission income from leasing out trading seats is recognised when the related services are rendered.

(iv) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(v) Interest income

Interest income is recognised in profit or loss by using the effective interest method. For financial assets measured at amortised cost or debt securities measured at FVTOCI that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the year. The effective interest rate is the rate that exactly discounts the estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period, to net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation of the effective interest rate includes all fees paid or received between parties to the contract, transaction costs, and all other discounts or premiums that are an integral part of the effective interest rate.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Expenses recognition

(i) Interest expenses

Interest expenses are accrued on a time proportion basis with reference to the amortised cost and the applicable effective interest rate.

(ii) Fee and commission expenses

Fee and commission expenses are charged to profit or loss on an accrual basis.

(iii) Other expenses

Other expenses are recognised on an accrual basis.

(t) Income tax

Income tax expense comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amount of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of year, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss related to the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Income tax *(continued)*

The carrying amount of a deferred tax asset is reviewed at the end of year and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to settle the current tax assets and the current tax liabilities on a net basis or realise the assets and settle the liabilities simultaneously.

(u) Dividends appropriated to investors

Dividends or distributions of profits proposed in the profit appropriation plan which will be authorised and declared after the end of the year are not recognised as a liability at the end of the year but disclosed separately in the notes to the consolidated financial statements.

(v) Government grants

Government grants are recognised in the consolidated statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them.

Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(w) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(3) Both entities are joint ventures of the same third party;

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(6) The entity is controlled or jointly controlled by a person identified in Note 2(w)(i);

(7) A person identified in Note 2(w)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial statements provided regularly to the Group's senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various business lines and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of clients, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Fair value of financial instruments

As indicated in Note 2(h)(i), financial instruments at fair value is measured at fair value at the end of the year and it is usually possible to determine their fair values within a reasonable range of estimates.

For part of the above financial instruments, quoted market prices are readily available. However, the determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 2(h)(vi). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(b) Impairment of non-financial assets

Non-financial assets are reviewed at the end of year to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, impairment loss is provided.

The recoverable amount of an asset (or a group of assets) is the greater of its fair value less costs of disposal and value in use. In assessing value in use, significant judgements are exercised over the asset's selling price, related operating revenue and expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related revenue and operating expenses based on reasonable and supportable assumption.

(c) Income tax

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are made accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

(d) Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor, controls the investee. The principle of control includes three elements: (i) power over the investee; (ii) exposure, or rights, to variable returns from involvement with the investee; and (iii) the ability to use power over the investee to affect the amount of investors' returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For structured entities, the Group assesses whether the combination of investments it holds, if any, together with its remuneration creates exposure to variability of returns from the activities of the structured entities that is of such significance indicating that the Group is a principal. The structured entities shall be consolidated if the Group acts in the role of principal.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

4 TAXATION

(a) Value-added tax ("VAT") and surcharges

Services provided by the Company and its domestic subsidiaries are subject to VAT. The mainly applicable tax rate is 6%. The urban maintenance and construction tax, education surcharge and local education surcharge are charged at 7%, 3% and 2% of VAT respectively.

(b) Income tax

The income tax rate applicable to the Company and its domestic subsidiaries is 25%.

The income tax rate applicable to the subsidiaries in Hong Kong is 16.5%. Taxes of other overseas subsidiaries are charged at the relevant local rates.

5 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

A number of new standards and amendments to standards are effective for annual periods beginning on or after 1 January 2019 and early adoption is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements. The following standards are considered relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 16, *Leases*	1 January 2019
IFRIC 23, *Uncertainty over tax treatments*	1 January 2019
Amendments to IFRS 9, *Prepayment features with negative compensation*	1 January 2019
Amendments to IAS 28, *Long-term interests in associates and joint ventures*	1 January 2019
Amendments to IAS 19, *Plan amendment, curtailment or settlement*	1 January 2019
Annual Improvements to IFRS Standards 2015-2017, *Cycle – various standards*	1 January 2019
Amendments to IFRS 3, *Definition of a business*	1 January 2020
Amendments to IAS 1 and IAS 8, *Definition of material*	1 January 2020
IFRS 17, *Insurance contracts*	1 January 2021

Except as described below, the application of the new and revised IFRS will have no material impact on the Group's financial statements.

IFRS 16, *Leases*

The Group is required to adopt IFRS 16, *Leases* since 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date.

IFRS 16 introduces a single, on-balance-sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases – Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

5 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(continued)*

IFRS 16, *Leases* *(continued)*

- **Leases in which the Group is a lessee**

  The Group will recognise new assets and liabilities for its operating leases. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

  Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

  In addition, the Group will include the payments due under the lease in its lease liability.

- **Impacts on financial statements**

  On transition to IFRS 16, the Group recognised an additional RMB1.67 billion of right-of use assets and RMB1.63 billion of lease liabilities, respectively.

  When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The range of weighted-average rate applied is from 1.5% to 6% as the incremental borrowing rate varies in different regions.

- **Leases in which the Group is a lessor**

  The Group will reassess the classification of sub-leases in which the Group is a lessor.

- **Transition**

  The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained profits at 1 January 2019, with no restatement of comparative information.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

6 FEE AND COMMISSION INCOME

(a) Revenue streams

	Year ended 31 December	
	2018	2017
Brokerage commission income	**3,323,653,153**	3,468,719,770
Underwriting and sponsoring fees	**2,711,647,800**	2,234,954,556
Asset management fees	**1,779,149,564**	1,671,526,103
Financial advisory fees	**561,035,561**	637,237,013
Investment advisory fees	**405,860,342**	233,088,215
Others	**39,057,796**	36,647,809
Total	**8,820,404,216**	8,282,173,466

(b) Disaggregation of revenue

In the following table, fee and commission income is disaggregated by timing of revenue recognition:

	Year ended 31 December	
	2018	
	At a point in time	**Over time**
Brokerage commission income	**3,323,653,153**	–
Underwriting and sponsoring fees	**2,711,647,800**	–
Asset management fees	–	**1,779,149,564**
Financial advisory fees	**561,035,561**	–
Investment advisory fees	**405,860,342**	–
Others	**39,057,796**	–
Total	**7,041,254,652**	**1,779,149,564**

7 INTEREST INCOME

	Year ended 31 December	
	2018	2017
Interest income from financial institutions	**1,362,563,543**	1,279,700,703
Interest income from margin financing and securities lending	**1,490,289,580**	1,213,783,728
Interest income from financial assets at fair value through other comprehensive income	**915,365,620**	–
Interest income from reverse REPOs	**797,528,479**	459,228,640
Others	**21,178,090**	26,950,786
Total interest income on financial assets not at fair value through profit or loss	**4,586,925,312**	2,979,663,857

8 INVESTMENT INCOME

	Year ended 31 December	
	2018	2017
Net gains from disposal of financial assets at fair value through other comprehensive income	**184,090,116**	–
Net gains from disposal of available-for-sale financial assets	**–**	307,842,578
Dividend and interest income from available-for-sale financial assets	**–**	497,020,986
Net (losses)/gains from financial instruments at fair value through profit or loss	**(2,833,298,755)**	5,182,016,919
Gains from disposal of associates	**–**	23,430,294
Net gains/(losses) from derivative financial instruments	**7,520,255,485**	(2,001,822,608)
Others	**–**	(7,286)
Total	**4,871,046,846**	4,008,480,883

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

9 OTHER OPERATING INCOME/(LOSSES), NET

(a) Revenue streams

	Note	Year ended 31 December 2018	2017
Tax refunds		**25,238,271**	46,685,130
Government grants	(i)	**90,757,862**	38,188,086
Commitment fee		**23,565,490**	–
Others	(ii)	**121,715,863**	(94,948,862)
Total		**261,277,486**	(10,075,646)

(i) The government grants were received by the Company and its subsidiaries from the local government where they reside with no condition attached.

(ii) Others are mainly related to gains or losses resulting from foreign exchange rates fluctuation.

(b) Disaggregation of revenue

In the following table, other operating income is disaggregated by timing of revenue recognition:

	Year ended 31 December 2018	
	At a point in time	**Over time**
Tax refunds	**25,238,271**	**–**
Government grants	**90,757,862**	**–**
Commitment fee	**23,565,490**	**–**
Others	**120,049,152**	**1,666,711**
Total	**259,610,775**	**1,666,711**

10 FEE AND COMMISSION EXPENSES

	Year ended 31 December	
	2018	2017
Brokerage expenses	**706,442,451**	689,261,882
Underwriting and sponsoring expenses	**101,326,611**	81,520,184
Asset management expenses	**60,776,082**	48,960,414
Investment advisory expenses	**60,357**	2,630,408
Total	**868,605,501**	822,372,888

11 INTEREST EXPENSES

	Year ended 31 December	
	2018	2017
Interest expenses on:		
– Corporate bonds	**1,383,773,551**	772,622,174
– REPOs	**1,088,111,020**	920,302,746
– Subordinated bonds	**703,127,467**	567,615,558
– Beneficiary certificates	**483,210,914**	198,130,388
– Placements from financial institutions	**482,824,966**	312,308,777
– MTN	**261,143,847**	104,659,680
– Accounts payable to brokerage clients	**171,114,853**	198,591,767
– Structured notes	**57,964,122**	4,593,562
– Others	**239,614,274**	188,758,508
Total interest expenses on financial liabilities not at fair value through profit or loss	**4,870,885,014**	3,267,583,160

12 STAFF COSTS

	Year ended 31 December	
	2018	2017
Salaries, bonus and allowance	**5,072,417,065**	4,983,194,237
Retirement scheme contributions	**269,056,095**	210,609,282
Other social welfare	**279,777,010**	217,304,252
Other benefits	**116,594,750**	111,325,648
Total	**5,737,844,920**	5,522,433,419

The Group is required to participate in pension schemes in the PRC, Hong Kong and other jurisdictions whereby the Group is required to pay annual contributions for its employees at certain rates of the wages of employees. The Group has no other material obligations for payment of retirement benefits to its employees beyond the annual contributions described above.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

13 DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration is as follows:

	Year ended 31 December 2018				
Name	**Fees**	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Retirement scheme contributions**	**Total remuneration**
Executive Director					
Bi Mingjian (ii)	–	1,656,073	5,623,487	55,312	7,334,872
Non-executive Director					
Zhao Haiying	–	–	–	–	–
David Bonderman	–	–	–	–	–
Liu Haifeng David	–	–	–	–	–
Shi Jun	–	–	–	–	–
Cha Mou Daid Johnson	–	–	–	–	–
Independent Non-executive Director					
Edwin Roca Lim	525,000	–	–	–	525,000
Siu Wai Keung	550,200	–	–	–	550,200
Ben Shenglin	517,400	–	–	–	517,400
Liu Li	535,600	–	–	–	535,600
Supervisor					
Gao Tao (iii)	–	–	–	–	–
Liu Haoling	–	–	–	–	–
Jin Lizuo	267,200	–	–	–	267,200
Total	2,395,400	1,656,073	5,623,487	55,312	9,730,272

13 DIRECTORS' AND SUPERVISORS' REMUNERATION *(continued)*

	Year ended 31 December 2017				
Name	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total remuneration
Executive Director	–	1,363,509	3,588,235	50,589	5,002,333
Bi Mingjian (ii)					
Non-executive Director					
Ding Xuedong (iv)	–	–	–	–	–
Zhao Haiying	–	–	–	–	–
David Bonderman	–	–	–	–	–
Liu Haifeng David	–	–	–	–	–
Shi Jun	–	–	–	–	–
Cha Mou Daid Johnson	–	–	–	–	–
Independent Non-executive Director					
Edwin Roca Lim	525,200	–	–	–	525,200
Siu Wai Keung	550,200	–	–	–	550,200
Ben Shenglin	521,000	–	–	–	521,000
Liu Li	532,000	–	–	–	532,000
Supervisor					
Gao Tao (iii)	–	–	–	–	–
Han Weiqiang (v)	–	–	–	–	–
Liu Haoling	–	–	–	–	–
Jin Lizuo	263,400	–	–	–	263,400
Total	2,391,800	1,363,509	3,588,235	50,589	7,394,133

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

13 DIRECTORS' AND SUPERVISORS' REMUNERATION *(continued)*

(i) The amounts disclosed above in respect of the remuneration of directors and supervisors were net of tax.

(ii) The remuneration of Mr. Bi Mingjian includes the compensation for the services provided by Mr. Bi Mingjian acting as the Chief Executive Officer of the Company. Apart from the remuneration above, according to Long-term Incentive Bonus Plan, the Group paid the remaining part of the Special Long-term Incentive Bonus drawn from 2015 to Mr. Bi Mingjian, which amounted to RMB6,440,000.

(iii) Appointed as Chairman of the Supervisory Committee in June 2017. The remuneration of Mr. Gao Tao with the Group in accordance with the employee remuneration system is not included.

(iv) Resigned as Chairman of the Board in February 2017.

(v) Resigned as supervisor in June 2017. The remuneration of Mr. Han Weiqiang with the Company in accordance with the employee remuneration system is not included.

There were no amounts paid during the year to the directors and supervisors in connection with their retirement from employment or as compensation for loss of office with the Group, or as inducement to join. There was no other arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year.

14 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, none are directors or supervisors whose emoluments are disclosed(see Note 13). The aggregate of the emoluments are as follows:

	Year ended 31 December	
	2018	2017
Salaries and other emoluments	**8,090,519**	8,174,822
Discretionary bonuses	**85,861,326**	72,435,091
Retirement scheme contributions	**253,535**	306,961
Total	**94,205,380**	80,916,874

Note: Apart from the remuneration above, according to Long-term Incentive Bonus Plan, the Group paid the remaining part of the Special Long-term Incentive Bonus drawn from 2015 to the individuals with highest emoluments, which amounted to RMB48,082,492.

14 INDIVIDUALS WITH HIGHEST EMOLUMENTS *(continued)*

The emoluments of these individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2018	2017
From RMB14,000,001 to RMB14,500,000	**1**	1
From RMB15,500,001 to RMB16,000,000	**–**	2
From RMB16,500,001 to RMB17,000,000	**–**	1
From RMB18,000,001 to RMB18,500,000	**1**	1
From RMB20,000,001 to RMB20,500,000	**1**	–
From RMB21,000,001 to RMB21,500,000	**2**	–

No emoluments are paid or payable to these individuals in connection with their retirement from employment or as compensation for loss of office or inducement to join during the year.

15 DEPRECIATION AND AMORTISATION EXPENSES

	Year ended 31 December	
	2018	2017
Depreciation of property and equipment	**208,712,106**	157,640,471
Amortisation of intangible assets	**59,934,073**	29,597,963
Amortisation of land use right	**31,463,837**	26,129,815
Others	**1,792,582**	16,999,465
Total	**301,902,598**	230,367,714

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

16 OTHER OPERATING EXPENSES AND COSTS

	Year ended 31 December	
	2018	2017
Business development expenses	**607,142,499**	472,600,871
Operating lease charges in respect of property and equipment	**602,170,044**	460,728,808
Information technology related expenses	**319,229,759**	238,806,273
Travelling and transportation expenses	**266,254,081**	216,759,190
Professional service fees	**145,448,354**	168,841,139
Utilities and maintenance	**67,794,876**	57,504,472
Securities Investor Protection Fund	**51,793,044**	96,402,054
Auditors' remuneration	**11,944,000**	11,620,000
Others	**273,359,242**	160,464,572
Total	**2,345,135,899**	1,883,727,379

17 PROVISION FOR/(REVERSAL OF) IMPAIRMENT LOSSES

	Year ended 31 December	
	2018	2017
Provision for/(reversal of) impairment losses against accounts receivable and non-current assets	**56,364,723**	(56,959,663)
Provision for/(reversal of) impairment losses against reverse REPOs	**28,566,357**	(844,523)
Provision for impairment losses against financial assets at fair value through other comprehensive income	**6,730,579**	–
Provision for impairment losses against cash and bank balances	**843,966**	–
Reversal of impairment losses against receivable from margin clients	**(18,329,457)**	(802,096)
Others	**–**	(205)
Total	**74,176,168**	(58,606,487)

18 INCOME TAX EXPENSE

(a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	Year ended 31 December	
	2018	2017
Current tax		
– PRC income tax	**706,466,248**	540,590,741
– Hong Kong profits tax	**166,054,436**	86,893,796
Subtotal	**872,520,684**	627,484,537
Deferred tax		
– Origination and reversal of temporary differences	**(19,793,944)**	162,396,116
Total	**852,726,740**	789,880,653

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

The income tax has been provided at the statutory rate of 25%, in accordance with the relevant tax laws in Mainland China (for the purpose of this report, Mainland China excludes Hong Kong, Macau and Taiwan). Taxes on profits assessable outside Mainland China have been calculated at the applicable rates of tax prevailing in the countries/jurisdictions in which the Group operates, based on the existing legislation, interpretations and practices. A reconciliation of income tax expenses calculated by applying the PRC statutory income tax rate to profit before tax to the income tax expense in the consolidated statement of profit or loss and other comprehensive income is as follows:

	Year ended 31 December	
	2018	2017
Profit before income tax	**4,387,348,353**	3,601,043,360
Income tax expenses calculated at the applicable tax rate	**1,096,837,088**	900,260,840
Effect of non-deductible expenses	**26,490,774**	27,153,890
Effect of non-taxable interest income	**(103,285,840)**	(23,339,617)
Effect of non-taxable dividend income	**(12,193,844)**	(17,435,601)
Effect of different applicable tax rates of the subsidiaries	**(128,219,368)**	(94,225,895)
Effect of deductible temporary differences or deductible tax losses for which no deferred tax asset was recognised this year	**28,182,384**	29,909,019
Effect of using the deductible temporary differences or deductible tax losses for which no deferred tax asset was recognised in previous period	**(17,635,627)**	(14,043,658)
Others	**(37,448,827)**	(18,398,325)
Total income tax expense	**852,726,740**	789,880,653

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

19 PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY AND HOLDERS OF OTHER EQUITY INSTRUMENTS

The profit attributable to shareholders of the Company and holders of other equity instruments includes a profit of RMB1,854,269,544 and RMB913,994,931 which have been dealt with in the financial statements of the Company in 2018 and 2017, respectively.

20 BASIC AND DILUTED EARNINGS PER SHARE

	Year ended 31 December	
	2018	2017
Profit attributable to shareholders of the Company and holders of other equity instruments	**3,492,157,669**	2,766,349,249
Interest for holders of perpetual subordinated bonds for the year	**(57,000,000)**	(57,000,000)
Total	**3,435,157,669**	2,709,349,249
Weighted average number of ordinary shares in issue (Note)	**4,140,783,603**	3,565,515,357
Basic earnings per share (in RMB per share)	**0.83**	0.76

Note: On 23 March 2018, the Company issued 207,537,059 new H shares at a price of HKD13.80 per share to Tencent Mobility Limited. After the completion of the issuance, the registered capital and share capital of the Company increased to RMB4,192,667,868.

Basic earnings per share was calculated as the profit for the period attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares in issue.

There were no dilutive potential ordinary shares during the year ended 31 December 2018 and 2017, and therefore, diluted earnings per share are the same as the basic earnings per share.

21 PROPERTY AND EQUIPMENT

	Buildings	Office equipment	Furniture and fixtures	Motor vehicles	Leasehold improvements	Construction in progress	Total
Cost							
As at 1 January 2018	85,992,204	1,163,675,156	80,584,668	64,896,377	661,324,246	1,800,808	2,058,273,459
Additions	5,337,788	206,569,086	15,885,152	–	102,716,943	10,667,160	341,176,129
Transfer during the year	–	–	–	–	–	(7,098,713)	(7,098,713)
Disposals	–	(59,649,451)	(4,308,266)	(1,951,429)	(5,355,290)	–	(71,264,436)
Effect of changes in foreign exchange rate	–	7,480,227	457,548	26,981	5,007,500	–	12,972,256
As at 31 December 2018	91,329,992	1,318,075,018	92,619,102	62,971,929	763,693,399	5,369,255	2,334,058,695
Accumulated depreciation							
As at 1 January 2018	(28,416,967)	(880,161,655)	(65,593,121)	(39,887,369)	(569,280,943)	–	(1,583,340,055)
Additions	(4,346,337)	(132,118,538)	(7,030,711)	(7,459,813)	(57,756,707)	–	(208,712,106)
Disposals	–	53,155,330	4,067,515	369,502	5,191,717	–	62,784,064
Effect of changes in foreign exchange rate	–	(3,481,185)	(424,110)	(26,981)	(3,651,102)	–	(7,583,378)
As at 31 December 2018	(32,763,304)	(962,606,048)	(68,980,427)	(47,004,661)	(625,497,035)	–	(1,736,851,475)
Carrying amount							
As at 31 December 2018	58,566,688	355,468,970	23,638,675	15,967,268	138,196,364	5,369,255	597,207,220
As at 31 December 2017	57,575,237	283,513,501	14,991,547	25,009,008	92,043,303	1,800,808	474,933,404

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

21 PROPERTY AND EQUIPMENT *(continued)*

	Buildings	Office equipment	Furniture and fixtures	Motor vehicles	Leasehold improvements	Construction in progress	Total
Cost							
As at 1 January 2017	4,294,530	634,432,682	56,231,767	810,588	483,080,566	–	1,178,850,133
Arising from acquisition of a subsidiary	81,697,674	451,815,531	24,927,857	68,197,008	183,438,336	2,535,307	812,611,713
Additions	–	140,306,794	2,791,418	1,091,785	32,816,726	3,121,313	180,128,036
Transfer during the year	–	–	–	–	–	(3,855,812)	(3,855,812)
Disposals	–	(59,146,069)	(2,757,910)	(5,168,257)	(33,833,928)	–	(100,906,164)
Effect of changes in foreign exchange rate	–	(3,733,782)	(608,464)	(34,747)	(4,177,454)	–	(8,554,447)
As at 31 December 2017	85,992,204	1,163,675,156	80,584,668	64,896,377	661,324,246	1,800,808	2,058,273,459
Accumulated depreciation							
As at 1 January 2017	(1,241,044)	(486,964,982)	(45,271,794)	(679,269)	(436,195,184)	–	(970,352,273)
Arising from acquisition of a subsidiary	(23,925,905)	(352,010,499)	(18,427,839)	(37,767,082)	(127,163,238)	–	(559,294,563)
Additions	(3,250,018)	(98,976,994)	(5,007,587)	(6,296,457)	(44,109,415)	–	(157,640,471)
Disposals	–	52,890,293	2,517,648	4,820,692	33,853,393	–	94,082,026
Effect of changes in foreign exchange rate	–	4,900,527	596,451	34,747	4,333,501	–	9,865,226
As at 31 December 2017	(28,416,967)	(880,161,655)	(65,593,121)	(39,887,369)	(569,280,943)	–	(1,583,340,055)
Carrying amount							
As at 31 December 2017	57,575,237	283,513,501	14,991,547	25,009,008	92,043,303	1,800,808	474,933,404
As at 31 December 2016	3,053,486	147,467,700	10,959,973	131,319	46,885,382	–	208,497,860

22 GOODWILL

(a) Changes in goodwill

	Year ended 31 December 2018	Year ended 31 December 2017
At the beginning of the year	**1,582,678,646**	–
Additions for the year	**–**	1,582,678,646
Subtotal	**1,582,678,646**	1,582,678,646
Less: Provision for impairment losses	**–**	–
Carrying amount	**1,582,678,646**	1,582,678,646

Note: The Company acquired CISC in 2017 and paid the consideration amounting to RMB16,700,695,000 as the cost of the combination. The difference between the consideration and the fair value of the net identifiable assets attributable to the Company was RMB1,582,678,646, which was recognised as goodwill.

(b) Impairment test

The Company acquired 100% equity interests in CISC in March 2017, aiming to generate long-term synergetic value leveraging product, service and distribution strength across the enlarged group. The Group recognised the excess of fair value of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill of the wealth management CGU (see Note 22(a)).

The recoverable amount of the CGU is determined based on the present value calculations of expected future cash flows, which was determined on financial budgets approved by management covering certain period (including budgeted income and profit margins based on the CGU's past performance and management's expectations for the market development) and a pre-tax discount rate based on weighted average return of equity of the Group. Cash-flows beyond the certain period are extrapolated using an estimated annual growth rate based on industry growth forecasts.

As at 31 December 2018, the Group performed its annual goodwill impairment test. There was no impairment recognised for the goodwill related to the aforesaid CGU since the recoverable amounts were greater than its carrying amount.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

23 INTANGIBLE ASSETS

	Securities trading seat rights	Others	Total
Cost			
As at 1 January 2018	163,948,747	263,603,732	427,552,479
Additions	–	109,250,314	109,250,314
Disposal	–	(9,804,704)	(9,804,704)
Effect of changes in foreign exchange rate	40,300	90,835	131,135
As at 31 December 2018	163,989,047	363,140,177	527,129,224
Accumulated amortisation			
As at 1 January 2018	(84,445,428)	(115,901,076)	(200,346,504)
Additions	(7,961,092)	(51,972,981)	(59,934,073)
Disposal	–	5,442,150	5,442,150
Effect of changes in foreign exchange rate	–	(65,154)	(65,154)
As at 31 December 2018	(92,406,520)	(162,497,061)	(254,903,581)
Carrying amount			
As at 31 December 2018	71,582,527	200,643,116	272,225,643
As at 31 December 2017	79,503,319	147,702,656	227,205,975

23 INTANGIBLE ASSETS *(continued)*

	Securities trading seat rights	Others	Total
Cost			
As at 1 January 2017	41,268,843	939,535	42,208,378
Arising from acquisition of a subsidiary	122,731,804	195,031,566	317,763,370
Additions	–	82,037,215	82,037,215
Disposal	–	(14,284,247)	(14,284,247)
Effect of changes in foreign exchange rate	(51,900)	(120,337)	(172,237)
As at 31 December 2017	163,948,747	263,603,732	427,552,479
Accumulated amortisation			
As at 1 January 2017	(41,153,426)	(483,889)	(41,637,315)
Arising from acquisition of a subsidiary	(36,044,000)	(107,230,049)	(143,274,049)
Additions	(7,248,002)	(22,349,961)	(29,597,963)
Disposal	–	14,084,135	14,084,135
Effect of changes in foreign exchange rate	–	78,688	78,688
As at 31 December 2017	(84,445,428)	(115,901,076)	(200,346,504)
Carrying amount			
As at 31 December 2017	79,503,319	147,702,656	227,205,975
As at 31 December 2016	115,417	455,646	571,063

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

24 INTEREST IN ASSOCIATES AND JOINT VENTURES

	As at 31 December	
	2018	2017
Share of net assets		
– Associates	**825,765,950**	704,593,206
– Joint ventures	**441,184,638**	423,690,054
Total	**1,266,950,588**	1,128,283,260

The following list contains only the particulars of the major associate which is an unlisted corporate entity whose quoted market price is not available:

				Proportion of ownership interest			
Name of associate	**Form of business structure**	**Place of incorporation operation**	**Particulars of issued and paid-in capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activity**
Zheshang Jinhui Trust Co., Ltd. ("Zheshang Jinhui") (Note)	Incorporated	Hangzhou, PRC	RMB1,700,000,000	17.5%	17.5%	–	Trust business

Note: The Company holds 17.5% equity interest of Zheshang Jinhui but has significant influence over Zheshang Jinhui as it can appoint members in Zheshang Jinhui's Board of Directors. Zheshang Jinhui is accounted for as an associate of the Company.

24 INTEREST IN ASSOCIATES AND JOINT VENTURES *(continued)*

The summary financial information of the Group's major associate and the reconciliation between the financial information of other associates and joint ventures and their carrying amounts in the Group's financial statements are disclosed below:

(a) Zheshang Jinhui

	As at 31 December	
	2018	2017
Financial information of the associate		
– Assets	**2,970,828,482**	2,649,432,536
– Liabilities	**898,203,897**	734,186,076
– Net assets	**2,072,624,585**	1,915,246,460
– Operating income	**740,684,327**	518,891,820
– Net profit	**157,378,125**	152,300,134
Reconciled to the Group's interests in the associate:		
Gross amounts of net assets of the associate	**2,072,624,585**	1,915,246,460
Group's effective interest	**17.5%**	17.5%
Group's share of net assets of the associate	**362,709,302**	335,168,130
Carrying amount in the consolidated financial statements	**362,709,302**	335,168,130

(b) Aggregate information of other associates and joint ventures:

	As at 31 December	
	2018	2017
Aggregate carrying amount of other associates and joint ventures in the consolidated financial statements	**904,241,286**	793,115,130
Aggregate amounts of the Group's share of profit or loss and other comprehensive income of those associates and joint ventures		
– Profit for the year	**91,023,512**	39,242,467
– Total comprehensive income	**91,023,512**	43,177,926

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Non-current

Analysed by type:	As at 31 December 2018
Equity investments	2,446,425,365
Funds and other investments	24,894,332
Total	2,471,319,697

Analysed by listing status:	As at 31 December 2018
Listed	
– Outside Hong Kong	38,468,152
Unlisted	2,432,851,545
Total	2,471,319,697

Current

Analysed by type:	As at 31 December 2018
Equity investments	24,746,482,555
Debt investments	67,883,079,318
Funds and other investments	19,684,021,559
Total	112,313,583,432

Analysed by listing status:	As at 31 December 2018
Listed	
– In Hong Kong	7,810,781,597
– Outside Hong Kong	89,856,945,279
Unlisted	14,645,856,556
Total	112,313,583,432

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(continued)*

Current

Analysed by type:	As at 31 December 2017		
	Financial assets held for trading	Financial assets designated as at fair value through profit or loss	Total
Equity investments	20,883,996,306	18,046,213,074	38,930,209,380
Debt investments	46,770,992,879	167,524,609	46,938,517,488
Funds and other investments	4,273,156,707	6,869,827,357	11,142,984,064
Total	71,928,145,892	25,083,565,040	97,011,710,932

Analysed by listing status:	As at 31 December 2017
Listed	
– In Hong Kong	5,154,528,755
– Outside Hong Kong	60,997,647,724
Unlisted	30,859,534,453
Total	97,011,710,932

26 AVAILABLE-FOR-SALE FINANCIAL ASSETS

Non-current

Analysed by type:	As at 31 December 2017
– Equity investments	1,112,184,827
– Funds and other investments	65,638,010
Total	1,177,822,837

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

26 AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

Analysed by listing status:	As at 31 December 2017
Listed	
– Listed, outside Hong Kong	44,269,556
Unlisted	1,133,553,281
Total	1,177,822,837

Current

Analysed by type:	As at 31 December 2017
– Debt investments	17,426,114,971
– Equity investments	188,202,859
– Funds and other investments	105,259,082
Less: Provision for impairment losses	(23,295)
Total	17,719,553,617

Analysed by listing status:	As at 31 December 2017
Listed	
– In Hong Kong	2,753,521,747
– Outside Hong Kong	14,697,216,934
Unlisted	268,814,936
Total	17,719,553,617

Upon the initial application of IFRS 9 on 1 January 2018 (see Note 2(c)), available-for-sale financial assets were reclassified to financial assets measured at FVTPL and FVTOCI amounted to RMB2,258,370,893 and RMB16,639,005,561, respectively.

27 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS ("REVERSE REPOS")

(a) Analysed by collateral type:

	As at 31 December	
Non-current	**2018**	2017
Stocks	**719,914,040**	1,016,332,500
Accrued interests	**21,722,422**	–
Less: Provision for impairment losses	**(2,565,980)**	(754,233)
Total	**739,070,482**	1,015,578,267

	As at 31 December	
Current	**2018**	2017
Stocks	**9,740,939,226**	10,909,702,283
Debt securities	**8,960,245,243**	2,518,779,381
Funds	**–**	7,897,000
Subtotal	**18,701,184,469**	13,436,378,664
Accrued interests	**176,113,137**	–
Less: Provision for impairment losses	**(63,233,745)**	(13,683,004)
Total	**18,814,063,861**	13,422,695,660

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

27 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS ("REVERSE REPOS") *(continued)*

(b) Analysed by market:

	As at 31 December	
Non-current	**2018**	2017
Stock exchanges	**537,841,825**	884,494,267
Over-the-counter market	**201,228,657**	131,084,000
Total	**739,070,482**	1,015,578,267

	As at 31 December	
Current	**2018**	2017
Stock exchanges	**15,558,505,408**	12,220,216,827
Inter-bank market	**3,255,558,453**	685,322,000
Over-the-counter market	–	517,156,833
Total	**18,814,063,861**	13,422,695,660

28 REFUNDABLE DEPOSITS

	As at 31 December	
	2018	2017
Self-owned refundable deposits	**1,348,063,089**	1,276,007,633
Refundable deposits held on behalf of clients	**2,141,463,608**	1,509,178,513
Subtotal	**3,489,526,697**	2,785,186,146
Accrued interests	**409,812**	–
Total	**3,489,936,509**	2,785,186,146

Refundable deposits are mainly placed at stock exchanges and clearing house, futures and commodity exchanges, China Securities Finance Corporation Limited, Shanghai Clearing House, futures companies and other institutions.

29 DEFERRED TAX ASSETS/(LIABILITIES)

(a) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movement during the year are as follows:

	As at 31 December 2017	Adjustment on initial application of IFRS 9	As at 1 January 2018	(Charged)/ credited to profit or loss	Charged to equity	Exchange differences (Note)	As at 31 December 2018 Deferred tax, net	Deferred tax assets	Deferred tax liabilities
Deferred tax assets/(liabilities) before set-off:									
Staff cost	1,161,806,337	–	1,161,806,337	(76,722,973)	–	380,418	1,085,463,782	1,085,463,782	–
Deductible tax losses	21,874,486	–	21,874,486	7,042,446	–	951,236	29,868,168	29,868,168	–
Depreciation and amortisation	4,422,309	–	4,422,309	(27,110,316)	–	6,525	(22,681,482)	–	(22,681,482)
Changes in fair values of financial instruments at fair value through profit or loss	(249,930,662)	(22,715,731)	(272,646,393)	56,849,881	–	(406,218)	(216,202,730)	–	(216,202,730)
Changes in fair values of available-for-sale financial assets	10,918,153	(10,918,153)	–	–	–	–	–	–	–
Changes in fair values and impairment losses of financial assets at fair value through other comprehensive income	–	33,639,707	33,639,707	1,130,442	(69,959,604)	–	(35,189,455)	–	(35,189,455)
Fair value adjustment arising from acquisition of a subsidiary	(191,661,156)	–	(191,661,156)	8,942,462	–	–	(182,718,694)	–	(182,718,694)
Others	166,946,763	10,821,787	177,768,550	49,662,002	–	161,492	227,592,044	227,592,044	–
Subtotal	924,376,230	10,827,610	935,203,840	19,793,944	(69,959,604)	1,093,453	886,131,633	1,342,923,994	(456,792,361)
Set off								(185,926,267)	185,926,267
Deferred tax assets/(liabilities) recognised in the consolidated statement of financial position								1,156,997,727	(270,866,094)

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

29 DEFERRED TAX ASSETS/(LIABILITIES) *(continued)*

(a) Deferred tax assets and liabilities recognised *(continued)*

	As at 1 January 2017	Arising from acquisition of a subsidiary	Credited/ (charged) to profit or loss	Credited/ (charged) to equity	Exchange differences (Note)	As at 31 December 2017 Deferred tax, net	Deferred tax assets	Deferred tax liabilities
Deferred tax assets/(liabilities) before set-off:								
Staff cost	730,454,894	369,532,069	62,490,409	–	(671,035)	1,161,806,337	1,161,806,337	–
Deductible tax losses	34,301,021	–	(10,445,318)	–	(1,981,217)	21,874,486	21,874,486	–
Depreciation and amortisation	6,321,454	–	(1,551,641)	–	(347,504)	4,422,309	4,422,309	–
Changes in fair values of financial instruments at fair value through profit or loss	(15,458,855)	45,006,597	(279,478,404)	–	–	(249,930,662)	–	(249,930,662)
Changes in fair values of available-for-sale financial assets	(18,975,370)	(23,480,877)	–	53,374,400	–	10,918,153	10,918,153	–
Fair value adjustment arising from acquisition of a subsidiary	–	(198,231,250)	6,570,094	–	–	(191,661,156)	–	(191,661,156)
Others	53,246,241	54,814,704	60,018,744	(983,865)	(149,061)	166,946,763	166,946,763	–
Subtotal	789,889,385	247,641,243	(162,396,116)	52,390,535	(3,148,817)	924,376,230	1,365,968,048	(441,591,818)
Set off							(214,819,942)	214,819,942
Deferred tax assets/(liabilities) recognised in the consolidated statement of financial position							1,151,148,106	(226,771,876)

Note: Exchange differences represent foreign exchange difference in translation of financial statements of overseas subsidiaries.

29 DEFERRED TAX ASSETS/(LIABILITIES) *(continued)*

(b) Deferred tax assets not recognised

In accordance with the accounting policy set out in Note 2(t), the Group has not recognised deferred tax assets in respect of deductible temporary differences and cumulative deductible tax losses amounted to RMB230 million and RMB216 million as at 31 December 2018 and 2017, respectively.

Deferred tax assets not recognised in respect of cumulative tax losses are mainly attributable to certain overseas subsidiaries of the Group which were set up to strengthen the Group's cross-border service capabilities.

Deferred tax asset arising from unused tax losses is recognised only to the extent that an entity has sufficient taxable temporary differences or there is other convincing evidence that sufficient taxable profit will be available against which the unused tax losses can be utilised by the entity, when the entity has a history of recent losses. The directors of the Company review the financial performance of these overseas subsidiaries at the end of year to determine whether there is sufficient taxable profit to be available against the unused tax losses, and they are of the opinion that it is probable that sufficient future taxable profits against which the losses can be utilised may not be available in these overseas entities in the foreseeable future, given the current market conditions, and that further expenditures of these overseas subsidiaries are considered necessary for expanding the Group's overseas operations based on its business strategies.

30 OTHER NON-CURRENT ASSETS

	As at 31 December	
	2018	2017
Land use rights	**1,147,558,409**	1,179,022,246
Rental and other deposits	**139,676,337**	131,218,127
Others	**43,568,916**	51,899,523
Total	**1,330,803,662**	1,362,139,896

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

31 ACCOUNTS RECEIVABLE

(a) Analysed by nature:

	As at 31 December	
	2018	2017
Trade receivable	**9,524,858,287**	7,561,248,773
Underwriting and advisory fees receivable	**685,158,179**	829,733,557
Asset management fees receivable	**1,030,013,910**	668,660,456
Trading seat rental fees receivable	**110,770,523**	135,751,976
Others	**601,469,347**	231,857,710
Subtotal	**11,952,270,246**	9,427,252,472
Accrued interests	**9,198,159**	–
Less: Provision for impairment losses	**(82,324,709)**	(25,555,250)
Total	**11,879,143,696**	9,401,697,222

(b) Analysed by aging:

	As at 31 December 2018			
	Gross amount		**Provision for impairment losses**	
	Amount	**%**	**Amount**	**%**
Within 1 year (inclusive)	**11,187,696,937**	**93.53%**	**(56,284,755)**	**68.37%**
1 – 2 years (inclusive)	**421,932,830**	**3.53%**	**(1,687,683)**	**2.05%**
2 – 3 years (inclusive)	**139,006,741**	**1.16%**	**(528,676)**	**0.64%**
More than 3 years	**212,831,897**	**1.78%**	**(23,823,595)**	**28.94%**
Total	**11,961,468,405**	**100.00%**	**(82,324,709)**	**100.00%**

	As at 31 December 2017			
	Gross amount		Provision for impairment losses	
	Amount	%	Amount	%
Within 1 year (inclusive)	8,994,489,065	95.41%	(1,889,643)	7.40%
1 – 2 years (inclusive)	197,068,581	2.09%	(1,521,642)	5.95%
2 – 3 years (inclusive)	53,860,831	0.57%	(1,627,667)	6.37%
More than 3 years	181,833,995	1.93%	(20,516,298)	80.28%
Total	9,427,252,472	100.00%	(25,555,250)	100.00%

31 ACCOUNTS RECEIVABLE *(continued)*

(c) Analysis of the movement of provision for impairment losses:

	As at 31 December	
	2018	2017
At the beginning of the year	**25,555,250**	26,335,500
Arising from acquisition of a subsidiary	**–**	8,653,451
Provided/(reversed) for the year	**56,570,413**	(7,510,375)
Write-offs for the year	**(173,171)**	(40,288)
Effect of changes in foreign exchange rate	**372,217**	(1,883,038)
At the end of the year	**82,324,709**	25,555,250

32 RECEIVABLE FROM MARGIN CLIENTS

(a) Analysed by nature:

	As at 31 December	
	2018	2017
Individuals	**15,992,254,837**	20,323,973,978
Institutions	**1,364,577,500**	1,582,632,074
Subtotal	**17,356,832,337**	21,906,606,052
Accrued interests	**383,309,440**	–
Less: Provision for impairment losses	**(23,931,810)**	(23,752,591)
Total	**17,716,209,967**	21,882,853,461

As at 31 December 2018, the principal amount of receivable from margin clients that the Group transferred to the securitisation vehicle amounted to RMB2.0 billion (31 December 2017: RMB 2.0 billion). The securitisation vehicle issued ABS to investors with the receivable from margin clients as the underlying assets, of which all subordinated tranche were held by the Group.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

32 RECEIVABLE FROM MARGIN CLIENTS *(continued)*

(b) Analysed by fair value of collaterals:

	As at 31 December	
	2018	2017
Stocks	**40,535,814,487**	59,354,039,719
Cash	**1,069,744,805**	1,222,699,181
Funds	**226,341,434**	60,855,249
Debt securities	**33,822,536**	46,197,644
Total	**41,865,723,262**	60,683,791,793

(c) Analysis of the movement of provision for impairment losses:

	As at 31 December	
	2018	2017
At the end of prior year	**23,752,591**	25,907,805
Additional expected credit loss recognised under IFRS 9	**21,044,224**	–
At the beginning of the year	**44,796,815**	25,907,805
Reversal of the year	**(18,329,457)**	(802,096)
Write-offs for the year	**(1,843,224)**	–
Effect of changes in foreign exchange rate	**(692,324)**	(1,353,118)
At the end of the year	**23,931,810**	23,752,591

33 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Analysed by type:	As at 31 December 2018
– Debt investments	35,699,665,877

Analysed by listing status:	As at 31 December 2018
Listed	
– In Hong Kong	3,089,749,567
– Outside Hong Kong	32,609,916,310
Total	35,699,665,877

34 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES)

	As at 31 December 2018		
		Fair value	
	Notional amount	Assets	Liabilities
Hedging instruments (a)			
– Interest rate contracts	26,100,000,000	491,128,609	–
Non-hedging instruments			
– Interest rate contracts	56,217,846,128	336,424,488	(427,536,439)
– Currency contracts	19,241,583,018	99,619,314	(106,023,948)
– Equity contracts	76,343,769,429	4,416,901,451	(2,728,859,874)
– Credit contracts	1,247,017,363	5,872,825	(9,888,657)
– Other contracts	12,361,224,344	182,596,498	(188,281,339)
Total	191,511,440,282	5,532,543,185	(3,460,590,257)
Less: Settlement		(3,007,037)	79,380,388
Net position		5,529,536,148	(3,381,209,869)

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

34 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES) *(continued)*

	As at 31 December 2017		
		Fair value	
	Notional amount	Assets	Liabilities
Hedging instruments (a)			
– Interest rate contracts	10,100,000,000	7,688,506	(60,342,640)
Non-hedging instruments			
– Interest rate contracts	68,512,583,777	310,848,617	(386,052,410)
– Currency contracts	7,685,476,409	44,042,978	(94,624,931)
– Equity contracts	69,813,915,504	2,562,114,764	(2,426,551,170)
– Credit contracts	1,728,125,872	5,151,263	(20,969,394)
– Other contracts	24,638,042,672	519,284,255	(489,245,689)
Total	182,478,144,234	3,449,130,383	(3,477,786,234)
Less: Settlement		(1,213,894)	29,445,240
Net position		3,447,916,489	(3,448,340,994)

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in futures in Mainland China are settled daily and the corresponding receipts and payments are reflected in "deposits with clearing houses". Accordingly, the Group did not hold any net position of the above contracts at 31 December 2018 (31 December 2017: Nil) .

34 DERIVATIVE FINANCIAL ASSETS/(LIABILITIES) *(continued)*

(a) Hedging instruments

Fair value hedges are used by the Group to protect against changes in the fair value of financial assets and financial liabilities due to movements in market interest rates. Interest rate swaps are used as hedging instruments to hedge the interest rate risk of long-term debt securities issued.

The effectiveness of hedges based on changes in fair value of the derivatives and on the profit or loss of the hedged items attributable to the hedged risk during the year is presented as follows:

	Year ended 31 December	
	2018	2017
(Losses)/gains arising from fair value hedges, net:		
– Interest rate contracts	**(696,429,386)**	(37,747,475)
– Hedged items attributable to the hedged risk	**585,065,745**	45,391,075
Total	**(111,363,641)**	7,643,600

35 CASH HELD ON BEHALF OF BROKERAGE CLIENTS

The Group maintains segregated deposit accounts with banks and authorised institutions to hold clients' monies arising from its normal course of brokerage business. The Group has classified their clients' monies as cash held on behalf of brokerage clients under the current assets of the consolidated statement of financial position and recognised the corresponding accounts payable to brokerage clients on the grounds that the Group is liable for any misappropriation of their clients' monies. In Mainland China, clients' monies are restricted and governed by relevant third-party deposit regulations issued by the China Securities Regulatory Commission (the "CSRC"). In Hong Kong, clients' monies are restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

36 CASH AND BANK BALANCES

	As at 31 December	
	2018	2017
Cash on hand	**245,730**	295,540
Deposits with banks	**20,120,201,092**	16,121,531,319
Deposits with clearing houses	**2,247,502,495**	2,009,095,842
Subtotal	**22,367,949,317**	18,130,922,701
Accrued interests	**57,382,787**	–
Less: Provision for impairment losses	**(843,942)**	–
Total	**22,424,488,162**	18,130,922,701

37 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	As at 31 December	
	2018	2017
Cash on hand	**245,730**	295,540
Deposits with banks	**20,120,201,092**	16,121,531,319
Deposits with clearing houses	**2,247,502,495**	2,009,095,842
Subtotal	**22,367,949,317**	18,130,922,701
Less: Restricted bank deposits	**(412,961,673)**	(718,555,522)
Total	**21,954,987,644**	17,412,367,179

The restricted bank deposits mainly include the risk reserve deposits held for asset management business and temporary deposits held on behalf of non-brokerage clients.

37 CASH AND CASH EQUIVALENTS *(continued)*

(b) Reconciliation of liabilities arising from financing activities:

	As at 1 January 2018	Cash flows	Non-cash changes: (Transferred out)/ transferred in	Non-cash changes: Interests, amortisation and effect of changes in foreign exchange rate	Non-cash changes: Fair value changes	As at 31 December 2018
Short-term debt securities issued	10,626,880,896	2,990,917,949	(19,799,121)	463,378,061	–	14,061,377,785
Long-term debt securities issued due within one year	5,098,498,424	(5,225,699,493)	12,923,176,966	197,914,986	–	12,993,890,883
Long-term debt securities issued	44,835,943,007	12,897,400,343	(12,903,377,845)	3,583,759,735	585,065,745	48,998,790,985
Total liabilities arising from financing activities	60,561,322,327	10,662,618,799	–	4,245,052,782	585,065,745	76,054,059,653

	As at 1 January 2017	Cash flows	Non-cash changes: Arising from acquisition of a subsidiary	Non-cash changes: Amortisation and effect of changes in foreign exchange rate	Non-cash changes: Fair value changes	As at 31 December 2017
Short-term debt securities issued	2,649,593,509	7,201,414,458	800,000,000	(24,127,071)	–	10,626,880,896
Long-term debt securities issued due within one year	–	1,074,710,000	4,006,173,657	17,614,767	–	5,098,498,424
Long-term debt securities issued	18,948,469,092	20,893,138,849	5,204,693,479	(164,967,338)	(45,391,075)	44,835,943,007
Total liabilities arising from financing activities	21,598,062,601	29,169,263,307	10,010,867,136	(171,479,642)	(45,391,075)	60,561,322,327

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

38 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2018		
	Financial liabilities held for trading	**Financial liabilities designated as at fair value through profit or loss**	**Total**
Equity investments	**3,324,981,139**	**8,773,289,241**	**12,098,270,380**
Debt investments	**918,861,787**	**2,077,116,104**	**2,995,977,891**
Total	**4,243,842,926**	**10,850,405,345**	**15,094,248,271**

	As at 31 December 2017		
	Financial liabilities held for trading	Financial liabilities designated as at fair value through profit or loss	Total
Equity investments	1,901	10,524,776,252	10,524,778,153
Debt investments	822,546,784	–	822,546,784
Funds and other investments	846,917,234	–	846,917,234
Total	1,669,465,919	10,524,776,252	12,194,242,171

39 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

	As at 31 December	
	2018	2017
Clients' deposits for brokerage trading	**37,472,041,393**	44,764,529,711
Clients' deposits for margin financing and securities lending	**3,838,246,453**	2,581,988,081
Subtotal	**41,310,287,846**	47,346,517,792
Accrued interests	**7,616,280**	–
Total	**41,317,904,126**	47,346,517,792

Accounts payable to brokerage clients represent the monies received from and repayable to brokerage clients, which are mainly held at banks and clearing houses. Accounts payable to brokerage clients are interest bearing at the prevailing interest rate.

The balance of the accounts payable includes certain margin deposits and cash collaterals received from clients for their margin financing and securities lending activities under normal course of business. Only the amounts in excess of the required amount of margin deposits and cash collaterals are repayable on demand.

40 PLACEMENTS FROM FINANCIAL INSTITUTIONS

(a) Analysed by funding source:

	As at 31 December	
	2018	2017
Placements from banks	**7,487,696,864**	10,280,774,792
Others	**1,000,000,000**	–
Subtotal	**8,487,696,864**	10,280,774,792
Accrued interests	**46,107,008**	–
Total	**8,533,803,872**	10,280,774,792

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

40 PLACEMENTS FROM FINANCIAL INSTITUTIONS *(continued)*

(b) Analysed by residual maturity:

	As at 31 December			
	2018		2017	
	Book value	**Range of interest rate**	Book value	Range of interest rate
Within 1 month (inclusive)	**5,640,939,681**	**2.86% – 9.00%**	5,644,055,700	1.55% – 4.50%
1 – 3 months (inclusive)	**746,378,339**	**4.85% – 5.00%**	1,116,880,000	4.50%
3 months – 1 year (inclusive)	**2,146,485,852**	**4.40% – 5.00%**	3,519,839,092	4.50% – 5.42%
Total	**8,533,803,872**		10,280,774,792	

41 SHORT-TERM DEBT SECURITIES ISSUED

		As at 31 December	
	Note	**2018**	2017
Beneficiary certificates	(a)	**12,028,986,000**	8,824,880,000
Notes payable	(b)	**1,944,854,059**	1,802,000,896
Subtotal		**13,973,840,059**	10,626,880,896
Accrued interests:			
Beneficiary certificates		**60,997,604**	–
Notes payable		**26,540,122**	–
Total		**14,061,377,785**	10,626,880,896

41 SHORT-TERM DEBT SECURITIES ISSUED *(continued)*

(a) Beneficiary certificates:

Nominal interest rate	Book value as at 1 January 2018	Issuance	Accrued interests	Redemption	Transferred out	Book value as at 31 December 2018
0.00% – 8.10%	**8,824,880,000**	**48,566,845,400**	**62,996,725**	**(45,344,939,400)**	**(19,799,121)**	**12,089,983,604**

Nominal interest rate	Book value as at 1 January 2017	Arising from acquisition of a subsidiary	Issuance	Redemption	Book value as at 31 December 2017
0.00% – 8.50%	2,649,593,509	800,000,000	16,470,584,000	(11,095,297,509)	8,824,880,000

The Group has issued beneficiary certificates bearing nominal interest with:

– fixed rates, ranging from 0.30% to 8.10% per annum;

– a fixed rate plus a floating rate; or

– a floating rate.

The floating interest rate is calculated based on Shanghai & Shenzhen 300 Index, China Securities Index (CSI) 500, CSI 500 Total Return, price of commodities' product or USD index.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

41 SHORT-TERM DEBT SECURITIES ISSUED *(continued)*

(b) Notes payable:

Name	Book value as at 1 January 2018	Issuance	Accrued interests	Redemption	Amortisation and others	Book value as at 31 December 2018
MTN (i)	1,110,814,000	–	–	(1,079,262,000)	(31,552,000)	–
MTN (ii)	–	628,820,000	–	(690,650,000)	61,830,000	–
Structured notes (iii)	691,186,896	6,416,379,004	26,540,122	(5,056,301,166)	(106,410,675)	1,971,394,181
Total	1,802,000,896	7,045,199,004	26,540,122	(6,826,213,166)	(76,132,675)	1,971,394,181

Name	Book value as at 1 January 2017	Issuance	Redemption	Amortisation and others	Book value as at 31 December 2017
MTN (i)	–	1,122,578,000	–	(11,764,000)	1,110,814,000
Structured notes (iii)	–	703,549,967	–	(12,363,071)	691,186,896
Total	–	1,826,127,967	–	(24,127,071)	1,802,000,896

(i) The interest commencement date and maturity date of the notes were 15 November 2017 and 15 May 2018 respectively. The principal of the notes amounted to USD170 million. The Company has redeemed the notes on 15 May 2018.

(ii) The interest commencement date and maturity date of the notes were 7 February 2018 and 7 November 2018 respectively. The principal of the notes amounted to USD100 million. The Company has redeemed the notes on 7 November 2018.

(iii) The notes were issued bearing nominal interest rates ranging from 0.00% to 4.85% per annum.

42 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS ("REPOS")

(a) Analysed by collateral type:

	As at 31 December	
	2018	2017
Debt securities	**45,485,445,768**	26,562,260,712
Others	**3,106,007,184**	4,091,382,742
Subtotal	**48,591,452,952**	30,653,643,454
Accrued interests	**59,303,370**	–
Total	**48,650,756,322**	30,653,643,454

(b) Analysed by market:

	As at 31 December	
	2018	2017
Inter-bank market	**28,645,623,494**	7,939,384,535
Stock exchanges	**13,127,726,502**	17,210,957,030
Over-the-counter market	**6,877,406,326**	5,503,301,889
Total	**48,650,756,322**	30,653,643,454

43 OTHER CURRENT LIABILITIES

	As at 31 December	
	2018	2017
Trade payable	**26,440,618,642**	21,852,867,481
Payables to the investors of consolidated structured entities	**3,432,346,183**	3,225,830,492
Interest payable	**–**	1,117,799,714
Sundry tax payable	**723,423,784**	398,513,863
Accrued expenses	**571,996,456**	482,611,963
Others	**960,782,365**	1,401,988,469
Total	**32,129,167,430**	28,479,611,982

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

44 LONG-TERM DEBT SECURITIES ISSUED

	Note	As at 31 December 2018	2017
Due within one year			
– Beneficiary certificates	(a)	**1,117,800,000**	1,574,710,000
– Subordinated bonds	(b)	**2,198,656,584**	–
– Corporate bonds	(c)	**6,100,000,000**	3,497,797,815
– Notes payable	(d)	**3,428,336,856**	–
Subtotal		**12,844,793,440**	5,072,507,815
Due after one year			
– Beneficiary certificates	(a)	**400,000,000**	1,000,000,000
– Subordinated bonds	(b)	**12,579,474,786**	16,074,294,509
– Corporate bonds	(c)	**28,256,578,851**	24,473,332,658
– Notes payable	(d)	**6,842,394,391**	3,255,995,294
Subtotal		**48,078,448,028**	44,803,622,461
Accrued interests:			
– Beneficiary certificates		**88,058,806**	58,311,155
– Subordinated bonds		**238,674,537**	–
– Corporate bonds		**696,792,828**	–
– Notes payable		**45,914,229**	–
Subtotal		**1,069,440,400**	58,311,155
Total		**61,992,681,868**	49,934,441,431
Fair value		**62,408,122,791**	49,460,153,719

44 LONG-TERM DEBT SECURITIES ISSUED *(continued)*

(a) Beneficiary certificates:

Nominal interest rate	Book value as at 1 January 2018	Issuance	Accrued interests	Transferred in	Redemption	Book value as at 31 December 2018
0.00% – 8.00%	**2,633,021,155**	**500,000,000**	**27,748,530**	**19,799,121**	**(1,574,710,000)**	**1,605,858,806**

Nominal interest rate	Book value as at 1 January 2017	Arising from acquisition of a subsidiary	Issuance	Accrued interests	Redemption	Book value as at 31 December 2017
0.00% – 5.20%	–	715,966,082	2,074,710,000	49,206,224	(206,861,151)	2,633,021,155

The Group has issued beneficiary certificates bearing nominal interest with:

– fixed rates, ranging from 3.44% to 5.20% per annum;

– a fixed rate plus a floating rate; or

– a floating rate.

The floating interest rate is calculated based on certain asset-backed securities. The Group has an early-repurchase option on certain beneficiary certificates.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

44 LONG-TERM DEBT SECURITIES ISSUED *(continued)*

(b) Subordinated bonds:

Name	Interest commencement date	Maturity date	Interest payment	Nominal interest rate	Book value as at 1 January 2018	Issuance	Accrued interests	Redemption	Amortisation and others	Book value as at 31 December 2018
15 CICC C1 (i)	29/05/2015	29/05/2021	Annually	1st – 3rd year, 5.25%; 4th – 6th year, 8.25%	2,000,000,000	–	–	(2,000,000,000)	–	–
16 CICC C1 (ii)	21/07/2016	23/07/2021	Annually	1st – 2nd year, 3.25%; 3rd – 5th year, 6.25%	2,000,000,000	–	–	(2,000,000,000)	–	–
16 CICC C2	15/12/2016	15/12/2021	Annually	4.60%	3,400,000,000	–	6,855,890	–	–	3,406,855,890
16 CICC Futures (iii)	16/12/2016	16/12/2024	Annually	1st – 5th year, 5.00%; 6th – 8th year, 8.00%	100,000,000	–	219,178	–	–	100,219,178
17 CICC C1	22/05/2017	22/05/2022	Annually	5.39%	601,136,664	–	16,058,086	–	25,301,248	642,495,998
17 CICC C2	24/07/2017	24/07/2022	Annually	4.98%	1,480,139,603	–	30,183,697	–	68,315,429	1,578,638,729
17 CICC C3	16/11/2017	16/11/2022	Annually	5.50%	1,500,000,000	–	2,054,888	–	64,022,678	1,566,077,566
18 CICC C1	20/04/2018	20/04/2023	Annually	5.30%	–	1,000,000,000	34,935,674	–	32,611,314	1,067,546,988
18 CICC C2	29/08/2018	29/08/2021	Annually	4.70%	–	1,500,000,000	23,950,685	–	10,935,940	1,534,886,625
16 CISC 01	07/12/2016	07/12/2019	Annually	4.00%	2,197,269,866	–	6,027,397	–	1,386,718	2,204,683,981
17 CISC 01	23/02/2017	23/02/2020	Annually	4.85%	998,622,825	–	41,457,535	–	623,954	1,040,704,314
17 CISC 02	23/02/2017	23/02/2022	Annually	5.00%	1,797,125,551	–	76,931,507	–	639,580	1,874,696,638
Total					16,074,294,509	2,500,000,000	238,674,537	(4,000,000,000)	203,836,861	15,016,805,907

44 LONG-TERM DEBT SECURITIES ISSUED *(continued)*

(b) Subordinated bonds: *(continued)*

Name	Interest commencement date	Maturity date	Interest payment	Nominal interest rate	Book value as at 1 January 2017	Arising from acquisition of a subsidiary	Issuance	Redemption	Amortisation and others	Book value as at 31 December 2017
15 CICC C1 (i)	29/05/2015	29/05/2021	Annually	1st – 3rd year 5.25%; 4th – 6th year 8.25%	2,000,000,000	–	–	–	–	2,000,000,000
16 CICC C1 (ii)	23/07/2016	21/07/2021	Annually	1st – 2nd year 3.25%; 3rd – 5th year 6.25%	2,000,000,000	–	–	–	–	2,000,000,000
16 CICC C2	15/12/2016	15/12/2021	Annually	4.60%	3,400,000,000	–	–	–	–	3,400,000,000
16 CICC Futures (iii)	16/12/2016	16/12/2024	Annually	1st – 5th year 5.00%; 6th – 8th year 8.00%	100,000,000	–	–	–	–	100,000,000
17 CICC C1	22/05/2017	22/05/2022	Annually	5.39%	–	–	600,000,000	–	1,136,664	601,136,664
17 CICC C2	24/07/2017	24/07/2022	Annually	4.98%	–	–	1,500,000,000	–	(19,860,397)	1,480,139,603
17 CICC C3	16/11/2017	16/11/2022	Annually	5.50%	–	–	1,500,000,000	–	–	1,500,000,000
16 CISC 01	07/12/2016	07/12/2019	Annually	4.00%	–	2,200,000,000	–	–	(2,730,134)	2,197,269,866
17 CISC 01	23/02/2017	23/02/2020	Annually	4.85%	–	1,000,000,000	–	–	(1,377,175)	998,622,825
17 CISC 02	23/02/2017	23/02/2022	Annually	5.00%	–	1,800,000,000	–	–	(2,874,449)	1,797,125,551
Total					7,500,000,000	5,000,000,000	3,600,000,000	–	(25,705,491)	16,074,294,509

(i) The Company has redeemed the bonds on 29 May 2018.

(ii) The Company has redeemed the bonds on 23 July 2018.

(iii) CICC Futures Co., Ltd. ("CICC Futures") has an option to redeem the bonds on 16 December 2021.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

44 LONG-TERM DEBT SECURITIES ISSUED *(continued)*

(c) Corporate bonds:

Name	Interest commencement date	Maturity date	Interest payment	Nominal interest rate	Book value as at 1 January 2018	Issuance	Accrued interests	Redemption	Amortisation and others	Book value as at 31 December 2018
16 CICC 01 (i)	18/07/2016	18/07/2021	Annually	2.99%	3,000,000,000	–	41,040,822	–	–	3,041,040,822
16 CICC 02 (ii)	18/07/2016	18/07/2023	Annually	3.29%	1,000,000,000	–	15,052,877	–	–	1,015,052,877
16 CICC 03 (iii)	27/10/2016	27/10/2021	Annually	2.95%	1,100,000,000	–	5,867,671	–	–	1,105,867,671
16 CICC 04 (iv)	27/10/2016	27/10/2023	Annually	3.13%	900,000,000	–	5,093,753	–	–	905,093,753
16 CICC 05	26/12/2016	26/12/2019	Annually	4.50%	2,000,000,000	–	1,232,877	–	–	2,001,232,877
17 CICC 01	20/01/2017	20/01/2020	Annually	4.35%	3,974,367,918	–	155,115,334	–	78,901,590	4,208,384,842
17 CICC 02	08/05/2017	08/05/2020	Annually	4.97%	1,005,797,807	–	24,141,961	–	18,783,641	1,048,723,409
17 CICC 03	08/05/2017	08/05/2022	Annually	5.19%	1,007,657,164	–	25,868,186	–	41,125,153	1,074,650,503
17 CICC 04	27/07/2017	27/07/2020	Annually	4.78%	1,985,509,769	–	35,137,174	–	48,802,015	2,069,448,958
17 CICC 05	20/10/2017	20/10/2020	Annually	5.13%	2,000,000,000	–	12,048,542	–	38,745,427	2,050,793,969
17 CICC 06	21/11/2017	21/11/2020	Annually	5.45%	2,500,000,000	–	901,662	–	52,821,110	2,553,722,772
18 CICC 01	26/01/2018	26/01/2020	Annually	5.58%	–	1,000,000,000	46,038,946	–	19,351,829	1,065,390,775
18 CICC 02	26/01/2018	26/01/2021	Annually	5.70%	–	1,000,000,000	47,561,580	–	29,835,365	1,077,396,945
18 CICC 03	24/04/2018	24/04/2020	Annually	4.80%	–	500,000,000	15,648,608	–	6,735,938	522,384,546
18 CICC 04	24/04/2018	24/04/2021	Annually	4.94%	–	1,000,000,000	31,538,620	–	20,103,329	1,051,641,949
18 CICC 05	28/06/2018	28/06/2020	Annually	5.20%	–	1,000,000,000	25,834,744	–	7,300,112	1,033,134,856
18 CICC 06	28/06/2018	28/06/2021	Annually	5.30%	–	1,000,000,000	26,115,223	–	12,066,939	1,038,182,162
15 CISC G1 (v)	24/07/2015	24/07/2018	Annually	3.62%	3,497,797,815	–	–	(3,500,000,000)	2,202,185	–
17 CISC F1	18/07/2017	18/07/2020	Annually	4.95%	3,000,000,000	–	67,943,835	–	–	3,067,943,835
17 CISC F2	18/07/2017	18/07/2022	Annually	5.10%	1,000,000,000	–	23,334,247	–	–	1,023,334,247
18 CISC 01	23/03/2018	23/03/2021	Annually	5.95%	–	1,000,000,000	46,295,891	–	(142,925)	1,046,152,966
18 CISC 02	03/09/2018	03/09/2020	Annually	4.72%	–	2,000,000,000	31,035,617	–	8,988,940	2,040,024,557
18 CISC 03	21/09/2018	21/09/2021	Annually	4.99%	–	1,000,000,000	13,944,658	–	(172,270)	1,013,772,388
Total					27,971,130,473	9,500,000,000	696,792,828	(3,500,000,000)	385,448,378	35,053,371,679

44 LONG-TERM DEBT SECURITIES ISSUED *(continued)*

(c) Corporate bonds: *(continued)*

Name	Interest commencement date	Maturity date	Interest payment	Nominal interest rate	Book value as at 1 January 2017	Arising from acquisition of a subsidiary	Issuance	Redemption	Amortisation and others	Book value as at 31 December 2017
16 CICC 01 (i)	18/07/2016	18/07/2021	Annually	2.99%	3,000,000,000	–	–	–	–	3,000,000,000
16 CICC 02 (ii)	18/07/2016	18/07/2023	Annually	3.29%	1,000,000,000	–	–	–	–	1,000,000,000
16 CICC 03 (iii)	27/10/2016	27/10/2021	Annually	2.95%	1,100,000,000	–	–	–	–	1,100,000,000
16 CICC 04 (iv)	27/10/2016	27/10/2023	Annually	3.13%	900,000,000	–	–	–	–	900,000,000
16 CICC 05	26/12/2016	26/12/2019	Annually	4.50%	2,000,000,000	–	–	–	–	2,000,000,000
17 CICC 01	20/01/2017	20/01/2020	Annually	4.35%	–	–	4,000,000,000	–	(25,632,082)	3,974,367,918
17 CICC 02	08/05/2017	08/05/2020	Annually	4.97%	–	–	1,000,000,000	–	5,797,807	1,005,797,807
17 CICC 03	08/05/2017	08/05/2022	Annually	5.19%	–	–	1,000,000,000	–	7,657,164	1,007,657,164
17 CICC 04	27/07/2017	27/07/2020	Annually	4.78%	–	–	2,000,000,000	–	(14,490,231)	1,985,509,769
17 CICC 05	20/10/2017	20/10/2020	Annually	5.13%	–	–	2,000,000,000	–	–	2,000,000,000
17 CICC 06	21/11/2017	21/11/2020	Annually	5.45%	–	–	2,500,000,000	–	–	2,500,000,000
15 CISC G1 (v)	24/07/2015	24/07/2018	Annually	3.62%	–	3,494,901,054	–	–	2,896,761	3,497,797,815
17 CISC F1	18/07/2017	18/07/2020	Annually	4.95%	–	–	3,000,000,000	–	–	3,000,000,000
17 CISC F2	18/07/2017	18/07/2022	Annually	5.10%	–	–	1,000,000,000	–	–	1,000,000,000
Total					8,000,000,000	3,494,901,054	16,500,000,000	–	(23,770,581)	27,971,130,473

(i) The Company has an option to redeem the bonds on 18 July 2019. If the early-redemption option is not exercised, the Company has an option to increase the coupon rate and an obligation to redeem the bonds if required by the investors.

(ii) The Company has an option to redeem the bonds on 18 July 2021. If the early-redemption option is not exercised, the Company has an option to increase the coupon rate and an obligation to redeem the bonds if required by the investors.

(iii) The Company has an option to redeem the bonds on 27 October 2019. If the early-redemption option is not exercised, the Company has an option to increase the coupon rate and an obligation to redeem the bonds if required by the investors.

(iv) The Company has an option to redeem the bonds on 27 October 2021. If the early-redemption option is not exercised, the Company has an option to increase the coupon rate and an obligation to redeem the bonds if required by the investors.

(v) CISC has redeemed the bonds on 24 July 2018.

(Expressed in RMB, unless otherwise stated)

44 LONG-TERM DEBT SECURITIES ISSUED *(continued)*

(d) Notes payable:

Name	Interest commencement date	Maturity date	Nominal interest rate	Book value as at 1 January 2018	Issuance	Accrued interests	Redemption	Amortisation and others	Book value as at 31 December 2018
MTN (i)	18/05/2016	18/05/2019	2.75%	3,255,995,294	–	11,537,816	–	172,341,564	3,439,874,674
MTN (ii)	25/04/2018	25/04/2021	3M LIBOR plus 1.2%	–	3,783,960,000	28,328,176	–	322,690,265	4,134,978,441
MTN (iii)	11/09/2018	11/09/2021	3M LIBOR plus 1.2%	–	2,739,520,000	6,048,237	–	(3,775,876)	2,741,792,361
Total				3,255,995,294	6,523,480,000	45,914,229	–	491,255,953	10,316,645,476

Name	Interest commencement date	Maturity date	Nominal interest rate	Book value as at 1 January 2017	Issuance	Redemption	Amortisation and others	Book value as at 31 December 2017
MTN (i)	18/05/2016	18/05/2019	2.75%	3,448,469,092	–	–	(192,473,798)	3,255,995,294

(i) The interest commencement date and maturity date of the notes are 18 May 2016 and 18 May 2019 respectively. The principal of the notes amounts to USD500 million. The interest payment is made semi-annually.

(ii) The interest commencement date and maturity date of the notes are 25 April 2018 and 25 April 2021 respectively. The principal of the notes amounts to USD600 million. The interest payment is made quarterly.

(iii) The interest commencement date and maturity date of the notes are 11 September 2018 and 11 September 2021 respectively. The principal of the notes amounts to USD400 million. The interest payment is made quarterly.

45 OTHER NON-CURRENT LIABILITIES

	As at 31 December	
	2018	2017
Deferred income	**151,470,000**	155,958,000
Long-term borrowings	**10,200,000**	10,200,000
Long-term finance leases payable	**1,361,659**	1,761,722
Others (Note)	**1,900,000,000**	1,900,000,000
Subtotal	**2,063,031,659**	2,067,919,722
Accrued interests	**15,406,027**	–
Total	**2,078,437,686**	2,067,919,722

Note: As at 31 December 2018, the payment that the Group was obligated to made to other investors regarding the securitisation vehicle (see Note 32(a)) amounted to RMB1.9 billion (31 December 2017: RMB1.9 billion). The mature date of the securitisation vehicle is 21 November 2020.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

46 CAPITAL, RESERVES AND DIVIDENDS

The reconciliation between the opening and closing balance of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's components of equity between the beginning and the end of the years are set out below:

			Reserves					
	Share capital (Note 46(i))	Other equity instruments (Note 47)	Capital reserve (Note 46(ii))	Surplus reserve (Note 46(ii))	General reserves (Note 46(ii))	Investment revaluation reserve (Note 46(ii))	Retained profits	Total
Balance at 31 December 2017	3,985,130,809	1,000,000,000	24,943,144,961	347,068,722	1,813,108,200	(101,380,693)	1,675,216,690	33,662,288,689
Adjustment on initial application of IFRS 9 (net of tax)	–	–	–	–	–	3,182,937	2,796,684	5,979,621
Balance at 1 January 2018	3,985,130,809	1,000,000,000	24,943,144,961	347,068,722	1,813,108,200	(98,197,756)	1,678,013,374	33,668,268,310
Profit for the year	–	–	–	–	–	–	1,854,269,544	1,854,269,544
Other comprehensive income for the year	–	–	–	–	–	161,823,098	–	161,823,098
Total comprehensive income for the year	–	–	–	–	–	161,823,098	1,854,269,544	2,016,092,642
Appropriation to surplus reserve	–	–	–	185,426,954	–	–	(185,426,954)	–
Appropriation to general reserves	–	–	–	–	371,025,515	–	(371,025,515)	–
Distributions to holders of perpetual subordinated bonds	–	–	–	–	–	–	(57,000,000)	(57,000,000)
Dividends to shareholders of the Company	–	–	–	–	–	–	(670,826,859)	(670,826,859)
Issuance of H shares	207,537,059	–	2,101,457,583	–	–	–	–	2,308,994,642
Balance at 31 December 2018	4,192,667,868	1,000,000,000	27,044,602,544	532,495,676	2,184,133,715	63,625,342	2,248,003,590	37,265,528,735

46 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

			Reserves					
	Share capital (Note 46(i))	Other equity instruments (Note 47)	Capital reserve (Note 46(ii))	Surplus reserve (Note 46(ii))	General reserves (Note 46(ii))	Investment revaluation reserve (Note 46(ii))	Retained profits	Total
Balance at 1 January 2017	2,306,669,000	1,000,000,000	9,927,667,914	255,669,229	1,630,307,151	(14,517)	1,730,043,230	16,850,342,007
Profit for the year	–	–	–	–	–	–	913,994,931	913,994,931
Other comprehensive income for the year	–	–	–	–	–	(101,366,176)	–	(101,366,176)
Total comprehensive income for the year	–	–	–	–	–	(101,366,176)	913,994,931	812,628,755
Appropriation to surplus reserve	–	–	–	91,399,493	–	–	(91,399,493)	–
Appropriation to general reserves	–	–	–	–	182,801,049	–	(182,801,049)	–
Distributions to holders of perpetual subordinated bonds	–	–	–	–	–	–	(57,000,000)	(57,000,000)
Dividends to shareholders of the Company	–	–	–	–	–	–	(637,620,929)	(637,620,929)
Issuance of shares for acquisition	1,678,461,809	–	14,993,768,126	–	–	–	–	16,672,229,935
Others	–	–	21,708,921	–	–	–	–	21,708,921
Balance at 31 December 2017	3,985,130,809	1,000,000,000	24,943,144,961	347,068,722	1,813,108,200	(101,380,693)	1,675,216,690	33,662,288,689

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

46 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(i) Share capital

Pursuant to a conversion completed on 1 June 2015, the Company was converted into a joint stock company with limited liability. After the conversion, the Company issued 1,667,473,000 ordinary shares with par value of RMB1 each.

On 9 November 2015, the Company issued 555,824,000 H shares with a par value of RMB1 at an offering price of HKD10.28 per share. On 18 November 2015, the Company exercised the over-allotment option and issued 83,372,000 H shares with a par value of RMB1 at an offering price of HKD10.28 per share.

Pursuant to the acquisition of 100% equity interests in CISC, the Company issued 1,678,461,809 consideration shares at a price of RMB9.95 per share to Huijin. Accordingly, the registered capital and share capital of the Company increased to RMB3,985,130,809 respectively, which was divided into 2,464,953,440 domestic shares and 1,520,177,369 H shares.

On 23 March 2018, the Company issued 207,537,059 new H shares at a price of HKD13.80 per share to Tencent Mobility Limited. Accordingly, the registered capital of the Company increased to RMB4,192,667,868 and the total number of the shares of the Company increased to 4,192,667,868 shares, which was divided into 2,464,953,440 domestic shares and 1,727,714,428 H shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regards to the Company's residual assets.

(ii) Reserves

(1) Capital reserve

The Group

	As at 31 December	
	2018	2017
Share premium (Note)	**24,775,868,127**	22,674,410,544
Others	**46,734,828**	46,734,828
Total	**24,822,602,955**	22,721,145,372

The Company

	As at 31 December	
	2018	2017
Share premium (Note)	**27,022,893,623**	24,921,436,040
Others	**21,708,921**	21,708,921
Total	**27,044,602,544**	24,943,144,961

Note: The premium arising from the Company's H share offering and the issuance of shares for acquisition (see Note 46(i)) was recorded in share premium.

46 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(ii) Reserves *(continued)*

(2) Surplus reserve

The surplus reserve represents statutory surplus reserve. The Company is required to appropriate 10% of its net profit as determined under the Accounting Standards for Business Enterprises and other relevant requirements issued by the Ministry of Finance of the PRC (the "MOF") after offsetting prior year's accumulated loss, to the statutory surplus reserve until the reserve balance reaches 50% of its registered capital. Subject to the approval of shareholders, the statutory surplus reserve may be used to offset accumulated losses, or converted into capital of the Company provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before the capitalisation.

(3) General reserves

General reserves include general risk reserve and trading risk reserve.

In accordance with the Financial Rules for Financial Enterprises (Order of the MOF No. 42) and the application guidance (Caijin [2007] No. 23) issued by the MOF, and the Guideline of Supervision of Annual Report of Securities Companies issued by the CSRC, the Company is required to appropriate an amount equivalent to 10% of the net profit to the general risk reserve.

In addition, the Company as the mutual fund custodian shall accrue general risk reserve at a proportion of no less than 2.5% of custodian fee income. The accruement could be suspended on condition that the ending balance of risk reserve reached 0.25% of the aggregate of net asset values of the mutual funds, which are under custody, at the end of last quarter.

In accordance with the Guideline of Supervision of Annual Report of Securities Companies issued by the CSRC, the Company is required to appropriate an amount equivalent to 10% of the net profit to the trading risk reserve.

In accordance with the Operation Guidelines (Guideline Opinions on Regulating Asset Management Business of Financial Institutions) for Large Collection Asset Management Business of Securities Companies, Securities Company shall be analogically governed by relevant laws and requirements of public offering funds. Accordingly, the Company and CISC draw risk reserves from management fee income of Large Collection Asset Management business at a proportion of 10%.

The Company makes the appropriation of general reserves at the end of each year.

General reserves for the Company's subsidiaries are appropriated if relevant requirements are in place.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

46 CAPITAL, RESERVES AND DIVIDENDS *(continued)*

(ii) Reserves *(continued)*

(4) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net changes in fair values of financial assets at fair value through other comprehensive income under IFRS 9 held at the end of year. Prior to 1 January 2018, this reserve included the cumulative net changes in fair value of available-for-sale financial assets held at the end of the reporting period in accordance with IAS 39.

(5) Foreign currency translation reserve

The foreign currency translation reserve comprises foreign exchange differences arising from the translation of the financial statements of the Group entities from their respective reporting currencies to RMB.

(iii) Dividends

With the approval of its Annual General Meeting of Shareholders on 18 May 2018, the Company announced the payment of cash dividend for its 2017 profit distribution. The amount of cash dividend distribution was RMB670,826,859 (or RMB1.60 every 10 shares, tax inclusive) and the distribution was made in July 2018.

On 29 March 2019, the 2018 profit distribution plan was approved by the Board of Directors. For details, please refer to Note 58(c).

Dividends proposed by the directors are not deducted from equity, until approved by the Annual General Meeting. After being approved and declared, the dividends are recognised as a liability.

47 OTHER EQUITY INSTRUMENTS

At initial recognition, the Group classifies the perpetual bonds issued as financial liabilities or equity instruments based on their contractual terms and their economic substance after considering the definition of financial liabilities and equity instruments.

Perpetual bonds issued that should be classified as equity instruments are recognised in equity based on the actual amount received. Any distribution of dividends or interests during the instruments' duration is treated as profit appropriation. When the perpetual bonds are redeemed according to the contractual terms, the redemption price is charged to equity.

The Company issued its 2015 perpetual subordinated bonds with a total principal amount of RMB1 billion on 29 May 2015. The interest rate of the perpetual subordinated bonds resets every 5 years thereafter based on a benchmark rate and a predetermined spread.

– The bond bears at a fixed interest rate;

– The nominal interest rate of the first five interest-bearing years is determined by inquiry and will remain unchanged. The nominal interest rate resets every five years since the sixth interest-bearing year.

The Company does not have any contractual obligation to deliver cash or other financial assets to redeem the perpetual subordinated bonds. The redemption of the perpetual subordinated bonds is solely at the discretion of the Company.

48 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2018 and 2017 not provided for in the financial statements were as follows:

	As at 31 December	
	2018	2017
Contracted, but not provided for	**1,597,864,192**	1,593,343,836

(b) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 31 December	
	2018	2017
Within 1 year (inclusive)	**459,944,984**	539,104,713
1 – 2 years (inclusive)	**368,328,768**	389,937,802
2 – 3 years (inclusive)	**327,760,165**	240,323,288
More than 3 years	**343,479,018**	469,607,047
Total	**1,499,512,935**	1,638,972,850

(c) Underwriting commitments

According to the relevant tendering documents, the underwriting commitments taken but not provided for as at 31 December 2018 was RMB40 million for the Group (31 December 2017: RMB3,346 million).

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

49 INTERESTS IN STRUCTURED ENTITIES

(a) Interests in structured entities consolidated by the Group

Structured entities consolidated by the Group are certain asset management products where the Group is involved as manager or investor. The Group assesses whether the combination of its investments in these products and its remuneration generated from the investments creates an exposure to the variability of returns from the activities of these asset management products to a level of such significance that it indicates that the Group is a principal.

As at 31 December 2018 and 2017, the total assets of the consolidated asset management products are RMB11,791,819,803 and RMB11,308,667,321 respectively, and the carrying amount of interests held by the Group in the consolidated asset management products are RMB4,778,125,788 and RMB5,882,626,511 respectively.

(b) Interests in structured entities sponsored by third party institutions

The types of structured entities that the Group does not consolidate but holds an interest in include wealth management products, asset management schemes, mutual funds, trust products, and other vehicles issued by other financial institutions.

The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These vehicles are financed through issuing units to investors.

	As at 31 December	
	2018	2017
Carrying amount of interests held by the Group		
– Financial assets at fair value through profit or loss	**47,327,726,304**	16,692,530,126
– Financial assets at fair value through other comprehensive income	**619,716,414**	–
– Available-for-sale financial assets	**–**	176,031,966

The Group's exposure to the variable returns in these structured entities is not significant from the perspective of the structured entities and the maximum exposure to loss is limited to the carrying amount of the interests held by the Group.

49 INTERESTS IN STRUCTURED ENTITIES *(continued)*

(c) Interests in structured entities sponsored by the Group but not consolidated

Structured entities for which the Group serves as general partner or manager, therefore has power over them during the years include private equity funds, mutual funds and asset management products. These structured entities are mainly financed through issuing units to investors.

	As at 31 December	
	2018	2017
Carrying amount of interests held by the Group		
– Financial assets at fair value through profit or loss	**4,754,906,498**	16,984,847,652
– Available-for-sale financial assets	–	887,869,621
– Accounts receivable	**1,030,013,910**	668,660,456
– Interest in associates and joint ventures	**330,322,476**	237,048,506

For the year ended 31 December 2018 and 2017, the Group obtained management fee and performance fee amounting to RMB1,779,149,564 and RMB1,671,526,103 respectively from these structured entities.

Except for those which have been consolidated by the Group as set out in Note 49(a), the Group's exposure to the variable returns in the rest of these structured entities is not significant. The maximum exposure to loss is limited to the carrying amount of the interests held by the Group.

During the year, the Group did not provide financial support to these unconsolidated structured entities and has no intention of providing financial or other support in the future.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

50 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

(a) The largest shareholder of the Company – Huijin

On 6 June 2018, Huijin and Haier Group (Qingdao) Financial Holdings Ltd. ("Haier") entered into a share transfer agreement, and agreed to sell Huijin's 398,500,000 domestic shares in the Company to Haier. After the completion of the transfer, Huijin will directly hold 1,936,155,680 domestic shares in the Company, representing approximately 46.2% of the total shares of the Company. See Note 58(d)(i).

(i) Related party transactions with Huijin and Huijin's affiliates

	Year ended 31 December	
	2018	2017
Brokerage commission income	**5,026,156**	17,663,580
Underwriting and sponsoring fees	**82,807,559**	36,347,361
Asset management fees	**52,393,745**	50,560,418
Financial advisory fees	**629,523**	–
Interest income	**459,108,406**	403,419,307
Net gains from available-for-sale financial assets	**–**	30,258,649
Net gains from financial instruments at fair value through profit or loss	**58,080,220**	67,638,580
Net gains from derivative financial instruments	**12,565**	–
Other operating income, net	**987,188**	715,457
Brokerage expenses	**10,338,698**	10,801,459
Asset management expenses	**14,160,071**	–
Interest expenses	**309,986,810**	334,677,819
Other operating expenses and costs	**–**	15,165,031
Transition period profit paid to Huijin (Note)	**–**	736,164,495

Note: According to the equity transfer agreement between Huijin and the Company, the profit of CISC attributable to Huijin during the transition period (from 1 July 2016 to 31 March 2017) was distributed as a special dividend.

50 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

(a) The largest shareholder of the Company – Huijin *(continued)*

(ii) The balances of transactions with Huijin and Huijin's affiliates

	As at 31 December	
	2018	2017
Accounts receivable	**53,593,396**	77,867,649
Financial assets at fair value through other comprehensive income	**1,227,593,885**	–
Financial assets at fair value through profit or loss	**2,598,167,500**	1,574,288,790
Available-for-sale financial assets	**–**	1,339,861,115
Interest receivable	**–**	25,579,258
Cash and bank balances (Note)	**23,426,633,967**	24,741,694,582
Financial liabilities at fair value through profit or loss	**68,213,950**	170,835,700
Accounts payable to brokerage clients	**3,330,777**	2,357,793
Placements from financial institutions	**1,632,518,860**	2,811,696,500
Short-term debt securities issued	**3,711,245,342**	–
REPOs	**8,600,310,768**	1,395,040,000
Long-term debt securities issued	**2,866,640,788**	4,443,000,000
Other current liabilities	**6,470,447**	60,215,961
Entrusted funds	**8,212,572,227**	12,989,062,105

Note: The cash and bank balances deposited with Huijin and Huijin's affiliates include self-owned cash and bank balances and cash held on behalf of brokerage clients.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

50 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

(b) Related party transactions with key management personnel

The key management personnel are those who have the authority and responsibility to plan, direct and control directly or indirectly, the activities of the Group, including members of the Board of Directors and the supervisory board, and other senior executives.

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and supervisors, is as follows:

	Year ended 31 December	
	2018	2017
Salaries, allowances and benefits in kind	**32,974,490**	33,404,862
Discretionary bonuses (Note)	**154,079,706**	127,790,512
Retirement scheme contributions	**962,818**	873,766
Total	**188,017,014**	162,069,140

Note i: Total remuneration of key management personnel is included in "staff costs" (see Note 12).

Note ii: In addition, according to Long-term Incentive Bonus Plan, the Group paid the remaining part of the Special Long-term Incentive Bonus drawn from 2015 to the individuals with highest emoluments, which amounted to RMB97,096,675.

(c) Related party transactions with other shareholders

(i) Related party transactions with other shareholders and their affiliates

	Year ended 31 December	
	2018	2017
Brokerage commission income	**90,126**	2,613,202
Underwriting and sponsoring fees	**–**	573,873
Interest expenses	**93,868**	92,234

(ii) The balances of transactions with other shareholders and their affiliates

	As at 31 December	
	2018	2017
Accounts payable to brokerage clients	**55,784,014**	50,075,947

50 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

(d) Related party transactions with the Group's associates and joint ventures

(i) Related party transactions with associates and joint ventures and their affiliates

	Year ended 31 December	
	2018	2017
Asset management fees	**10,428,611**	17,057,503
Brokerage commission income	**3,781,920**	5,510,865
Investment advisory fees	**4,942,676**	1,747,573
Interest income	**10,351,481**	–
Asset management expenses	**859,695**	4,457,309
Interest expenses	**900**	–
Other operating expenses and costs	**28,879,690**	1,886,792
Provision for impairment losses	**102,000**	–

(ii) The balances of transactions with associates and joint ventures and their affiliates

	As at 31 December	
	2018	2017
Accounts receivable	**282,362,874**	932,055
Accounts payable to brokerage clients	**887**	–
Other current liabilities	**902,382**	474,283

(e) Applicability of the Listing Rules relating to connected transactions

The related party transactions above do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the Directors' Reports.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

50 RELATED PARTY RELATIONSHIPS AND TRANSACTIONS *(continued)*

(f) Directors' and supervisors' interests in contracts and service contracts

At any time during the year, none of the Group's directors or supervisors had any interest, whether directly or indirectly, in any contract (excluding service contracts) of significance in relation to the Company's business to which the Company, or its associated companies, is a party. None of the directors and supervisors has entered into a service contract with the Company that cannot be terminated by the Company within one year without payment of compensation (other than statutory compensation).

51 SEGMENT REPORTING

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organization, management requirements and internal reporting system. An operating segment is a component of the Group:

– that engages in business activities from which it may earn revenues and incur expenses;

– whose operating results are regularly reviewed by the Group's management for the purposes of resources allocation and performance evaluation; and

– for which financial statements regarding financial position, results of operations and cash flows are available.

Two or more operating segments may be aggregated into a single operating segment if the segments have similar economic characteristics in respect of:

– the nature of services;

– the type or class of customers for the services;

– the methods used to provide the services; and

– the nature of the regulatory environment.

51 SEGMENT REPORTING *(Continued)*

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. A summary of the operating segments is as follows:

- the Investment Banking segment provides investment banking services, including equity financing, debt and structured financing and financial advisory services as well as the National Equities Exchange and Quotations ("NEEQ") services, to clients in the PRC and overseas.

- the Equities segment provides a wide range of equity sales and trading services, including brokerage services and capital-based intermediary services, and product services, to institutional investors, including financial institutions, corporations and governmental entities, and other investors.

- the FICC segment engages in trading of financial products, including fixed-income, equities, currencies and commodities products, using the Group's own capital, as well as for clients facilitation purposes. It also provides product structuring, fixed income distribution and futures brokerage services.

- the Investment Management segment designs and provides a wide range of asset management products and services for domestic and overseas investors. It also manages mutual funds, private equity funds as well as funds of funds.

- the Wealth Management segment provides a wide range of wealth management products and services, consisting of advisory services, transactional services, capital-based intermediary services and product services, to high-net-worth individuals, family offices and corporate clients.

- The Company acquired 100% equity interests in CISC in March 2017 (see Note 22). As of 31 December 2018, the restructuring and integration work are still in progress. Thus, CISC is currently managed and presented as a separate segment.

  The CISC segment principally engages in securities brokerage, investment consulting, financial advisory, securities underwriting and sponsorship, securities proprietary trading, asset management, margin financing and securities lending, distribution of financial products and other business activities as approved by the CSRC.

- the Others segment mainly comprises of other business departments and back offices.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

51 SEGMENT REPORTING *(continued)*

(a) Segment results

	Year ended 31 December 2018							
	Investment banking	Equities	FICC	Investment management	Wealth management	CISC	Others	Total
Segment revenue								
– Fee and commission income	2,616,682,455	1,598,013,583	481,412,606	1,655,157,627	551,466,161	1,915,362,651	2,309,133	8,820,404,216
– Interest income	11,994,258	257,265,107	886,537,278	24,926,545	624,230,243	2,496,024,196	285,947,685	4,586,925,312
– Investment income	283,327,830	892,135,492	2,264,692,572	151,285,431	300,256,509	538,111,154	441,237,858	4,871,046,846
– Other operating income/(losses), net	23,649,214	(10,981,647)	14,671,493	47,354,155	10,669,296	24,312,930	151,602,045	261,277,486
Segment revenue and other income	2,935,653,757	2,736,432,535	3,647,313,949	1,878,723,758	1,486,622,209	4,973,810,931	881,096,721	18,539,653,860
Segment expenses	(1,962,222,013)	(1,505,716,056)	(2,483,979,978)	(1,119,193,154)	(1,186,025,762)	(3,972,384,268)	(2,041,348,960)	(14,270,870,191)
Segment operating profit/(loss)	973,431,744	1,230,716,479	1,163,333,971	759,530,604	300,596,447	1,001,426,663	(1,160,252,239)	4,268,783,669
Share of profits/(losses) of associates and joint ventures	–	–	–	44,146,439	5,353,130	93,463,834	(24,398,719)	118,564,684
Profit/(loss) before income tax	973,431,744	1,230,716,479	1,163,333,971	803,677,043	305,949,577	1,094,890,497	(1,184,650,958)	4,387,348,353
Interest expenses (Note)	(115,082,039)	(511,363,164)	(1,927,187,828)	(83,803,758)	(498,207,898)	(1,459,627,726)	(275,612,601)	(4,870,885,014)
Depreciation and amortisation expenses	(11,207,423)	(14,679,579)	(9,426,685)	(17,805,660)	(27,923,390)	(123,885,357)	(96,974,504)	(301,902,598)
Provision for impairment losses	–	(9,243,240)	(6,163,514)	(9,959,131)	(22,887,122)	(25,566,957)	(356,204)	(74,176,168)

51 SEGMENT REPORTING *(continued)*

(a) Segment results *(continued)*

	Year ended 31 December 2017							
	Investment banking	Equities	FICC	Investment management	Wealth management	CISC	Others	Total
Segment revenue								
– Fee and commission income	2,442,476,991	1,447,830,614	243,852,819	1,409,581,557	679,122,665	2,054,805,536	4,503,284	8,282,173,466
– Interest income	5,618,554	197,312,958	152,941,612	21,543,125	520,012,273	1,917,906,886	164,328,449	2,979,663,857
– Investment income	137,157,831	1,428,439,438	1,445,659,938	346,802,203	463,701,123	114,612,741	72,107,609	4,008,480,883
– Other operating income/(losses), net	16,754,447	(133,920,566)	42,669,500	11,910,492	29,192,189	24,207,761	(889,469)	(10,075,646)
Segment revenue and other income	2,602,007,823	2,939,662,444	1,885,123,869	1,789,837,377	1,692,028,250	4,111,532,924	240,049,873	15,260,242,560
Segment expenses	(1,644,522,643)	(1,379,002,685)	(1,720,399,094)	(854,091,922)	(1,164,215,359)	(3,465,742,801)	(1,501,747,158)	(11,729,721,662)
Segment operating profit/(loss)	957,485,180	1,560,659,759	164,724,775	935,745,455	527,812,891	645,790,123	(1,261,697,285)	3,530,520,898
Share of profits/(losses) of associates and joint ventures	–	–	–	38,088,347	(52,640)	(840,188)	33,326,943	70,522,462
Profit/(loss) before income tax	957,485,180	1,560,659,759	164,724,775	973,833,802	527,760,251	644,949,935	(1,228,370,342)	3,601,043,360
Interest expenses (Note)	(33,265,237)	(484,550,097)	(1,351,595,028)	(55,536,621)	(506,339,733)	(938,511,844)	102,215,400	(3,267,583,160)
Depreciation and amortisation expenses	(5,690,042)	(7,001,018)	(5,081,905)	(13,238,920)	(18,335,009)	(108,660,930)	(72,359,890)	(230,367,714)
Reversal of/(provision for) impairment losses	6,962,044	3,280,107	–	–	1,111,551	(3,091,582)	50,344,367	58,606,487

Note: The Group allocates interest expenses across the reportable segments according to the capital used during the reporting periods for the purpose of measuring segment operating performance and improving the efficiencies of capital management.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

51 SEGMENT REPORTING *(continued)*

(b) Geographical information

The following table sets out the Group's revenue and other income from external clients and the Group's non-current assets (excluding financial assets at fair value through profit or loss, available-for-sale financial assets, deferred tax assets and reverse REPOs, same as below) in terms of geographical locations. The geographical locations of the revenue and other income from external clients are identified based on the locations of the clients to whom the services are rendered or the products are purchased. The geographical locations of the non-current assets are identified based on the locations where the fixed assets are located or the intangible assets are allocated or the associates and joint ventures operate.

	Revenues and other income from external customers Year ended 31 December	
	2018	2017
Mainland China	**14,987,255,047**	12,589,486,164
Outside Mainland China	**3,552,398,813**	2,670,756,396
Total	**18,539,653,860**	15,260,242,560

	Non-current assets As at 31 December	
	2018	2017
Mainland China	**7,705,060,320**	6,700,115,080
Outside Mainland China	**834,741,948**	860,312,247
Total	**8,539,802,268**	7,560,427,327

Reconciliation of segment non-current assets:

	Non-current assets As at 31 December	
	2018	2017
Total non-current assets for segments	**28,079,041,942**	25,852,713,418
Elimination of inter-segment non-current assets	**(19,539,239,674)**	(18,292,286,091)
Total	**8,539,802,268**	7,560,427,327

(c) Major clients

The Group's customer base is diversified and no customer had transactions which exceeded 10% of the Group's revenue for the year.

52 FAIR VALUE INFORMATION

The Group adopts the following methods and assumptions when evaluating fair values:

(i) Financial assets including cash and bank balances, cash held on behalf of brokerage clients, reverse REPOs and financial liabilities including short-term placements from financial institutions and REPOs, are mainly instruments with floating interest rates or short-term financing. Accordingly, their carrying amounts approximate the fair values.

(ii) Financial instruments at fair value through profit or loss, or through other comprehensive income, derivatives and available-for-sale financial assets are stated at fair value unless the fair values cannot be reliably measured. For the financial instruments traded in active markets, the Group uses market prices as the best estimate for their fair values. For the financial instruments without any market price, the Group determines the fair values of these financial assets and financial liabilities by discounted cash flows or other valuation techniques.

(iii) The fair values of short-term and long-term debt securities issued are determined with reference to the available market prices or quotes from brokers or agents. If there is no quoted market price in an active market, the Group refers to the yield of financial instruments with similar characteristics such as similar credit risk and maturity, to estimate the fair values using discounted cash flows or other valuation techniques. The fair values of long-term debt securities issued are disclosed in Note 44. The carrying amounts of short-term debt securities issued approximate their fair values.

(iv) Accounts receivable and accounts payable to brokerage clients are due mainly within one year. Accordingly, the carrying amounts approximate the fair values.

(a) Financial assets and liabilities measured at fair value

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level I valuations: Fair value measured using only Level I inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level II valuations: Fair value measured using Level II inputs, i.e. observable inputs which fail to meet Level I, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level III valuations: Fair value measured using significant unobservable inputs.

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.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

52 FAIR VALUE INFORMATION *(continued)*

(a) Financial assets and liabilities measured at fair value *(continued)*

The tables below analyse financial instruments measured at fair value at the end of the year, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	As at 31 December 2018			
	Level I	**Level II**	**Level III**	**Total**
Assets				
Financial assets at fair value through profit or loss				
– Equity investments	24,143,024,726	255,859,816	2,794,023,378	27,192,907,920
– Debt investments	2,012,856,578	65,830,951,432	39,271,308	67,883,079,318
– Funds and other investments	5,264,173,874	14,444,742,017	-	19,708,915,891
Derivative financial assets	–	5,529,536,148	-	5,529,536,148
Financial assets at fair value through other comprehensive income				
– Debt investments	99,554,989	35,600,110,888	-	35,699,665,877
Total	31,519,610,167	121,661,200,301	2,833,294,686	156,014,105,154
Liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities held for trading				
– Equity investments	(3,324,980,886)	(253)	–	(3,324,981,139)
– Debt investments	-	(918,861,787)	–	(918,861,787)
Financial liabilities designated as at fair value through profit or loss				
– Equity investments	–	(8,773,289,241)	–	(8,773,289,241)
– Debt investments	–	(2,077,116,104)	–	(2,077,116,104)
Derivative financial liabilities	–	(3,381,209,869)	–	(3,381,209,869)
Total	(3,324,980,886)	(15,150,477,254)	–	(18,475,458,140)

52 FAIR VALUE INFORMATION *(continued)*

(a) Financial assets and liabilities measured at fair value *(continued)*

	As at 31 December 2017			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
– Equity investments	14,481,171,235	6,402,825,071	–	20,883,996,306
– Debt investments	7,987,691,486	37,803,171,393	980,130,000	46,770,992,879
– Funds and other investments	1,882,010,847	2,385,910,631	5,235,229	4,273,156,707
Financial assets designated as at fair value through profit or loss				
– Equity investments	17,864,495,511	181,717,563	–	18,046,213,074
– Debt investments	–	167,524,609	–	167,524,609
– Funds and other investments	–	6,869,827,357	–	6,869,827,357
Derivative financial assets	13,575,605	3,434,340,884	–	3,447,916,489
Available-for-sale financial assets				
– Equity investments	56,281,305	12,084,840	1,231,998,246	1,300,364,391
– Debt investments	4,677,778,640	12,748,336,331	–	17,426,114,971
– Funds and other investments	527,121	170,369,971	–	170,897,092
Total	46,963,531,750	70,176,108,650	2,217,363,475	119,357,003,875
Liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities held for trading				
– Equity investments	(1,660)	(241)	–	(1,901)
– Debt investments	–	(822,546,784)	–	(822,546,784)
– Funds and other investments	–	(846,917,234)	–	(846,917,234)
Financial liabilities designated as at fair value through profit or loss				
– Equity investments	(945,835,168)	(9,578,941,084)	–	(10,524,776,252)
Derivative financial liabilities	(10,585,083)	(3,437,755,911)	–	(3,448,340,994)
Total	(956,421,911)	(14,686,161,254)	–	(15,642,583,165)

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

52 FAIR VALUE INFORMATION *(continued)*

(a) Financial assets and liabilities measured at fair value *(continued)*

(i) Transfer between levels

The Group's investment in certain suspended stocks were transferred from Level I to Level II as the quoted prices of these stocks were no longer regularly available:

	As at 31 December	
	2018	2017
Financial assets at fair value through profit or loss	**7,027,045**	1,519,884,063

As of 31 December 2018, the Group's equity investments of RMB226 million were transferred from Level I or II to Level III, as the fair values of these investments were determined with the use of valuation techniques instead of quoted prices, due to events such as delisting.

As of 31 December 2018, the Group's debt investments of RMB36 million were transferred from Level II to Level III, as the fair values of these investments were determined with the use of valuation techniques instead of quoted prices, due to the credit risk in existence.

Apart from the transfer above, for the years ended 31 December 2018 and 2017, there was no other significant transfer among Level I, Level II and Level III of the fair value hierarchy for the Group's assets and liabilities measured at fair value. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

There is no significant change for the Group's applied fair value valuation techniques in 2018.

(ii) Information about Level III fair value measurements

As at 31 December 2018 and 2017, it is estimated that the sensitivity of the Group's profit or loss and other comprehensive income to the fluctuation of parameters used in Level III fair value measurements is not significant.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level III of the fair value hierarchy:

	Financial assets at fair value through profit or loss	**Available-for-sale financial assets**
As at 31 December 2017	**985,365,229**	**1,231,998,246**
Adjustment on initial application of IFRS 9	**1,231,998,246**	**(1,231,998,246)**
As at 1 January 2018	**2,217,363,475**	**–**
Gains or losses for the year	**218,253,355**	**–**
Purchases	**1,271,664,155**	**–**
Sales and settlements	**(1,136,817,007)**	**–**
Transfer into Level III	**262,830,708**	**–**
As at 31 December 2018	**2,833,294,686**	**–**
Total gains or losses for the year included in profit or loss for assets held at the end of the year	**104,480,625**	**–**

52 FAIR VALUE INFORMATION *(continued)*

(a) Financial assets and liabilities measured at fair value *(continued)*

(ii) Information about Level III fair value measurements *(continued)*

	Financial assets at fair value through profit or loss	Available-for-sale financial assets
As at 1 January 2017	8,069,097	1,022,289,275
Gains or losses for the year	82,778,560	321,626,128
Changes in fair value recognised in other comprehensive income	–	5,251,201
Arising from acquisition of a subsidiary	–	83,855,404
Purchases	913,481,160	352,739,461
Sales and settlements	(18,963,588)	(541,678,588)
Transfer out of Level III	–	(12,084,635)
As at 31 December 2017	985,365,229	1,231,998,246
Total gains or losses for the year included in profit or loss for assets held at the end of the year	82,922,660	173,981,544

For financial instruments in Level III, prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level III of the valuation hierarchy are generally based on the significance of the unobservable inputs to the overall fair value measurement. The following table presents the related valuation techniques and inputs of the major financial instruments in Level III.

Financial assets	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
Funds and other investments	Level III	Allocated net assets value	Net asset value	The higher the allocated net assets value, the higher the fair value
Debt investments	Level III	Discounted cash flow models	Discount rate	The higher the discount, the lower the fair value
Unlisted equity investments	Level III	Market comparable companies	Discount for lack of marketability	The higher the discount, the lower the fair value

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

52 FAIR VALUE INFORMATION *(continued)*

(b) Fair value of financial assets and liabilities carried at other than fair value

The fair values of long-term debt securities issued have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of the Group, which are classified as Level II categories and disclosed in Note 44.

Except for the above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities carried at amortised cost in the Group's statement of financial position approximate their fair values.

53 FINANCIAL RISK MANAGEMENT

The Group monitors and controls key exposures to the credit risk, liquidity risk and market risk from its use of financial instruments.

(a) Credit risk

Credit risk refers to the risk resulting from defaults or deterioration in creditworthiness of counterparties, borrowers and security issuers.

The exposure to credit risk of the Group arises mainly from: (1) Credit risk from debt borrowers or bond issuers' default or bankruptcy, including the loss due to intermediary institutions (such as brokers or custodian banks). The risk exposure represents the total value of outstanding debts; (2) Credit risk from counterparty's default on the OTC derivative transactions (such as swaps or forward transactions). The risk exposure is determined by the changes in the market value of the derivatives; (3) The settlement risk from a business partner's failure in delivery of funds or securities when the Group has fulfilled its delivery obligation.

The Group adopted the following measures to manage credit risk in the trading and investment activities: setting up investment criteria and limits on products and issuers; reviewing credit terms in agreements with counterparties; and monitoring the credit exposure to counterparties.

The Group has adopted the following measures to manage credit risk in capital businesses, including margin financing and securities lending, stock-based lending transactions and other businesses: approving counterparties, and assigning credit ratings and lending limits to counterparties; managing collaterals (haircut rates, liquidity and concentration) and closely monitoring margin ratios and/or collateral ratios; and establishing and implementing margin call and mandatory liquidation policy.

53 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

Debt investments (including debt securities measured at FVTPL, FVTOCI and amortised cost)

The Group focuses on decentralising investments for the credit-type fixed income securities investment which are mainly high-credit rating products. The Group pre-controls the exposure of the credit risk by setting investment position limit, classifying the sub-investment varieties, sub-credit rating limits and concentration limits. Moreover, the Group continuously tracks the bond issuer's business conditions and credit rating changes through monitoring, pre-warning, risk detecting, etc. At the same time, the Group is highly prudent in the investment of the asset-based securities products and strictly evaluates the quality of the underlying asset pool and the effectiveness of the credit enhancement.

The Group recognises loss allowance for debt investments not measured at fair value through profit or loss via ECL model. The measurement of the ECL is based on the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). When measuring the ECL, the Group classifies the assets into different stages based on whether the credit risk of each debt asset has increased significantly since the initial recognition. Accordingly, the Group measures loss allowance on either a 12-month or the lifetime base for those investments in different risk stages.

In accordance with IFRS 9, the Group started to recognize provision for losses in respect of debt investments and capital businesses based on expected credit loss since 2018. For financial instruments measured at expected credit loss, the Group classifies each financial instrument into different risk stages based on whether the credit risk of the relevant financial instrument has increased significantly since its initial recognition. A financial instrument is included in stage 1 if it has low credit risk at the reporting date or its credit risk has not increased significantly since its initial recognition; a financial instrument is included in stage 2 if its credit risk has increased significantly since its initial recognition; a financial instrument is migrated to stage 3 if it has objective evidence of impairment. The Group measures the expected credit loss based on parameters such as PD, LGD and EAD.

As at 31 December 2018, the carrying amount of the Group's debt investments are as follows:

	As at 31 December	
	2018	2017
Financial assets at fair value through profit or loss	**67,883,079,318**	46,967,273,718
Financial assets at fair value through other comprehensive income	**35,699,665,877**	–
Available-for-sale financial assets	**–**	17,426,114,971
Total	**103,582,745,195**	64,393,388,689

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

Debt investments (including debt securities measured at FVTPL, FVTOCI and amortiesd cost) *(continued)*

(i) The exposure to credit risk for debt investments at amortised cost, FVTOCI and FVTPL (2017: available-for-sale and FVTPL) at the reporting date by geographic region was as follows.

	As at 31 December	
	2018	2017
Mainland China	**102,767,059,464**	62,248,256,571
Outside Mainland China	**815,685,731**	2,145,132,118
Total	**103,582,745,195**	64,393,388,689

(ii) The following table presents an analysis of the credit quality of debt investments at FVTOCI and FVTPL (2017: available-for-sale and FVTPL). It indicates whether assets measured at FVTOCI were subject to a 12-month ECL or lifetime ECL allowance and, in the latter case, whether they were credit-impaired.

	As at 31 December			
	2018		2017	
		FVTOCI		Available-for-sale
Credit rating	**FVTPL**	**12-month ECL**	FVTPL	financial assets
Outside Mainland China				
(by international rating agencies)				
– AAA	**36,965,504**	**–**	11,898,782	–
– From AA- to AA+	**99,934,168**	**–**	85,797,055	–
– From A- to A+	**2,901,571,388**	**1,868,305,913**	1,410,616,477	1,576,678,989
– Below A-	**4,731,334,513**	**2,233,360,115**	5,655,628,802	1,578,808,459
Sub-total	**7,769,805,573**	**4,101,666,028**	7,163,941,116	3,155,487,448

53 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

Debt investments (including debt securities measured at FVTPL, FVTOCI and amortiesd cost) *(continued)*

	As at 31 December			
	2018		2017	
Credit rating	FVTPL	FVTOCI 12-month ECL	FVTPL	Available-for-sale financial assets
Mainland China (by domestic rating agencies)				
– AAA	**37,516,910,604**	**31,052,165,066**	26,509,272,219	7,896,593,157
– From AA- to AA+	**8,239,641,768**	**197,537,883**	4,100,925,272	1,040,647,310
– From A- to A+	**609,758,021**	**–**	89,000,000	–
– Below A-	**47,229,851**	**–**	10,630,108	–
Sub-total	**46,413,540,244**	**31,249,702,949**	30,709,827,599	8,937,240,467
Non-rated I (Note 1)	**2,250,168,313**	**348,296,900**	2,363,825,711	5,074,566,087
Non-rated II (Note 2)	**11,449,565,188**	**–**	6,729,679,292	258,820,969
Carrying amount before impairment	**67,883,079,318**	**35,699,665,877**	46,967,273,718	17,426,114,971
Loss allowance	**–**	**(20,151,854)**	–	–
Total	**67,883,079,318**	**35,679,514,023**	46,967,273,718	17,426,114,971

Note 1: These non-rated financial assets mainly include government bonds, central bank bills, policy financial bonds and Special Drawing Rights ("SDR") denominated bonds.

Note 2: These non-rated financial assets are mainly other debt instruments and trading securities which are not rated by independent rating agencies.

The Group did not have any debt investments that were past due but not impaired at 31 December 2018.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

Debt investments (including debt securities measured at FVTPL, FVTOCI and amortiesd cost) *(continued)*

(iii) Movement of provision for impairment losses

The movement in the allowance for impairment in respect of debt investments at FVTOCI during the year was as follows.

	2018 12-month ECL
Balance at 1 January under IAS 39	–
Adjustment on application of IFRS 9	13,317,597
Balance at 1 January under IFRS 9	13,317,597
Net remeasurement of loss allowance	(693,384)
Financial assets derecognised	(8,460,097)
New financial assets acquired	15,987,738
Balance at 31 December	20,151,854

The investments held at 31 December 2018 were previously classified as available-for-sale and no impairment loss had been recognised at that date or during 2017.

53 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

Other financial investments (other than debt investments)

(i) The exposure to credit risk for other financial instruments (other than debt investments) at amortised cost at the reporting date by geographic region was as follows.

	As at 31 December	
	2018	2017
Mainland China	**95,518,489,940**	96,753,225,099
Outside Mainland China	**17,501,007,238**	15,582,040,451
Total	**113,019,497,178**	112,335,265,550

(ii) ***Movement of provision for impairment losses***

The movement in the allowance for impairment of other financial instruments (other than debt investments) at amortised cost during the year was as follows. Comparative amounts for 2017 represent the allowance for impairment losses under IAS 39.

	As at 31 December				
	2018				2017
	12-month ECL	**Lifetime ECL- not credit impaired**	**Lifetime ECL- credit impaired**	**Total**	Impaired
Balance at 1 January under IAS 39	**18,888,037**	**12,990,761**	**39,362,041**	**71,240,839**	67,525,065
Adjustment on initial application of IFRS 9	**43,840,355**	**–**	**–**	**43,840,355**	–
Balance at 1 January under IFRS 9	**62,728,392**	**12,990,761**	**39,362,041**	**115,081,194**	67,525,065
Arising from acquisition of a subsidiary	**–**	**–**	**–**	**–**	65,598,500
Net remeasurement of loss allowance	**(11,517,691)**	**213,400**	**26,928,829**	**15,624,538**	2,747,419
Transfer to lifetime ECL					
– not credit impaired	**(4,289,829)**	**6,514,803**	**–**	**2,224,974**	–
Transfer to lifetime ECL					
– credit impaired	**(12,587,001)**	**–**	**15,977,891**	**3,390,890**	–
New financial assets acquired	**13,105,753**	**2,180,668**	**57,125,454**	**72,411,875**	–
Financial assets derecognised and others	**(7,639,761)**	**–**	**(22,562,067)**	**(30,201,828)**	(64,630,145)
Balance at 31 December	**39,799,863**	**21,899,632**	**116,832,148**	**178,531,643**	71,240,839

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Credit risk *(continued)*

Other financial investments (other than debt investments) *(continued)*

(ii) Movement of provision for impairment losses *(continued)*

The change in impairment provision in 2018 was mainly due to the changes in accounting policies of the impairment provision method based on the ECL model, and the provision for impairment of some receivables that were not expected to be recovered.

Derivatives

The Group strictly implemented the OTC (over-the-counter) options in accordance with the Notice on Further Strengthening the Supervision of OTC Options Business of Securities Companies issued by the China Securities Regulatory Commission in 2018. The regulation has raised the entry threshold for counterparties and has improved the counterparty's credit qualifications. In the meanwhile, the Group collects sufficient collaterals for derivatives transactions revealing credit risk exposures, as well as conducts daily mark-to-market and monitoring. Based on the conditions mentioned above, the Group can maintain the credit risk exposure of derivatives transactions within an acceptable range.

(b) Liquidity risk

Liquidity risk refers to the risks arising from the Group's inability to obtain sufficient funds in a timely manner or inability to obtain sufficient funds at reasonable costs in a timely manner to respond to asset growth, settle debts due and satisfy the funding needs in conducting normal business operations.

The Group implements vertical and centralised management on liquidity risks of all domestic and overseas branches and subsidiaries. The Group has adopted the following measures to manage liquidity risk: closely monitoring balance sheets of the Group and its branches and subsidiaries, and managing liquidity gaps between assets and liabilities; setting liquidity risk limits based on the Group's overall situation and regulatory requirement; conducting cash flow forecast and stress test on liquidity risk indicators on a regular and irregular basis to analyse and assess the liquidity risk exposure; maintaining adequate high-quality liquid assets and establishing liquidity contingency plan for potential liquidity emergencies.

53 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Liquidity risk *(continued)*

The following tables show the undiscounted contractual cash flows of the Group's non-derivative and derivative financial liabilities (including interest payments computed using contractual rates or, if floating, based on rates prevailing at the end of the year), categorised by their remaining contractual maturities at the end of the year calculated based on the earliest date the Group can be required to pay:

	As at 31 December 2018					
	Overdue/ repayable on demand	**Within 1 year (inclusive)**	**1 – 5 years (inclusive)**	**More than 5 years**	**Undated**	**Total**
Financial liabilities						
Accounts payable to brokerage clients	**41,317,904,126**	**–**	**–**	**–**	**–**	**41,317,904,126**
Placements from financial institutions	**–**	**8,591,559,485**	**–**	**–**	**–**	**8,591,559,485**
Financial liabilities at fair value through profit or loss	**–**	**15,094,566,741**	**–**	**–**	**–**	**15,094,566,741**
Derivative financial liabilities	**–**	**3,062,579,714**	**318,630,155**	**–**	**–**	**3,381,209,869**
REPOs	**–**	**48,686,137,097**	**–**	**–**	**–**	**48,686,137,097**
Short–term debt securities issued	**–**	**14,165,161,144**	**–**	**–**	**–**	**14,165,161,144**
Long–term debt securities issued	**–**	**16,492,280,773**	**50,207,198,247**	**108,000,000**	**–**	**66,807,479,020**
Others	**17,226,832,604**	**13,763,796,404**	**2,006,604,838**	**1,816,097**	**–**	**32,999,049,943**
Total	**58,544,736,730**	**119,856,081,358**	**52,532,433,240**	**109,816,097**	**–**	**231,043,067,425**

	As at 31 December 2017					
	Overdue/ repayable on demand	Within 1 year (inclusive)	1 – 5 years (inclusive)	More than 5 years	Undated	Total
Financial liabilities						
Accounts payable to brokerage clients	47,346,517,792	–	–	–	–	47,346,517,792
Placements from financial institutions	–	10,517,039,490	–	–	–	10,517,039,490
Financial liabilities at fair value through profit or loss	–	12,194,242,171	–	–	–	12,194,242,171
Derivative financial liabilities	–	3,148,791,177	299,549,817	–	–	3,448,340,994
REPOs	–	30,758,576,151	–	–	–	30,758,576,151
Short-term debt securities issued	–	10,933,706,871	–	–	–	10,933,706,871
Long-term debt securities issued	–	7,243,188,060	48,150,012,625	2,077,070,000	–	57,470,270,685
Others	14,789,727,641	11,289,271,945	2,109,917,102	2,759,015	–	28,191,675,703
Total	62,136,245,433	86,084,815,865	50,559,479,544	2,079,829,015	–	200,860,369,857

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Market risk

Market risk is the risk of loss in the Group's income and value of financial instruments held arising from the adverse market movements such as changes in stock prices, interest rates, foreign exchange rates, commodity prices, etc.

The Group monitors the market risk for investment portfolios and non-trading portfolios separately.

(i) Market risk of investment portfolios

Investment portfolio includes financial assets at fair value through profit or loss, or at fair value through other comprehensive income, derivative financial assets, financial liabilities at fair value through profit or loss, and derivative financial liabilities. The risk exposures are measured and monitored in terms of principal, stop loss limit and etc., and are maintained within the limits set up by management. The Group adopts various kinds of methodologies (such as Value-at-Risk ("VaR"), sensitivity limit, investment concentration limit, scenario analysis, stress test, and etc.) to manage market risk. The VaR analysis is a major tool used by the Group to measure and monitor market risk of the investment portfolios.

VaR is a technique which estimates the potential losses that could occur on risk positions taken, due to the adverse market movements, such as interest rates, stock prices, foreign exchange rates and so on over a specified time horizon and at a given level of confidence. The independent risk management personnel of the Group compute VaR by using a historical simulation method and implement relevant control of market risk. The historical simulation method is used to simulate future profit or loss based on the historical fluctuation of the key market risk factors and the sensitivity of current investment portfolio in respect of such risk factors.

The Group has adopted the historical simulation method and set 95% as its confidence level to compute its daily VaR based on historical data of the previous three years, i.e. there is 95% chance that the expected loss based on historical data will not exceed the VaR value regarding the Group's investment portfolio. Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

– When there is severe market illiquidity for a prolonged period, the realisable value of the Group's investment portfolio in a trade day may vary from the expected value due to a 1-day time horizon for VaR;

– The assigned confidence level of 95% does not reflect losses that may occur beyond this level. Even within the model used there is a probability of 5% that losses could exceed the VaR;

– VaR is calculated on an end-of-day basis and does not reflect intraday exposures; and

– The use of historical data as a basis for determining the possible distribution of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

53 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Market risk *(continued)*

(i) Market risk of investment portfolios *(continued)*

The following tables set forth the Group computed VaRs by risk categories as of the dates and for the years of 2018 and 2017 respectively:

	As at 31 December 2018	**For the year ended 31 December 2018**		
		Average	**Highest**	**Lowest**
Price-sensitive financial instruments	**10,017,654**	**35,295,772**	**84,098,599**	**9,211,728**
Interest-rate-sensitive financial instruments	**54,126,510**	**34,934,216**	**59,106,783**	**22,723,042**
Exchange-rate-sensitive financial instruments	**12,978,384**	**17,133,335**	**26,134,597**	**10,943,473**
Total portfolio	**53,961,481**	**57,353,830**	**94,666,167**	**31,926,815**

	As at 31 December 2017	For the year ended 31 December 2017		
		Average	Highest	Lowest
Price-sensitive financial instruments	57,015,113	26,997,690	59,398,188	6,037,812
Interest-rate-sensitive financial instruments	43,486,492	36,726,175	50,399,277	19,351,240
Exchange-rate-sensitive financial instruments	20,612,420	10,832,594	21,498,471	5,123,628
Total portfolio	83,306,657	50,121,176	83,598,736	23,402,695

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Market risk *(continued)*

(ii) Market risk of non-trading portfolios

(1) Interest rate risk

The non-trading portfolios of the Group are subject to the risk of interest rate fluctuations. Except for the financial assets and liabilities managed through VaR, the Group's major interest-earning assets in its non-trading portfolios include deposits at banks and in clearing houses, receivable from margin clients and reverse REPOs; and its interest-bearing liabilities mainly include short-term debt securities issued, placements from financial institutions, REPOs and long-term debt securities issued.

The Group adopts sensitivity analysis to measure the interest rate risk of non-trading portfolios. Assuming all other variables remain constant, interest rate sensitivity analysis is as follows:

	Sensitivity of net profit and equity	
	As at 31 December	
	2018	2017
Change in basis points		
Increase by 50 basis points	**(204,477,998)**	(170,963,514)
Decrease by 50 basis points or decrease to 0	**227,671,434**	196,251,104

The sensitivity analysis is based on the static rate risk profile of the Group's assets and liabilities. The sensitivity analysis measures the impact of changes in interest rates within one year, showing how annualised net profit or loss and equity would have been affected by repricing of the Group's assets and liabilities within the one-year period. The sensitivity analysis is based on the following assumptions that:

– The 50 basis points of changes in interest rates at the end of the reporting periods apply to all of the Group's non-trading financial instruments in the next 12 months;

– There is a parallel shift in the yield curve with the changes in interest rate;

– There are no changes to the assets and liabilities portfolios;

– Other variables (including exchange rate) remain unchanged; and

– Risk management measures undertaken by the Group are not considered.

Due to the above assumptions, the actual changes of interest rate and the impact to the Group's net profit and equity might vary from the estimated results of the sensitivity analysis.

53 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Market risk *(continued)*

(ii) Market risk of non-trading portfolios *(continued)*

(2) Currency risk

Currency risk is the risk arising from the fluctuation of foreign exchange rates. The Group's currency risk regarding the non-trading portfolio primarily relates to business activities denominated in foreign currencies different from the Group's functional currency and is considered not material, because the proportion of the non-trading portfolios denominated in foreign currencies is relatively low.

54 CAPITAL MANAGEMENT

The Group's capital management policy is to maintain an adequate capital base, so as to retain the confidence of the investors, the creditors and the counterparties and to ensure the sound development of future business. The objective of the Group's capital management is to meet legal and regulatory requirements, while maintaining adequate capital and maximise returns. Based on its strategic plan, its business development needs and the tendency in its risk exposure, the Group carries out the forecast, planning and management of its regulatory capital through scenario analysis and stress testing.

The Group calculates its regulatory capital in accordance with relevant regulations applicable in the local jurisdiction which may be significantly different from the regulations in other jurisdictions. The Company calculates regulatory capital in accordance with the Provisions on the Calculation Basis for Risk Control Indicators of Securities Companies (CSRC Announcement [2016] No. 10) issued by the CSRC on 16 June 2016.

In accordance with CSRC Announcement [2016] No. 10, the Company is required to meet the following standards for risk control indicators on a continual basis:

(i) Risk Coverage Ratio (Net capital/Total risk capital reserves×100%) shall be no less than 100% ("Ratio i");

(ii) Capital Leverage Ratio (Core net capital/Total balance sheet & off-balance sheet assets×100%) shall be no less than 8% ("Ratio ii");

(iii) Liquidity Coverage Ratio (High quality liquid assets/Total net cash outflows over the next 30 days×100%) shall be no less than 100% ("Ratio iii");

(iv) Net Stable Funding Ratio (Available amount of stable funding/Required amount of stable funding×100%) shall be no less than 100% ("Ratio iv");

(v) The ratio of net capital divided by net assets shall be no less than 20% ("Ratio v");

(vi) The ratio of net capital divided by liabilities shall be no less than 8% ("Ratio vi");

(vii) The ratio of net assets divided by liabilities shall be no less than 10% ("Ratio vii");

(viii) The ratio of the value of equity securities and related derivatives held divided by net capital shall not exceed 100% ("Ratio viii");

(ix) The ratio of the value of non-equity securities and related derivatives held divided by net capital shall not exceed 500% ("Ratio ix").

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

54 CAPITAL MANAGEMENT *(continued)*

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

	As at 31 December	
	2018	2017
Net Capital	**24,577,462,190**	19,347,368,732
Ratio i	**133.58%**	137.16%
Ratio ii	**10.55%**	10.40%
Ratio iii	**438.33%**	354.84%
Ratio iv	**156.98%**	129.42%
Ratio v	**65.95%**	57.47%
Ratio vi	**22.74%**	23.61%
Ratio vii	**34.48%**	41.08%
Ratio viii	**20.62%**	51.20%
Ratio ix	**347.50%**	269.92%

Similar to the Company, certain subsidiaries of the Group are also subject to capital requirements imposed by their local regulators, including the CSRC, the Hong Kong Securities and Futures Commission, and etc.

The above data is calculated based on the financial information prepared in accordance with China Accounting Standards for Business Enterprises.

55 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	As at 31 December 2018	2017
Non-current assets:			
Property and equipment		**372,277,200**	241,333,641
Intangible assets		**87,842,509**	41,583,600
Interest in subsidiaries	56	**21,744,673,076**	21,621,245,353
Interest in associates and joint ventures		**389,932,716**	362,474,368
Reverse REPOs		**211,539,018**	286,485,767
Refundable deposits		**770,430,005**	1,019,638,439
Deferred tax assets		**601,636,510**	571,311,196
Other non-current assets		**73,177,313**	66,217,926
Total non-current assets		**24,251,508,347**	24,210,290,290
Current assets:			
Accounts receivable		**4,267,443,024**	3,109,363,064
Receivable from margin clients		**1,992,028,170**	2,601,117,119
Financial assets at fair value through other comprehensive income		**24,190,268,496**	–
Available-for-sale financial assets		**–**	12,441,158,265
Financial assets at fair value through profit or loss		**64,719,040,159**	57,636,833,184
Derivative financial assets		**3,000,399,524**	2,174,603,119
Reverse REPOs		**13,170,020,020**	7,512,429,927
Interest receivable		**–**	799,484,436
Cash held on behalf of brokerage clients		**11,129,108,315**	14,817,565,572
Cash and bank balances		**8,745,764,629**	5,112,381,051
Other current assets		**1,090,220,951**	77,070,429
Total current assets		**132,304,293,288**	106,282,006,166
Total assets		**156,555,801,635**	130,492,296,456

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

55 STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

	Note	As at 31 December 2018	2017
Current liabilities:			
Financial liabilities at fair value through profit or loss		**1,480,846,217**	473,797,949
Derivative financial liabilities		**1,479,476,136**	895,172,310
Accounts payable to brokerage clients		**11,203,754,287**	14,893,153,400
Placements from financial institutions		**7,954,342,245**	5,036,719,092
Short-term debt securities issued		**8,038,574,411**	6,724,300,000
REPOs		**35,072,079,303**	20,156,178,836
Employee benefits payable		**2,005,815,539**	2,421,535,592
Income tax payable		**442,422,700**	82,411,622
Long-term debt securities issued due within one year		**6,238,654,406**	1,068,850,000
Other current liabilities		**13,899,349,393**	13,265,220,399
Total current liabilities		**87,815,314,637**	65,017,339,200
Net current assets		**44,488,978,651**	41,264,666,966
Total assets less current liabilities		**68,740,486,998**	65,474,957,256
Non-current liabilities:			
Non-current employee benefits payable		**559,786,203**	358,059,642
Long-term debt securities issued		**30,915,172,060**	31,454,608,925
Total non-current liabilities		**31,474,958,263**	31,812,668,567
Net assets		**37,265,528,735**	33,662,288,689
Equity:			
Share capital	46	**4,192,667,868**	3,985,130,809
Other equity instruments	47	**1,000,000,000**	1,000,000,000
Reserves	46	**29,824,857,277**	27,001,941,190
Retained profits		**2,248,003,590**	1,675,216,690
Total equity		**37,265,528,735**	33,662,288,689

56 INTEREST IN SUBSIDIARIES

	As at 31 December	
	2018	2017
Unlisted shares, at cost or deemed cost	**21,744,673,076**	21,621,245,353

Particulars of the Company's principal subsidiaries are as follows:

Name of company	Place of incorporation and operation	Particulars of issued and paid-in capital	Equity interest held by the Company as at 31 December 2018	2017	Principal activity	Auditor[1]
China International Capital Corporation (Hong Kong) Limited	Hong Kong	HKD1,349,400,000	**100%**	100%	Overseas investment holding business	KPMG
CISC	Shenzhen, PRC	RMB8,000,000,000	**100%**	100%	Investment banking and securities brokerage business	KPMG PRC
CICC Captical management Co., Ltd.	Beijing, PRC	RMB922,804,807	**100%**	100%	Direct investment business	KPMG PRC
CICC Pucheng Investment Corporation Limited	Shanghai, PRC	RMB300,000,000	**100%**	100%	Financial products Investment business	KPMG PRC
CICC Fund Management Co., Ltd.	Beijing, PRC	RMB350,000,000	**100%**	100%	Management of mutual funds business	KPMG PRC
CICC Futures	Xining, PRC	RMB350,000,000	**100%**	100%	Futures brokerage business	KPMG PRC
CICC Jiacheng Investment Management Co., Ltd.[3]	Beijing, PRC	RMB410,000,000	**100%**	100%	Direct investment business	KPMG PRC
CICC Zhide Capital Co., Ltd.[3]	Shanghai, PRC	RMB100,000,000	**100%**	100%	Direct investment business	KPMG PRC
China International Capital Corporation Hong Kong Securities Limited[3]	Hong Kong	HKD1,155,220,000	**100%**	100%	Investment banking and securities brokerage business	KPMG
CICC Financial Products Ltd.[3]	British Virgin Islands	USD1	**100%**	100%	Financial products investment business	KPMG

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

56 INTEREST IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation and operation	Particulars of issued and paid-in capital	Equity interest held by the Company as at 31 December 2018	2017	Principal activity	Auditor[1]
CICC Hong Kong Asset Management Limited[3]	Hong Kong	HKD269,140,000	**100%**	100%	Assets management business	KPMG
China International Capital Corporation (Singapore) Pte. Limited[3]	Singapore	SGD 52,000,000	**100%**	100%	Investment banking and securities brokerage business	KPMG Singapore
China International Capital Corporation (UK) Limited[3]	UK	GBP 21,000,000	**100%**	100%	Investment banking and securities brokerage business	KPMG UK
CICC US Securities, Inc.[3]	USA	USD68,000,000	**100%**	100%	Investment banking and securities brokerage business	KPMG US
China International Capital Corporation Hong Kong Futures Limited[3]	Hong Kong	HKD55,000,000	**100%**	100%	Futures brokerage business	KPMG
CICC Financial Trading Limited[3]	Hong Kong	HKD1	**100%**	100%	Securities business	KPMG
CICC Investment Group Company Limited[2] [3]	British Virgin Islands	USD100	**100%**	100%	Investment holding business	–
CICC Investment Management Co., Ltd.[2] [3]	Cayman Islands	USD1	**100%**	100%	Direct investment business	–
CICC Jiahe (Tianjin) Equity Investment Fund Management Limited[3]	Tianjin, PRC	RMB100,000,000	**100%**	100%	Direct investment business	KPMG PRC
CICC Capital (Cayman) Limited[2][3]	Cayman Islands	USD1	**100%**	100%	Direct investment business	–
CICC Deutschland GmbH.[3]	German	EUR25,000	**100%**	–	Investment banking and securities brokerage business	–

56 INTEREST IN SUBSIDIARIES *(continued)*

Note:

(1) Statutory auditors of the respective subsidiaries of the Group are as follows:

- KPMG PRC represents KPMG Huazhen LLP (畢馬威華振會計師事務所（特殊普通合夥)), a firm of certified public accountants registered in the PRC. The official name of KPMG Huazhen LLP is in Chinese;
- KPMG represents KPMG in Hong Kong, a firm of certified public accountants registered in Hong Kong;
- KPMG Singapore represents KPMG Service Pte. Ltd. in Singapore, a firm of certified public accountants registered in Singapore;
- KPMG UK represents KPMG LLP in the UK, a firm of certified public accountants registered in the United Kingdom of Great Britain and Northern Ireland; and
- KPMG US represents KPMG LLP in the US, a firm of certified public accountants registered in the United States of America.

(2) These subsidiaries were not subject to statutory audit according to the local regulations.

(3) The equity interest of these subsidiaries were indirectly held by the Company.

57 CONTINGENCIES

As at 31 December 2018, CISC, a subsidiary of the Company, held one piece of land under construction for which CISC had obtained the corresponding land use right certificates and construction permits in accordance with PRC laws. Up to the date of approving the financial statements, construction of the land has not commenced. By relevant laws and regulations, in the event of delay in commencement of construction work on land, CISC may be subject to a fee on idle land of no more than RMB112.2 million (equivalent to 20% of the land transfer fee) and/or to forfeiture of the land use rights. However, if the delay is caused by government actions or force majeure, CISC may negotiate with relevant government authorities for postponing the commencement date and extending the time period for the development and construction of the land. CISC received the idle land verification report from relevant government authorities on 1 February 2018. According to this report, the aforesaid land was recognised as idle land, and the idling was caused by government and corporate reasons. In May 2018, CISC received a Hearing Right Notice from the relevant government authorities, demanding the payment of a fee on idle land of RMB 112.2 million and thereafter CISC applied for attending hearing meeting. Thereafter in August 2018, CISC received a Hearing Notice and attended the hearing. As of the approval date of the Group's financial statements, CISC is still in the progress of communicating with the relevant government authorities. The amount of the fee is subject to the decision of the relevant government authorities, and CISC is of the view that such amount cannot be reliably measured. As a result, no relevant accrued liabilities were recognised as at 31 December 2018.

Except for the above, the Group has no other outstanding matters that have a material impact on its consolidated financial position as at 31 December 2018.

Notes to the Consolidated Financial Statements

(Expressed in RMB, unless otherwise stated)

58 SUBSEQUENT EVENTS

(a) Issuance and repayment of beneficiary certificates

During the period from 1 January 2019 to the date of approval of these financial statements, the Group issued and redeemed beneficiary certificates with total principal amounts of RMB11.65 billion and RMB14.72 billion, respectively.

(b) Issuance and repayment of structured notes

During the period from 1 January 2019 to the date of approval of these financial statements, the Group issued structured notes with total principal amounts of HKD248.00 million and USD436.18 million, respectively, and redeemed with a total principal amount of RMB120.00 million, HKD117.00 million, and USD198.07 million.

(c) Proposed profit distribution after the reporting period

In accordance with the 2018 profit distribution plan approved by the Board of Directors on 29 March 2019, the Company proposed cash dividends RMB670,826,859 (tax inclusive) in total. On the basis of 4,192,667,868 shares issued to the date of approval of these financial statements, a cash dividend of RMB1.60 (tax inclusive) for every ten shares held will be distributed. The above proposed profit distribution is subject to the approval of the Company's shareholders at the forthcoming Annual General Meeting.

(d) Changes in shares

(i) The Company was informed that CSRC has approved the transfer by Huijin of 398,500,000 domestic shares in the Company (representing approximately 9.5% of the total share capital of the Company) (the "Share Transfer") to Haier. The update of the register of members related to the Share Transfer was completed on 11 March 2019, which means that the Share Transfer was completed on 11 March 2019. As of the approval date of the Group's financial statements, Huijin directly holds 1,936,155,680 domestic shares in the Company, representing approximately 46.2% of the total share capital of the Company.

(ii) As at 26 March 2019, Des Voeux Investment Company Limited held 202,844,235 H shares of the Company, representing approximately 4.84% of total issued shares of the Company and approximately 11.74% of the relevant class of shares. Des Voeux Investment Company Limited is wholly-owned by Alibaba Group Treasury Limited which is wholly owned by Alibaba Group Holding Limited. Therefore, Alibaba Group Treasury Limited and Alibaba Group Holding Limited are deemed to be interested in 202,844,235 H shares held by Des Voeux Investment Company Limited under the Securities and Futures Ordinance.

Appendix

COMPANY BUSINESS QUALIFICATIONS

(1) In 1995, obtained license for operating foreign exchange business, the State Administration of Foreign Exchange (replaced by license of securities business in foreign currency in 2015)

(2) In 1996, qualification of member of the Shanghai Stock Exchange, the Shanghai Stock Exchange

(3) In 1997, qualification of member of the Shenzhen Stock Exchange, the Shenzhen Stock Exchange

(4) In 1999, qualification for underwriting business, proprietary trading and brokerage business for domestic and overseas government bonds, debenture and corporate bonds, the CSRC

(5) In 1999, obtained approval to enter the national interbank market, the PBOC

(6) In 2000, qualification of member of National Debt Association of China, the National Debt Association of China

(7) In 2001, qualification for RMB ordinary equities brokerage business, the CSRC

(8) In 2002, qualification for securities investment advisory business, the CSRC

(9) In 2002, qualification for entrusted investment management business, the CSRC

(10) In 2004, obtained approval to become one of the first batch of sponsor institutions, the CSRC

(11) In 2004, qualification for internet securities entrustment business, the CSRC

(12) In 2004, qualification of sales agent for open-ended securities investment funds, the CSRC

(13) In 2004, securities firm engaging in innovative activities, the SAC

(14) In 2004, qualification of SSF investment manager, the SSF

(15) In 2005, obtained approval to set up collective asset management plans for CICC's short-term bonds, the CSRC

(16) In 2005, qualification for underwriting business of short-term commercial papers, the PBOC

(17) In 2005, qualification for bond forward transactions business in the national interbank bond market, the PBOC

(18) In 2005, qualification of bilateral market maker for block transactions of bonds, the Shanghai Stock Exchange

(19) In 2005, qualification for warrant trading business, the Shanghai Stock Exchange

(20) In 2005, qualification of corporate annuity fund manager, the MOHRSS

Appendix

(21) In 2005, qualification for foreign exchange asset management business, the SAC

(22) In 2006, qualification of first-class dealer for SSE 180 Trading Open-ended Index Securities Investment Fund (i.e. ETF), the Shanghai Stock Exchange

(23) In 2006, qualification of SSF offshore investment manager, the SSF

(24) In 2006, qualification of Participant of China Securities Depository and Clearing Corporation, the CSDC

(25) In 2007, approval of proposal of third party custodian for settlement funds of client transactions, the CSRC Beijing Bureau

(26) In 2007, qualification of dealer on Integrated Electronic Platform of Fixed-income Securities of the Shanghai Stock Exchange, the Shanghai Stock Exchange

(27) In 2007, engaged in offshore securities investment management business as a qualified domestic institutional investor (QDII), the CSRC

(28) In 2007, commence the business of "SSE Fund Connect (上證基金通)", the Shanghai Stock Exchange

(29) In 2007, obtained approval to commence direct investment business (through establishing a 100%-owned direct investment company), the CSRC

(30) In 2007, consent to engage in interbank market interest rate swap business, the CSRC

(31) In 2008, became Class A Clearing Participant of China Securities Depository and Clearing Corporation, the CSDC

(32) In 2008, lead underwriting qualification for short-term commercial paper, the PBOC

(33) In 2008, obtained approval to set up collective asset management plan for gains from CICC's enhanced bonds, the CSRC

(34) In 2009, qualification of member of the Tianjin Climate Exchange, the Tianjin Climate Exchange

(35) In 2010, qualification to commence RMB ordinary equities proprietary trading, the CSRC

(36) In 2010, qualification to provide introducing brokerage business to futures companies, the CSRC

(37) In 2010, market maker in the national interbank bond market,the PBOC

(38) In 2010, qualification to commence offshore securities investment specific asset management business, the CSRC

(39) In 2010, qualification of ordinary member of the Interbank Market Clearing House Co., Ltd., the Interbank Market Clearing House Co., Ltd.

(40) In 2010, business qualification for margin financing and securities lending, the CSRC

(41) In 2011, business qualification of Nominated Advisers & Brokers on the Third Board (Agency Share Transfer System), the SAC

(42) In 2011, obtained approval to increase agency sale institutions for collective asset management plan for gains from CICC's enhanced bonds and collective asset management plans for CICC's selective funds, the Beijing Bureau of the CSRC

(43) In 2011, qualification of member of book-entry government bond underwriting syndicates from 2012-2014, the MOF, the PBOC and the CSRC

(44) In 2011,obtained approval to set up investment funds for strategic emerging industries, the National Development and Reform Commission

(45) In 2012, qualification to commence placing business for SME bonds, the SAC

(46) In 2012, qualification for bond pledged quotation and repo transaction, the CSRC

(47) In 2012, qualification of insurance funds investment manager, the CIRC

(48) In 2012, authorization for trading in securities under repurchase agreements, the Shanghai Stock Exchange

(49) In 2012, business qualification to provide refinancing for margin financing and securities lending business, the CSF

(50) In 2012, expanded the financing investment of bond pledged quotation and repo transaction, the Shanghai Stock Exchange

(51) In 2012, consent to establish a professional subsidiary for commencing real estate direct investment fund business qualification association, the CSRC

(52) In 2013, qualification for over-the-counter trading business, the SAC

(53) In 2013, authorization for stock pledged repo transaction, the Shanghai Stock Exchange and Shenzhen Stock Exchange

(54) In 2013, qualification for equities swap transaction business, the SAC

(55) In 2013, qualification for agency business of financial products, the CSRC Beijing Bureau

(56) In 2013, qualifications for sponsor, brokerage business on the National Equities Exchange and Quotations (NEEQ), NEEQ

(57) In 2013, business qualification for witnessing account opening, the CSDC

(58) In 2013, business qualification for split conversion and merger conversion of funds, the CSDC

(59) In 2013, qualification of advisory service for military industry and confidential business (renewed in 2017 with a valid term of 3 years), the SASTIND

(60) In 2013, authorization for trading in securities under repurchase agreement, the Shenzhen Stock Exchange

Appendix

(61) In 2014, business qualification for mutual funds (through the promotion and establishment of a wholly-owned fund company), the CSRC

(62) In 2014, business for special institutional customers of insurance institutions, the CIRC

(63) In 2014, business qualification for internet account opening, the CSDC

(64) In 2014, qualifications for market-making business on the National Equities Exchange and Quotations (NEEQ), NEEQ

(65) In 2014, qualification for Southbound Trading (Shanghai-Hong Kong Stock Connect), the Shanghai Stock Exchange

(66) In 2014, business qualification for over-the-counter issuance of beneficiary certificates, China Securities Inter-organization Quotation System Co., Ltd.

(67) In 2015, stock options brokerage business and proprietary trading business qualifications, the Shanghai Stock Exchange and Shenzhen Stock Exchange

(68) In 2015, qualification of internet finance business, the CSRC

(69) In 2015, qualification of integrated custodian business for private funds, the CSIPF

(70) In 2015, qualification of security agency business for long-distance pledge and registration business, the CSDC

(71) In 2015, qualifications for spot precious metals agency business and spot gold proprietary trading business and member of the Shanghai Gold Exchange, the CSRC and the Shanghai Gold Exchange

(72) In 2015, qualification of custodian business for securities investment funds, the CSRC

(73) In 2016, business qualification of standard bond futures settlement with Shanghai Clearing House, Interbank Market Clearing House Co., Ltd.

(74) In 2016, qualification for Southbound Trading (Shenzhen-Hong Kong Stock Connect), the Shenzhen Stock Exchange

(75) In 2017, obtained the "Northbound Bond Connect" quotation bureau qualification granted by the National Interbank Funding Center, the China Foreign Exchange Trading System & National Interbank Funding Center

(76) In 2017, replaced the original permit to operate securities business with the permit to operate securities and futures business, the CSRC

(77) In 2018, qualification for conducting pilot cross-border businesses, the CSRC

(78) In 2018, qualification of first-class dealer for OTC options, the CSRC

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