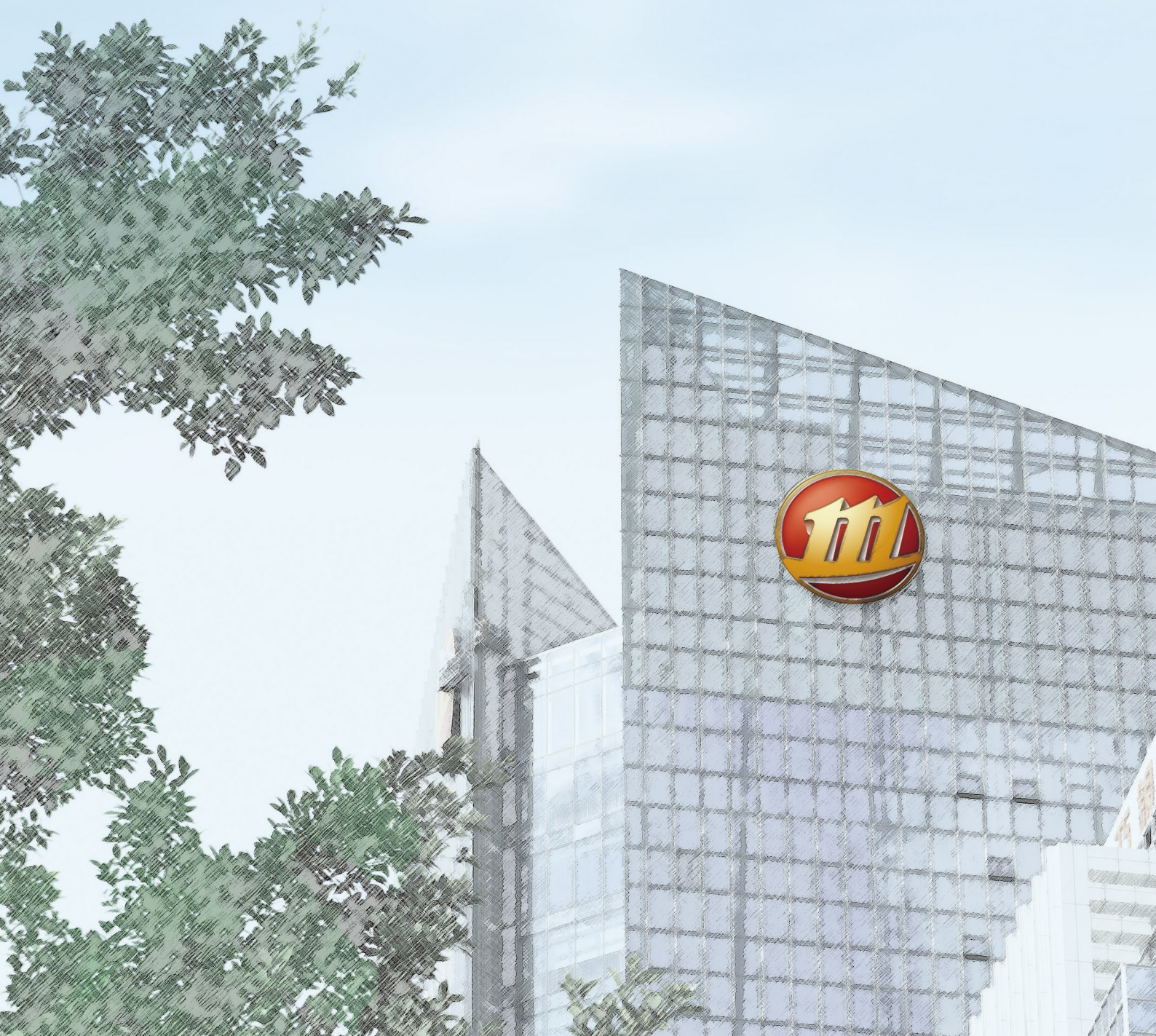


CMS 招商证券

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

INTERIM REPORT 2019



Important Notice

- I. The Board, the Supervisory Committee, Director(s), Supervisor(s) and Senior Management of the Company Undertake that the Information in this Interim Report is True, Accurate, Complete and Contains no False Record, Misleading Statement or Material Omission, and Assume Joint and Several Liabilities to the Information in this Interim Report.**
- II. All Directors of the Company Attended the 24th Meeting of the Sixth Session of the Board Held on August 28, 2019 to Review the Group's Interim Report for the Six Months Ended June 30, 2019.**
- III. This Interim Report has not been Audited.**
- IV. HUO Da, Officer in Charge of the Company, ZHAO Bin, Officer in Charge of Accounting Matters of the Company, and HE Min, Officer in Charge of the Accounting Office of the Company (Head of Accounting Department), hereby Warrant that the Financial Statements Contained in this Interim Report are True, Accurate and Complete.**
- V. No Proposal on Profit Distribution or Capitalization of Common Reserve for the Reporting Period was Proposed by the Board of the Company.**
- VI. Risks Statement Relating to Forward-looking Statements**

Forward-looking statements, such as future plans and development strategies, contained in this interim report do not constitute any substantive commitments of the Company to investors. Investors should be aware of the investment risks.
- VII. There is no Appropriation of the Company's Funds by the Controlling Shareholder and Its Associates for Nonoperating Purposes.**
- VIII. There is no Provision of Guarantee by the Company in Favour of any Third Party in Violation of the Prescribed Decision-making Procedures.**
- IX. This Interim Report is Prepared in both Chinese and English. In the Event of any Discrepancy Between the Chinese and English Versions of this Interim Report, the Chinese Version Shall Prevail.**
- X. Warning on Material Risks**

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

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

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

CONTENTS

Chapter 1	Definitions	3
Chapter 2	Corporate Profile and Key Financial Indicators	6
Chapter 3	Summary of Operation	19
Chapter 4	Report of the Board of Directors	21
Chapter 5	Major Events	63
Chapter 6	Changes in Ordinary Shares and Shareholders	77
Chapter 7	Directors, Supervisors and Senior Management	83
Chapter 8	Relevant Information of Corporate Bonds	86
Chapter 9	Financial Report	99
Chapter 10	Documents Available for Inspection	191
Chapter 11	Information Disclosure of a Securities Company	192



Chapter 1: Definitions

1. Definitions

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

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

Chapter 1: Definitions

Common terms and expressions	
"China Ocean Shipping"	China Ocean Shipping Co., Ltd. (中國遠洋運輸有限公司)
"CM Steam Navigation"	China Merchants Steam Navigation Co., Ltd. (招商局輪船有限公司)
"China Merchants Bank"	China Merchants Bank Co., Ltd. (招商銀行股份有限公司)
"CMS International"	China Merchants Securities International Company Limited (招商證券國際有限公司)
"CMS HK"	China Merchants Securities (HK) Co., Limited (招商證券(香港)有限公司)
"China Merchants Futures"	China Merchants Futures Co., Ltd. (招商期貨有限公司)
"CMS Zhiyuan"	China Merchants Zhiyuan Capital Investment Co., Ltd. (招商致遠資本投資有限公司)
"CMS Investment"	China Merchants Securities Investment Co., Ltd. (招商證券投資有限公司)
"CMS Asset Management"	China Merchants Securities Asset Management Co., Ltd. (招商證券資產管理有限公司)
"Bosera Funds"	Bosera Asset Management Co., Limited (博時基金管理有限公司)
"China Merchants Fund"	China Merchants Fund Management Co., Ltd. (招商基金管理有限公司)
"Shanghai Brilliance"	Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. (上海新世紀資信評估投資服務有限公司)
"CCXR"	China Chengxin Securities Rating Co., Ltd. (中誠信證券評估有限公司)
"Huatai United Securities"	Huatai United Securities Co., Ltd. (華泰聯合證券有限責任公司)
"Everbright Securities"	Everbright Securities Company Limited (光大證券股份有限公司)
"China Galaxy"	China Galaxy Securities Co., Ltd. (中國銀河證券股份有限公司)
"Essence Securities"	Essence Securities Co., Ltd. (安信證券股份有限公司)
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended, supplemented or otherwise modified from time to time
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"A Share(s)"	domestic share(s) in the ordinary share capital of our Company with a nominal value of RMB1.00 each, which are listed on the SSE (stock code: 600999)
"H Share(s)"	overseas-listed foreign share(s) in the ordinary share capital of our Company with a nominal value of RMB1.00 each, which are listed on the The Stock Exchange of Hong Kong Limited (stock code: 6099)

Chapter 1: Definitions

Common terms and expressions	
"A Shareholder(s)"	holders of A Shares
"H Shareholder(s)"	holders of H Shares
"The Reporting Period", "The current period"	from January 1, 2019 to June 30, 2019
"Previous Period"	from January 1, 2018 to June 30, 2018
"RMB, RMB10,000, and RMB100 million"	Renminbi 1 Yuan, Renminbi 10,000 Yuan and Renminbi 100 million Yuan
"At the end of last year, at the end of the year"	December 31, 2018
"At the end of the Reporting Period, at the end of the period"	June 30, 2019

Chapter 2: Corporate Profile and Key Financial Indicators

I. CORPORATE INFORMATION

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

Registered Capital and Net Capital of the Company

	At the end of the Reporting Period	At the end of last year
Registered capital	6,699,409,329.00	6,699,409,329.00
Net capital	48,173,095,234.87	52,815,746,346.60

Chapter 2: Corporate Profile and Key Financial Indicators

Business Qualifications of the Company

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

Number	Qualification	Approval authority	Date of approval
1	Market maker of treasury bond futures	the Securities and Fund Institution Supervision Department of the CSRC	May 2019
2	Market maker business of listed funds	Shanghai Stock Exchange	February 2019
3	Credit protection contracts business	Shanghai Stock Exchange	February 2019
4	Credit derivatives business	the Securities and Fund Institution Supervision Department of the CSRC	December 2018
5	Market maker of nickel futures	Shanghai Futures Exchange	October 2018
6	Market maker of crude oil futures	Shanghai International Energy Exchange	October 2018
7	Market maker of copper options	Shanghai Futures Exchange	September 2018
8	Dealer of OTC options business	Securities Association of China	August 2018
9	Market maker of Bond Connect "Northbound Trading"	China Foreign Exchange Trading Center	July 2018
10	Conducting pilot cross-border businesses	the Securities and Fund Institution Supervision Department of the CSRC	April 2018
11	Core dealer of credit risk mitigation instruments	National Association of Financial Market Institutional Investors	January 2017
12	Qualification to issue credit risk mitigation certificates	National Association of Financial Market Institutional Investors	January 2017
13	Qualification to issue credit-linked notes	National Association of Financial Market Institutional Investors	January 2017
14	Non-bank member of the Shanghai Commercial Paper Exchange	the Office of the People's Bank of China	November 2016

Chapter 2: Corporate Profile and Key Financial Indicators

Number	Qualification	Approval authority	Date of approval
15	Trading Authority for Access to Southbound Trading Business under Shenzhen-Hong Kong Stock Connect	Shenzhen Stock Exchange	November 2016
16	Permit for conducting insurance agency businesses	China Insurance Regulatory Commission	May 2016
17	Approval for provision of online account opening service	the Securities and Fund Institution Supervision Department of the CSRC	April 2015
18	Approval for financing through exercising incentive share options of listed companies	Shenzhen Stock Exchange	March 2015
19	License for spot gold proprietary trading business	the Securities and Fund Institution Supervision Department of the CSRC	March 2015
20	Qualification to provide payment services for customers' funds	China Securities Investor Protection Fund Corporation Limited	March 2015
21	License for market-making business for SSE 50 ETF options trading	Shanghai Stock Exchange	January 2015
22	License for stock options market-making business	CSRC	January 2015
23	Authority for proprietary trading of share options	Shanghai Stock Exchange	January 2015
24	Stock options trading participant on the Shanghai Stock Exchange	Shanghai Stock Exchange	January 2015
25	License for futures settlement	China Securities Depository and Clearing Corporation Limited	January 2015
26	License for pilot online securities business	Securities Association of China	November 2014
27	Trading Authority for Access to Southbound Trading Business	Shanghai Stock Exchange	October 2014
28	Qualification of lead manager business (market-making business)	National Equities Exchange and Quotations	June 2014
29	Ordinary member of Shanghai Clearing House for centralised settlement of RMB interest rate swaps	Shanghai Clearing House	June 2014

Chapter 2: Corporate Profile and Key Financial Indicators

Number	Qualification	Approval authority	Date of approval
30	License for OTC options trading business	Securities Association of China	February 2014
31	License for securities investment fund custody business	CSRC	January 2014
32	Qualification for agency business of securities pledge registration	China Securities Depository and Clearing Corporation Limited	July 2013
33	License for stock-pledged repo business	Shanghai Stock Exchange	June 2013
34	License for stock-pledged repo business	Shenzhen Stock Exchange	June 2013
35	License for interest rate swap business	CSRC Shenzhen Office	May 2013
36	Qualification of lead manager business (recommendation and brokerage businesses)	National Equities Exchange and Quotations	March 2013
37	License for OTC trading business	Securities Association of China	February 2013
38	License for equity total return swap business	the Institution Supervision Department of the CSRC	January 2013
39	License for special institutional client business of insurance companies	China Insurance Regulatory Commission	January 2013
40	License for sale of financial products	CSRC Shenzhen Office	December 2012
41	Qualification for brokerage business of foreign-currency marketable securities, underwriting business of foreign-currency marketable securities, entrusted foreign-exchange management business	State Administration of Foreign Exchange	December 2012
42	Qualification of underwriting debt financing instruments of non-financial enterprises	National Association of Financial Market Institutional Investors	November 2012
43	Qualification to provide comprehensive custody services for private funds	the Institution Supervision Department of the CSRC	October 2012

Chapter 2: Corporate Profile and Key Financial Indicators

Number	Qualification	Approval authority	Date of approval
44	License for margin and securities refinancing	China Securities Finance Co., Ltd.	August 2012
45	Qualification of underwriting private placement bonds of small and medium enterprises	Securities Association of China	June 2012
46	License for stock repurchase business	the Institution Supervision Department of the CSRC	May 2012
47	Qualification for dealer-quoted bond pledged repo transactions	the Institution Supervision Department of the CSRC	January 2012
48	Qualification for third-party custodian services for one customer – multiple bank services	CSRC Shenzhen Office	June 2011
49	Qualification for margin financing and securities lending business	CSRC	June 2010
50	License for direct investment business	the Institution Supervision Department of the CSRC	August 2009
51	Qualification for intermediary introduction business for China Merchants Futures	CSRC	February 2008
52	Type A Clearing participant of China Securities Depository and Clearing Corporation Limited	China Securities Depository and Clearing Corporation Limited	February 2008
53	Qualification for overseas securities investment and management business	CSRC	August 2007
54	Tier-1 dealer on the integrated e-platform for fixed income securities of the Shanghai Stock Exchange	Shanghai Stock Exchange	July 2007
55	Qualification for entrusted foreign-exchange asset management business	Shenzhen office of the State Administration of Foreign Exchange	November 2006
56	Clearing participant of China Securities Depository and Clearing Corporation Limited	China Securities Depository and Clearing Corporation Limited	March 2006

Chapter 2: Corporate Profile and Key Financial Indicators

Number	Qualification	Approval authority	Date of approval
57	Primary dealer of SSE 180 Index Exchange Traded Fund	Shanghai Stock Exchange	March 2006
58	Qualification for quotation and transfer business	Securities Association of China	January 2006
59	Qualification for underwriting business of commercial paper	The People's Bank of China	July 2005
60	Qualification for operation of foreign shares business	CSRC	September 2002
61	Qualification for open-end securities investment fund consignment business	CSRC	August 2002
62	Qualification for entrusted investment management business	CSRC	May 2002
63	Qualification for online securities agency business	CSRC	February 2001
64	Qualified member of interbank market	the Office of the People's Bank of China	September 1999
65	Qualification for operation of RMB special shares business (unrestricted) in Shanghai	Shanghai Securities Administration Office	November 1996
66	Qualification for foreign exchange business	Shenzhen office of the State Administration of Foreign Exchange	October 1996
67	Pilot unit of the agency system on equity transaction of unlisted company	the Office of Property Rights Transfer Leading Group of Shenzhen Government (深圳市政府產權轉讓領導小組辦公室)	January 1996
68	Qualification for proprietary trading business	Shenzhen Securities Administration Office	August 1993

Chapter 2: Corporate Profile and Key Financial Indicators

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

No.	Qualification	Approval authority	Date of approval
1	License for international member (Type B)	Shanghai Gold Exchange	October 2014
2	License for dealing in futures contracts	SFC	June 2014
3	License for advising on futures contracts	SFC	June 2014
4	License for asset management	SFC	March 2010
5	License for dealing in securities	SFC	February 2009
6	License for advising on securities	SFC	February 2009
7	License for advising on corporate finance	SFC	February 2009

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

No.	Qualification	Approval authority	Date of approval
1	License for basis trading, pricing service	China Futures Association	April 2017
2	License for cooperative hedging business	China Futures Association	March 2017
3	License for warehouse receipt services	China Futures Association	December 2016
4	Filing for entry of the interbank bond market	The People's Bank of China	July 2016
5	License for commodities futures brokerage, financial futures brokerage, futures investment consulting, asset management	CSRC	August 2014
6	License for asset management	CSRC	March 2013
7	License for futures investment consultancy	CSRC	August 2011
8	Member of Dalian Commodity Exchange	Dalian Commodity Exchange	December 2009

Chapter 2: Corporate Profile and Key Financial Indicators

No.	Qualification	Approval authority	Date of approval
9	Member of Zhengzhou Commodity Exchange	Zhengzhou Commodity Exchange	March 2009
10	Member of Shanghai Futures Exchange	Shanghai Futures Exchange	October 2008
11	Clearing and Settlement Member of China Financial Futures Exchange	China Financial Futures Exchange	December 2007
12	License for financial futures trading settlement	CSRC	November 2007

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

No.	Qualification	Approval authority	Date of approval
1	Private investment fund subsidiary of a securities firm	Securities Association of China	April 2017

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

No.	Qualification	Approval authority	Date of approval
1	Pilot scheme for overseas investment of qualified domestic investors	Shenzhen Joint Meeting Office of the Pilot Scheme for Overseas Investment of Qualified Domestic Investors	November 2015
2	Qualified domestic institutional investors	CSRC	January 2015
3	Qualification for securities asset management business	CSRC	January 2015

Chapter 2: Corporate Profile and Key Financial Indicators

II. CONTACT PERSONS AND CONTACT METHODS

	Secretary to the Board	Representative of Securities Affairs
Name	WU Huifeng	LUO Li
Correspondence address	No. 111, Fuhua Yi Road, Futian Street, Futian District, Shenzhen	No. 111, Fuhua Yi Road, Futian Street, Futian District, Shenzhen
Telephone	0755-82943666	0755-82960432
Fax	0755-82944669	0755-82944669
E-mail address	IR@cmschina.com.cn	luoli@cmschina.com.cn

	Joint Company Secretaries	
Name	WU Huifeng	KWONG Yin Ping Yvonne
Correspondence address	No. 111, Fuhua Yi Road, Futian Street, Futian District, Shenzhen	40/F, Sunlight Tower, 248 Queen's Road East, Wan Chai, Hong Kong

III. BASIC INFORMATION

Registered address of the Company	No. 111, Fuhua Yi Road, Futian Street, Futian District, Shenzhen
Postal code of the registered address of the Company	518046
Office address of the Company	No. 111, Fuhua Yi Road, Futian Street, Futian District, Shenzhen
Postal code of the Office address of the Company	518046
Principal place of business in Hong Kong	48/F, One Exchange Square, 8 Connaught Place, Central, Hong Kong
Company's website	http://www.cmschina.com
E-mail address	IR@cmschina.com.cn
Enquiry index for changes during the Reporting Period	During the Reporting Period, the Company had no registration changes. The inquiry index is: http://www.szcredit.com.cn/web/Index.aspx (Name: China Merchants Securities Co., Ltd.)

Chapter 2: Corporate Profile and Key Financial Indicators

IV. INFORMATION DISCLOSURE AND PLACE OF DOCUMENT INSPECTION

Designated media for information disclosure	China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily
Website designated by the CSRC for publishing this interim report	http://www.sse.com.cn
Website designated by the Hong Kong Stock Exchange for publishing this interim report	http://www.hkexnews.hk
Place for inspection of the Company's interim report	No. 111, Fuhua Yi Road, Futian Street, Futian District, Shenzhen
Enquiry index for changes during the Reporting Period	Nil

V. INFORMATION ON THE COMPANY'S SHARES

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

Chapter 2: Corporate Profile and Key Financial Indicators

VI. OTHER RELEVANT INFORMATION

Domestic accounting firm appointed by the Company	Name	Deloitte Touche Tohmatsu Certified Public Accountants LLP
	Office address	30/F, Bund Center, 222 Yan An Road East, Huangpu District, Shanghai
International accounting firm appointed by the Company	Name	Deloitte Touche Tohmatsu
	Office address	35th Floor, One Pacific Place, 88 Queensway, Hong Kong
Domestic legal adviser appointed by the Company	Name	Beijing Jingtian & Gongcheng (Shenzhen) Law Firm
	Office address	Unit 05-06, 16/F, China Resources Tower, 2666 Keyuan South Road, Nanshan District, Shenzhen
International legal adviser appointed by the Company	Name	King & Wood Mallesons
	Office address	13/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong
A Share Registrar	Name	Shanghai Branch of China Securities Depository and Clearing Corporation Limited
	Office address	3/F, China Insurance Building, 166 Lujiazui East Road, Pudong New District, Shanghai
H Share Registrar	Name	Computershare Hong Kong Investor Services Limited
	Office address	17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Chapter 2: Corporate Profile and Key Financial Indicators

VII. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS

(I) Key accounting data

Unit: RMB'000 Currency: RMB

Key accounting data	January to June in 2019	January to June in 2018	Change (%)
Total revenue and other income	11,764,843	8,297,775	41.78
Profit attributable to shareholders of the Company	3,502,759	1,806,617	93.89
Profit attributable to shareholders of the Company after deduction of non-recurring profit or loss	3,515,477	1,799,018	95.41
Net cash from operating activities	7,132,020	12,072,120	-40.92
Other comprehensive income	251,074	31,408	699.39

	As at the end of June 2019	As at the end of 2018	Change (%)
Total assets	350,358,975	304,930,705	14.90
Total liabilities	268,040,050	224,138,351	19.59
Equity attributable to shareholders of the Company	82,237,799	80,722,846	1.88
Total equity	82,318,925	80,792,354	1.89

Chapter 2: Corporate Profile and Key Financial Indicators

(II) Major financial indicators

Major financial indicators	The Reporting Period (January to June)	The Corresponding Period of last year	Change
Basic earnings per share (RMB per share)	0.4635	0.2098	120.91%
Diluted earnings per share (RMB per share)	0.4635	0.2098	120.91%
Basic earning per share after deduction of non-recurring profit or loss (RMB per share)	0.4654	0.2087	123.02%
Weighted average return on net asset	4.61%	2.16%	increased by 2.45 percentage points
Weighted average return on net asset after deduction of non-recurring profit or loss	4.63%	2.15%	increased by 2.48 percentage points

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

Unit: RMB Currency: RMB

Items	As at the end of the Reporting Period	As at the end of last year
Net capital	48,173,095,234.87	52,815,746,346.60
Net assets value	76,182,252,556.78	75,518,016,192.53
Sum of Risk Capital Provisions	19,086,915,568.76	17,090,060,265.22
Total assets on and off balance sheet	278,560,579,419.23	251,421,719,027.43
Risk coverage ratio (%)	252.39	309.04
Capital leverage ratio (%)	14.78	15.52
Liquidity coverage ratio (%)	203.27	277.30
Net stable funding ratio (%)	158.03	159.64
Net capital/net assets (%)	63.23	69.94
Net capital/liabilities (%)	25.06	31.77
Net assets/liabilities (%)	39.64	45.42
Value of proprietary equity securities and its derivatives/net capital (%)	27.49	22.27
Value of proprietary non-equity securities and its derivatives/net capital (%)	314.44	246.47

Chapter 3: Summary of Operation

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

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

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

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

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

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

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

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

During the Reporting Period, the average daily trading volume of stocks and funds in the SSE and the SZSE was RMB608.741 billion, representing a year-on-year increase of 32.20%; the SSE Composite Index increased by 19.45% and the SZSE Component Index increased by 26.78%; the CSI 300 and the ChiNext Index both recorded an increase of 27.07% and 20.87%, respectively; the ChinaBond Composite Index-Total Return Index (Total Value) rose by 1.82%. The financing through IPO of shares amounted to RMB61.157 billion, representing a year-on-year decrease of 33.67%. The re-financing issuance (excluding share issuance for asset acquisition) amounted to RMB245.339 billion, representing a year-on-year decrease of 28.53%. The issuance of bonds (excluding inter-bank deposit certificates) totalled RMB13.25 trillion, representing a year-on-year increase of 37.29%. As at the end of the Reporting Period, the balance of margin financing and securities lending on the SSE and the SZSE amounted to RMB910.8 billion, representing an increase of 20.52% as compared with the end of 2018. The balance of securities-backed lending of securities companies reached RMB526.767 billion, representing a decrease of 14.78% as compared with the end of 2018.

According to the statistics of the Securities Association of China, during the Reporting Period, the industry earned a total income of RMB178.741 billion, representing a year-on-year increase of 41.22%. The net profit amounted to RMB66.662 billion, representing a year-on-year increase of 102.86%. As at the end of the Reporting Period, the total assets of the securities industry amounted to RMB7.10 trillion, representing an increase of 13.56% as compared to the end of 2018. The net assets amounted to RMB1.96 trillion, representing an increase of 3.51% as compared to the end of 2018. Net capital amounted to RMB1.62 trillion, representing an increase of 2.70% as compared to the end of 2018.

Chapter 3: Summary of Operation

II. Analysis of Core Competitiveness during the Reporting Period

(I) Market Position of the Company

During the Reporting Period, according to statistics from the Securities Association of China and Asset Management Association of China, in terms of net income from agency trading (including leasing of trading seats) and net income from client asset management, the Company ranked seventh and eighth, respectively. As at the end of the Reporting Period, in terms of balance of margin financing and securities lending, balance of securities-backed lending, and the scale of AUM, the Company ranked sixth, eighth and fifth, respectively. According to the statistics from Wind, the Company ranked ninth in terms of the lead underwriting amount of equity in China (excluding share issuance for asset acquisition), and ranked fourth in terms of the amount of bond underwritten (of which, the Company ranked first in terms of the amount of ABS underwritten). According to the statistics from the Asset Management Association of China and Wind, the Company ranked first in terms of number of private funds product under custody in the market and ranked first in terms of number of public funds under custody in the broker industry. According to the statistics from Bloomberg, the Company ranked twelfth in terms of the amount of equity underwritten in Hong Kong market, of which, ranked fourth in terms of the amount of IPO underwritten.

(II) Analysis of the Company's Competitiveness

The Company, under the control of China Merchants Group, is the largest securities firm of the SASAC. Over years of development, the Company has built up some significant competitive advantages. First, the Company sustains stable operations. It has been granted the highest "AA" rating for securities firms by the CSRC for 12 consecutive years, which represents a strong pillar for the Company to rely on when seeking regulatory policy support, seizing significant opportunities for new pilot projects, making responses to the volatile capital market and facing peer competition. Second, a full-service platform and a whole industrial chain with competitive service capability, a relatively balanced business structure, no significant business shortcomings and overall solid development foundation will help the Company develop the business with its own features, differentiate its edges and facilitate the provision of one-stop services to customers, thereby paving a sound foundation for development. Third, the brokerage business of Company has solid foundation and increasingly strengthened competitiveness. It has strong capability in providing comprehensive services to institutional clients and maintains stable performance in respect of providing whole industry chain services to corporate clients. It also stands out in certain business segments. Fourth, the Company has the strong brand name of "China Merchants" and shareholders background as well as good reputation in the market.

Chapter 4: Report of the Board of Directors

I. Operation Discussion and Analysis

During the first half of 2019, while the global economy showed a downturn, China's economy was still operating within a reasonable range, carrying on its general stable and progressive development momentum with a year-on-year increase in GDP of 6.3%. Meanwhile, the uncertainties brought by the Sino-US trade dispute remained in existence. During the first half of the year, as there were considerable fluctuations in the securities market and increasingly heated competition in the industry, brokers were actively engaged in equity financing, mergers, acquisitions and restructuring. Regulators further confirmed that, as the capital market played a leading role in financial operation, a well-regulated, transparent, open, dynamic and resilient capital market should be built and the opening up should be facilitated.

2019 is a kick-off year for our new five-year reformative strategies. During the first half of the year, faced with an ever-changing operation situation, the Company adhered to the implementation of its reformative strategies, and made relatively satisfactory results in respects of profitability, reform, as well as stable operations, forming a good start for the new five-year reformative strategies. First, our operating results recorded a significant increase. During the Reporting Period, the Company's total revenue and other income and net profit attributable to the shareholders of the parent Company on a combined basis amounted to RMB11.765 billion and RMB3.503 billion, representing a year-on-year significant increase of 41.78% and 93.89%, respectively; and its ROE was 4.61%. Second, we had made steady progress in transformation and reform. During the first half of the year, with the aim of improving quality and efficiency, the Company leveraged the opportunity of the State-owned Enterprise Reform "Double-hundred Action" by focusing on top-level planning and putting efforts into mechanism change and made significant progress in respect of key matters such as the establishment of the mechanism of "staff can get in and out; cadre can go up and down; salary can be high and low", technological innovation, data governance and process reengineering. Third, the Company remained stable operations. During the first half of the year, there was no significant event regarding risk compliance throughout the year and all losses resulting from risks were controlled at a relatively low level. In July 2019, the Company was granted the "AA" grade under A Class of regulatory rating by the CSRC for 12 consecutive years.

II. Operating Results of Major Businesses for the Reporting Period

(I) Analysis of principal businesses

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

Chapter 4: Report of the Board of Directors

1. Brokerage and wealth management business

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

In the first half of 2019, in order to promote the mutual sharing of customers and resources and to optimize the profit model, the Company made adjustment to its organizational structure and merged its institutional business department with the retail brokerage department, and established a new wealth management and institutional business department, which strongly supported the Company's strategic objective of building institutional and wealth management featured business, and whose objective was to meet the challenges brought by the decline in market commission rates and the transformation of brokerage business.

(1) Retail brokerage and wealth management

In the first half of 2019, the one-way transaction volume of stocks and funds in the A share market amounted to RMB71.83 trillion, representing a year-on-year increase of 31.09%. The average net commission rate of the industry decreased by 6.89% year-on-year to 0.309‰, which showed a continuous downward trend, over previous years though at much narrower margin.

During the Reporting Period, the Company's market share of stocks and funds trading volume and net revenue from agency trading were 4.14% and 4.36%, respectively, both of which represented an increase as compared with the end of 2018. The Company seized the opportunity of market recovery and continued to expand the scale of new accounts through online promotion and offline channel cooperation. In the first half of 2019, the Company has opened 813.5 thousand new accounts, representing a year-on-year increase of 9.81% and the number of eligible accounts were 11.3394 million, representing a year-on-year increase of 19.65%. With a customer-oriented philosophy, the Company has improved the intelligent and characteristic service capabilities of Zhiyuan Yi Hu Tong APP (智遠一戶通), and improved the customer service response speed and customer service quality through better customer service closed-loop operation system. At the same time, the Company continued to promote the digital marketing system. As of the end of June 2019, the number of monthly active users of the Company's Zhiyuan Yi Hu Tong APP increased by 25% year-on-year.

The Company accelerated the pace of wealth management transformation and provided special services. The Company increased the marketing propaganda of transactional wealth management plan and continued to optimize the package service content. In the context of fierce competition in the industry commissions, the number of clients of wealth management increased by 2.98% year-on-year to 2.6728 million accounts. In respect of non-trading wealth management, the Company strengthened its ability for product screening and allocation. Through technological empowerment, the Company enhanced the precision marketing of products as well as improved the management and service efficiency of the wealth advisory team, so as to satisfy the diversified requirements of asset allocation. In the first half of 2019, the sales of wealth management products amounted to RMB464.209 billion, representing a year-on-year increase of 9.6%, and the net revenue from the agency sales of financial products amounted to RMB87.81 million, ranking 4th in the industry.

Chapter 4: Report of the Board of Directors

The Company maintained strong market position in brokerage businesses of stock options. The Company was awarded “Top 10 options Broker” for the second session by the Shanghai Stock Exchange (SSE). As of the end of June 2019, the Company ranked No. 1 in terms of market share of accounts opening of brokerage stock options, which accounted for 8.87%. In the first half of 2019, the Company’s brokerage stock options recorded a turnover of 12.3491 million contracts, a year-on-year increase of 179.75%.

In respect of futures brokerage, the market share of crude oil futures achieved a significant year-on-year increase of 193%. China Merchants Futures has been awarded AA rating under A Class in the futures industry for 6 consecutive years and ranked top 10 in terms of regulatory rating of the industry.

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

Operating indicators	As of the first half of 2019	As of the first half of 2018	Change
Transaction volume of stocks and funds (unit: RMB100 million)	59,506.70	42,861.03	38.84%
Market share of the trading volume of stocks and funds	4.14%	3.91%	Increased by 0.23 percentage point
Ranking in terms of net revenue from agency securities trading	7th	7th	—
Number of eligible accounts (unit: 10,000) (note 1)	1,133.94	947.68	19.65%
Number of new accounts opened in the year (unit 10,000)	81.35	74.08	9.81%
Number of branches (note 2)	258	243	Increased by 15 branches
Trading volume under Southbound Trading (unit: RMB100 million)	594.87	848.96	-29.93%
Number of wealth management advisors	854	845	1.07%
Number of accumulated clients under wealth management plans (unit: 10,000)	267.28	259.55	2.98%
Transaction volume under clients of wealth management plans (unit: RMB100 million)	9,540.99	7,784.30	22.57%
Total sales of wealth management products (unit: RMB100 million)	4,642.09	4,235.42	9.6%
Net revenue from the agency sales of financial products (unit: RMB10,000)	8,781	9,028	-2.74%

Source: SSE and SZSE, Securities Association of China, and internal statistics of the Company

Note: 1. Eligible accounts refer to capital accounts which are not dormant or unqualified.

2. By the end of the Reporting Period, the Company had 258 branches in operation and another 1 branch under construction.

Chapter 4: Report of the Board of Directors

(2) Capital-based intermediary services

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

In the first half of 2019, the main index of A shares increased significantly, and customer transactions and financing activities increased. The balance of market margin financing and securities lending increased from RMB755.7 billion at the end of 2018 to a maximum level of RMB991.5 billion in April 2019. In May 2019, with the adjustment of the A share market, the balance of margin financing and securities lending gradually fell back to RMB910.8 billion, an increase of 20.52% as compared with the end of 2018. As the stock price climbed and the market's bail-out projects gradually landed, the risk of stock pledge business was initially eased, and the overall performance guarantee level of the stock pledge business in Shenzhen and Shanghai markets increased significantly. In addition, the scale of the overall market stock pledge business continued to decline, and the number of companies with high pledged share decreased.

The Company paid close attention to the changes in the market environment and adjusted its business focus in a timely manner. With the gradual release of market risks at the beginning of the year and the continuous improvement of the policy environment, the risk of capital intermediary business has been gradually easing. The Company strengthened on-site training and policy promotion of branches, emphasizing the compliance of bottom line; at the same time, through the adjustment of credit policies, the optimization of the approval process, and the increase of diversified marketing services, the Company comprehensively expanded the margin financing and securities lending business and competed for high-quality stock pledge projects. During the Reporting Period, based on the consideration of active risk management, the Company appropriately compressed the scale of large-value stock pledge projects.

As of the end of June 2019, the balance of margin financing and securities lending of the Company was RMB46.141 billion, with an increase of 19.29% from the end of 2018, and the maintenance coverage ratio was 301.07%. The ending balance of stock pledge to be repurchased amounted to RMB29.914 billion and the overall collateral coverage ratio was 277.70%, of which contribution from self-owned capital was RMB17.729 billion and the overall collateral coverage ratio was 339.94%. The overall risk exposure of the capital-based intermediary services is sound.

Capital-based intermediary business of the Company

Operating indicators	As of the end of first half of 2019	As of the end of 2018	Change
Balance of margin financing and securities lending (unit: RMB100 million)	461.41	386.81	19.29%
Market share of margin financing and securities lending	5.06%	5.12%	decreased by 0.06 percentage point
Outstanding balance of securities-backed lending and stock repurchases (unit: RMB100 million)	299.14	388.07	-22.92%

Source: SSE and SZSE and internal statistics of the Company

Chapter 4: Report of the Board of Directors

(3) Institutional client services

The Company has established an integrated prime brokerage services system with investment research, trading and custody service as basic businesses and product sale, margin financing and securities lending, market making, operational outsourcing, funds hatching as value-added services, which provides institutional clients with one-stop solutions.

① Institutional sales and research

In the first half of 2019, the core competitiveness of the Company's institutional business continued to be enhanced. The Company continued to improve the research service abilities for mutual funds and insurance assets management companies, promoted the diversification of research resources, and optimized the service quality for core customers. The Company also closely integrated the Company's wealth management transformation, increased coordination, fully tapped the marketing potential of the branches, and enhanced the Company's fund sales ability. During the Reporting Period, the Company won the "2018 Best Fund Sales Brokerage Award" in China Mutual Fund Yinghua Award held by China Fund.

During the Reporting Period, the Company actively carried out research business transformation. Based on solid research and provision of various forms of customer service, the Company continued to build a brand of CMS wealth management in collaboration with retail business and asset management business, and continued to promote investment research intelligence and effectively support core business strategy transformation. A share research covered macroeconomic analysis, investment strategy, industry sector and company research, fixed-income products and derivatives, etc.. As of the end of June 2019, the Company's stock research involved a total of 1,286 listed companies in 18 categories and 72 major categories of CSRC Industrial Classification System, covering 87% of the total market capitalization of CSI 300 Index constituent stocks and 80% of the total market capitalization of ChiNext Index constituent stocks. The Company takes the leading positions in the research of a wide variety of areas, including food and beverage, environmental protection, paper making and light industry, electronic household appliances, communications, media, macro-economy, electronics, automobiles, electric devices, as well as new energy, military industry, small and mid-cap, fixed income, coal, petrochemical, finance, real estates, etc..

Chapter 4: Report of the Board of Directors

② Prime brokerage

The Company's prime brokerage business provides one-stop financial services to institutional investors. The Company continues to exert its competitive edge with strong overall strength, balanced business and outstanding features, providing high-quality integrated financial services to institutional clients such as private funds, trust companies and wealth management subsidiary companies of banks.

During the Reporting Period, the Company continuously improved the construction of institutional customer integrated trading platform, integrated service platform and collaborative management platform, in order to provide customers with professional systems and transaction services and enhance customer stickiness. The Company's "Geetek Institutional Transaction Service Platform" has formed a full asset investment transaction support, a fast trading channel, and an open strategic trading service capability, and has built a comprehensive external access service capability. In terms of research services, we implemented refined management of roadshow services to meet the individual needs of customers and enhance the special investment research services. In terms of capital introduction, the Company continued to cooperate with excellent private funds in product selling, gave full play to the network coverage advantages of commercial banks and independent wealth management institutions, introduced external channel funds for high-quality private equity products, and actively carried out incubation and investment business. According to customer needs and market environment changes, the Company created personalized products for private fund managers to meet the comprehensive service needs of customers.

③ Custody and outsourcing

In the first half of 2019, the overall regulatory environment of the asset management industry continued to be stricter, and supply-side reforms were deepened, which had a greater impact on the scale of custody and outsourcing. Meanwhile, the market was fluctuating, the number and scale growth of products in the asset management industry were weak, and the short-term development of the industry faced certain uncertainties. In the future, the asset management business will return to the path of active management and more asset products will be transformed to NAV based to achieve sound and high quality development.

As of June 30, 2019, the AUM of mutual funds and private funds totalled RMB13.46 trillion and RMB13.28 trillion, increased 3.3% and 3.9% as compared with the end of 2018 respectively, and the compound growth rate of the mutual funds and private funds were 15.8% and 46.7% from 2016 to 2018. At the same time, the private fund industry continued to open to the outside world. In the first half of 2019, 16 well-known WFOEs were successfully registered as managers of private equity investment funds. In addition, the establishment of bank wealth management subsidiaries also brought new business opportunities.

Chapter 4: Report of the Board of Directors

During the Reporting Period, the Company's custody and outsourcing business explored the transformation of integrated financial services. By improving the quality and efficiency of services through financial technology, actively expanding the scope of fund outsourcing services, and providing value-added services for investment research through the modelling and development of big data financial engineering, the custody and outsourcing business achieved stable growth rate. As of the end of June 2019, the Company had 19,206 custody and outsourcing products (including the products of asset management subsidiaries) with a total value of RMB2.076967 trillion, representing an increase of 4.01% and 4.91% as compared with the end of 2018 respectively. The Company launched a series of marketing activities for key customers such as large-scale private funds, WFOE, mutual funds and bank wealth management, and maintained a dominant position amid the fierce market competition. According to the Asset Management Association of China and Wind Info., in the first half of 2019, both the number of private fund products under custody as well as the number of WFOE products under custody and outsourcing and the number of WFOE fund managers served by us ranked first in the industry; the number of mutual funds under custody ranked first in the broker industry.

2. Investment banking business

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

In the first half of 2019, the Company established an investment banking business synergy committee to integrate resources from the Company to serve corporate customers and better promote the coordinated development of investment banking business.

(1) Equity underwriting

In the first half of 2019, the A share equity financing market continued its downward trend of 2018. According to Wind statistics (using issuance dates as statistics caliber), the total equity financing in the A share market was RMB306.496 billion (excluding share issuance for asset acquisition), representing a year-on-year decrease of 29.62%. The IPOs remained normalized, the rate of approval increased from 65.29% in 2018 to 84.75% during the Reporting Period (excluding cancellation of approval and suspension of voting). In the first half of 2019, the number of IPOs was 64 and the proceeds from IPOs were RMB61.157 billion, representing a year-on-year decrease of 33.67%. Affected by the continued shrinking of the size of the stock issuance business, the scale of refinancing (excluding share issuance for asset acquisition) was RMB245.339 billion, representing a year-on-year decrease of 28.53%, but the growth of convertible bonds business was outstanding, with a scale of RMB154.246 billion and a significant year-on-year increase of 369.88%. In addition, the STAR Market had been quickly promoted and was launched on June 13, 2019. The STAR Market will lead the Chinese capital market to a new journey of comprehensive deepening reforms. As of the end of June 2019, 141 companies had applied for listing on the STAR Market.

Chapter 4: Report of the Board of Directors

During the Reporting Period, the Company seized the business opportunity of the STAR Market, and enhanced the advantages of the IPO business. According to the positioning and requirements of the STAR Market, the Company focused on high-quality science and technology innovation enterprises related to the “hard technology” such as electronic information technology, biomedicine, high-end equipment and new materials, and carried out continuous precision marketing to accelerate the application progress of projects on the STAR Market. The Company also vigorously promoted the specialization of industry sector and established 9 industry departments to improve the professional service capabilities; accordingly, the company implemented customer list and comprehensive performance appraisal system. In addition, the Company enhanced the marketing service capabilities for important customers. During the Reporting Period, the Company completed a series of market-influential projects, including the re-listing of China Merchants Nanjing Tanker Corporation (the first re-listing project in the A share market), and the first brokerage IPO listing project in the Tibet Autonomous Region (the IPO of Hualin Securities). In addition, the Company completed certain large-scale financing projects such as the IPO of Qingdao Rural Commercial Bank Co., Ltd. and the convertible bonds of China Merchants Expressway Network & Technology Holdings Co., Ltd.

According to Wind statistics (as of the date of issue), the Company ranked ninth in the industry in terms of the amount of A-Share underwritten (excluding share issuance for asset acquisition, and the same below). The Company ranked fifth in terms of the number of A-Share lead underwriting projects, up by 4 positions from 2018. The Company ranked both third among the industry in terms of the amount and the number of IPO underwriting projects, up by 2 and 1 positions from last year. In terms of the number of refinancing underwritten, the Company ranked 6th among the industry, According to the CSRC and SSE, as of the end of June, the number of IPO projects pending approval was 23 (including approved projects to be offered), ranking sixth among the industry. The number of projects under review by the STAR Market was 8 (including those projects approved to be offered by the Listing Committee of the STAR Market of SSE), ranking fifth in the industry. In 2019, the Company won many honors such as the third place of “Best Investment Bank in the Mainland” in the 12th New Fortune selection.

Amount of equity and number of companies underwritten by the Company

Item	First half of 2019		First half of 2018		Year-on-year change in lead underwriting amount (%)
	Lead underwriting amount (RMB100 million)	Number of projects	Lead underwriting amount (RMB100 million)	Number of projects	
A Share IPO	44.79	5	32.59	4	37.43
A Share refinancing	41.95	6	86.24	6	-51.36
Total	86.74	11	118.83	10	-27.00

Source: Statistics from Wind, as of the date of issue

Note: Refinancing excludes share issuance for asset acquisition.

Chapter 4: Report of the Board of Directors

(2) Debt underwriting

Since 2019, in the context of the global economic slowdown, the domestic fundamentals continued to decline while showing strong growth resilience, and the bond market interest rate fluctuated and returned to the low level at the beginning of the year. From January to April 2019, the domestic fundamentals showed signs of marginal warming, and the policy focus returned to the supply-side structural reform. The bond market interest rate fluctuated upwards. Since May 2019, due to Sino-US trade friction and liquidity stratification, the central bank maintained a sound monetary policy, the overall liquidity was loose, and the bond market interest rate returned to the low level at the beginning of the year. In the first half of 2019, the financing size of the domestic bond market increased as a whole. The issuance of domestic bonds (excluding inter-bank deposit certificates) amounted to a total of RMB13.25 trillion, representing a year-on-year increase of 37.29%, of which, the issuance of credit bonds (excluding government bonds, local government bonds, inter-bank deposit certificates and financial bonds issued by policy banks) totaled RMB6.46 trillion, up 36.65% over last year. Financial bonds, corporate bonds, enterprise bonds, inter-bank market debt financing instruments (including commercial papers, medium-term notes and PPN) and asset-backed securities all maintained relatively strong growth momentum.

During the Reporting Period, by fortifying its professional team, and continuous consolidation of the market position of quality products such as ABS, the Company continued to maintain strong market competitiveness in bond underwriting business. According to Wind, its amount of bonds underwritten (including debt securities issued as a principal) in the first half of the year amounted to RMB200.687 billion, representing a year-on-year increase of 18.52% and ranked the 4th among the industry. Its amount of ABS underwritten amounted to RMB102.109 billion, representing a year-on-year increase of 14.60% and ranked the 1st with market share of 13.97%. On the basis of maintaining the advantages of the traditional bond underwriting business, the Company continued to strengthen business innovation, and continued to actively respond to the The Belt and Road Initiative proposed by the state, while promoting the “Internationalization” of RMB bonds and helping the domestic bond market to further open to the outside world.

In the first half of 2019, the Company successfully issued a number of influential products. For example, the Company independently underwrote GLP China Holdings Limited “Belt and Road” corporate bonds. The Company completed the first domestic non-performing asset securitization product that was introduced to foreign investors — “Hecui 2019 Phase I Non-performing Asset-Backed Securities”; the first credit asset-backed securities project of urban commercial bank in the domestic market introducing the overseas investors through “Bond Connect” — “Hangying 2019 Phase I Residential Mortgage Backed Securities”; the first retail asset securitization project in the domestic market with the approval of “green certification” — “Hexin 2019 Phase I Car Installment Loan Asset-backed Securities”. The Company won the “Annual Outstanding Agency Award” in “2018 China Asset Securitization Annual Award” of the China Securitization Forum and won the awards of SSE such as “Company Bond Excellent Underwriter in 2018” and “Company Bond Comprehensive Innovation Award in 2018”.

Chapter 4: Report of the Board of Directors

Amount and the Number of Bonds Underwritten by the Company

Item	First half of 2019		First half of 2018		Year-on-year change in lead underwriting amount (%)
	Lead underwriting amount (RMB100 million)	Number of issuance (tranche)	Lead underwriting amount (RMB100 million)	Number of issuance (tranche)	
Enterprise bonds	10.00	1	9.00	1	11.11
Corporate bonds	243.90	42	253.48	40	-3.78
Financial bonds	584.92	29	427.70	17	36.76
Commercial paper	22.35	7	17.11	6	30.63
Medium-term notes	40.96	13	31.15	6	31.49
Private placement notes	39.75	16	32.90	10	20.82
Exchangeable bonds	30.00	1	28.57	1	5.01
Asset-backed securities	1,021.09	162	891.02	108	14.60
Others	13.90	101	2.40	54	479.17
Total	2,006.87	370	1,693.33	243	18.52

Source: Wind info

Note: Including debt securities issued as a principal; others included municipal bonds, international institutional bonds and government-backed institutional bonds.

(3) Financial advisory

In the first half of 2019, although the M&A regulatory policy was loosened and the M&A payment methods were further enriched, due to the increase in uncertainty within and outside the domestic environment, the M&A market as a whole weakened, and the scale of cross-border M&A also declined significantly. According to Wind, in the first half of 2019, the amount of transactions announced by the Chinese M&A market (including inbound and outbound M&A) was RMB1.07 trillion, representing a year-on-year decrease of 16.31%; the number of transactions was 4,858, representing a year-on-year decrease of 12.37%; and the amount and number of transactions completed on the Chinese M&A market were RMB0.88 trillion and 4,330 respectively, representing a year-on-year decrease of 16.47% and increase of 3.00%, respectively.

Chapter 4: Report of the Board of Directors

During the Reporting Period, the Company actively responded to the unfavorable environment of the M&A market, adhered to the principal of service for the real economy, closely focused on the economic restructuring and upgrading and the opportunity of state-owned enterprise reform. At the same time, the Company fully integrated with the China Merchants Group on the collaboration between industrial and financial companies and collaboration between financial companies, and carried out related work deployment and promoted the orderly completion of the project. According to Wind, the total M&A transaction amount as disclosed by the Company was RMB41.043 billion, ranking 5th in the industry, up by 3 positions compared to 2018. The number of M&A transaction as disclosed was 5, ranking 9th in the industry. The projects completed by the Company with great market influence include the listing of A share of Sinotrans Limited by conversion of its shares and merging with Sinotrans Air Transportation Development Corporation Limited.

(4) OTC investment banking business

In the first half of 2019, due to unclear policy expectations and continued liquidity dilemma, the willingness of companies to list on the National Equities Exchange and Quotations (NEEQ) fell significantly. The launch of the STAR Market exhibit more attractions to the high-quality companies, listed or unlisted than the NEEQ. High-quality listing projects of the NEEQ delisted in succession caused growth outlook jitters, which further affect the subsequent business. According to the statics from the NEEQ, as of the end of June 2019, the number of listed enterprises in the market was 9,921, representing a decrease of 770 as compared to the beginning of 2019; the amount and number of fund raised by newly listed companies on the NEEQ were continuing to decrease.

During the Reporting Period, the Company continued to pay attention to market changes and strictly control business risks, actively adapted to the environment and adjust our strategy. The OTC business achieved healthy and orderly operation. As of the end of June 2019, the Company provided continuing supervision service to a total of 299 enterprises, and ranked the 7th among the industry. In the first half of 2019, the Company handled 16 NEEQ stock issuance projects, and the total fund raising amount was RMB1.96 billion, and ranked the third among the industry.

3. Investment management business

The Company engages in securities asset management business and private equity fund management business through its wholly-owned subsidiaries, CMS Asset Management and CMS Zhiyuan, respectively. The Company engages in fund management business through its associates Bosera Funds and China Merchants Fund.

Chapter 4: Report of the Board of Directors

(1) Asset management

In the first half of 2019, with the implementation of the new regulations on asset management and the promulgation and implementation of the corresponding rules, the asset management industry officially ushered in a new transformation and reconstruction era. In the context of the overall “channeling”, the brokerage asset management also began to transform. As of the end of June 2019, the AUM of the brokerage asset management industry amounted to RMB13.59 trillion, representing a decrease of 3.68% as compared with the end of 2018; the net income of the brokerage asset management industry in the first half of the year was RMB12.7 billion, representing a year-on-year decrease of 8.32%.

In the first half of 2019, within the policy framework of the new regulations on asset management, the brokerage asset management business continued to transform into active management. During the Reporting Period, CMS Asset Management adhered to the building of its core abilities of active management, and prospectively grabbed the market opportunity of the STAR Market, and launched the first batch of IPO products in the industry and the products be sold well. The Company also improved the star FOF product and actively deployed various types of fixed income NAV based products and the number and scale of new products increased significantly year-on-year. As at the end of the Reporting Period, the assets managed by the Company totalled RMB634.755 billion, ranking 5h in the industry. The assets under active management of the Company (excluding ABS) amounted to RMB151.309 billion.

AUM and net revenue of asset management business of the Company

Item	AUM (RMB100 million)		Net revenue of asset management (RMB100 million)	
	For the first half of 2019	As of the end of 2018	For the first half of 2019	For the first half of 2018
Collective asset management	927.57	1,317.75	3.62	4.35
Targeted asset management	4,853.83	5,249.80	0.99	1.07
Specialized asset management	566.15	567.10	0.06	0.03
Total	6,347.55	7,134.65	4.67	5.45

Source: Internal statistics of the Company

Chapter 4: Report of the Board of Directors

(2) Private equity funds

In the first half of 2019, China's private equity industry entered into an adjustment period, bringing transformative developments to the capital market. The launch of the STAR Market added more diversity to the exit channels and set off a wave of investment in innovative technology enterprises. On the other hand, Sino-US trade friction brought greater uncertainty to China's economy, causing a negative impact on its private equity industry. According to statistics of Zero2IPO Group, in the first half of 2019, the total size of newly-raised equity funds in China was about RMB 573 billion, representing a year-on-year decrease of 19.4%. There were 3,592 investment cases made, totaling RMB261.1 billion, representing year-on-year decreases of 39.1% and 58.5% respectively. Compared to the first half of 2018, the number of successful exit cases dropped by 33.6%. Among the 831 exits, 471 were IPOs, accounting 60% of the total, and their return rates were narrowing.

During the Reporting Period, CMS Zhiyuan formulated its future development strategies, including consolidating the current fund-raising system, encouraging the setups of characteristic funds, deepening the exploration of investment opportunities, strengthening project quality control, optimizing business processes, improving operation efficiency, realizing multi-channel exits of investment projects and improving cooperation within the China Merchants system. In the first half of 2019, CMS Zhiyuan achieved investment indications for the following funds: the Shenzhen-Hong Kong Fund, the Science and Technology Innovation Board Fund, the Logistics Fund and the TMT Fund II. Meanwhile, CMS Zhiyuan fully embraced the resources of China Merchant Securities, in finding investment opportunities in industries related to high-end manufacturing, biotechnology and consumption. As of the end of June 2019, the accumulated AUM of CMS Zhiyuan exceeded RMB 21 billion, and its accumulated investment amount exceeded RMB 10 billion.

(3) Fund management

① Bosera Funds

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

In the first half of 2019, Bosera Funds fully implemented the working principles of "leading by innovation, embracing changes, clinging to targets and striving for superiority", and spared no efforts to make progress through benchmarking itself against peers and seeking innovation. As a result, all of its works had been completed in a high-quality manner. The Company achieved stable growth in asset management scale, improved investment and research mechanism, recorded significant improvement in investment performance and realized constant improvement in market competitiveness. As at the end of the Reporting Period, the AUM of Bosera Funds was RMB934.5 billion (excluding the assets managed by subsidiaries), of which assets managed under mutual funds (excluding feeder funds) was RMB566.5 billion. Such results maintained its top position in the industry. According to the data from Wind, Bosera Funds ranked second in the industry in terms of AUM of non-monetary mutual funds, as of the end of June 2019.

Chapter 4: Report of the Board of Directors

② China Merchants Fund

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

In the first half of 2019, China Merchants Fund adhered to the principle of “emphasizing the main business, compliance, innovation and stability”, aiming to increase the position of equity products while maintaining the advantages of fixed-income products, and constantly reinforce the core position of the mutual funds business. Both of its pension business and multi-asset allocation business had developed steadily, and the active investment business had also achieved good results. In addition, it had always been customer-oriented and tried to realize the synergy between the retail business, institutional business and online finance business. Its international business made breakthrough and the plans on Fintec were steadily implemented. China Merchants Fund adhered to the bottom line of risk-control and compliance, so as to ensure the Company’s sustained and steady development. As at the end of the Reporting Period, the AUM of China Merchants Fund was RMB520.0 billion (excluding the assets managed by subsidiaries), of which assets managed under mutual funds (excluding feeder funds) was RMB385.6 billion. According to the data from Wind, China Merchants Fund ranked 8th in the industry in terms of AUM of non-monetary mutual funds, as of the end of June 2019.

4. *Investment and trading business*

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

In the first half of 2019, the SSE Composite Index rose by 19.45% from the beginning of the year, and all major indices in the A share market climbed in the first quarter with better-than-expected performance. The A share market suffered a general weakness in the second quarter, showing structural differentiation during the fluctuations. In the same period, through sound monetary policies and credit expansion policies, China managed to address the credit crunch issue of the year of 2018 to a certain extent. The growth rate of social financing and infrastructure investments had become stable, and the real estate investments grew at a faster speed. However, since the second quarter, the economic growth had once again slowed down, and the downward pressure on the economy was still relatively large.

In the first half of 2019, the Company established the department of financial market investments, through which, the Company conducted resource allocation, investment decision-making and risk management in a uniform approach. The stability of the overall investment performance had been continually enhanced.

Chapter 4: Report of the Board of Directors

(1) Equity investment

During the Reporting Period, the Company's directional business focused on range trading on the basis of stable asset allocation, continuously increased efforts in the investment research, enhanced the position management, and ensured investment security and revenue stability through the allocation of mutual funds and hedging strategies. By seizing the structural opportunities, the Company's directional business had achieved good results.

The Company actively engaged in market-neutral investment business by adopting quantifying and hedging approaches and leveraged on our abundant strategies, in order to gain more-than-expected return steadily with low-risk exposure. Our major businesses includes market-making for funds, market-making for exchange-traded options and trading of OTC derivatives. The Company's market-making for funds business continued to expand its business scale. The Company continually optimized the market-making strategies and systems for the market-making for exchange-traded options to enhance the market competitiveness of our quotes. The OTC option business actively expanded its business channels and innovated its business model. In the first half of 2019, the Company obtained the market-making qualification for the corn options from the Dalian Commodity Exchange and the market-making qualification for the cotton options from the Zhengzhou Commodity Exchange, and also obtained the market-making qualification for the sugar and cotton futures from the Zhengzhou Commodity Exchange.

(2) FICC

During the Reporting Period, in respect of the proprietary fixed income trading business, the Company strengthened macroeconomic research and market analysis, actively captured investment opportunities, and steadily directional trading. It also vigorously developed arbitrage strategies, enhanced the capability of liquidity management and strengthened the construction of information systems, so as to steadily expand the investment scale. By establishing a more comprehensive investment system, the Company increased its investment returns with multi-dimensional strategies. In the first half of the year, the investment yield rate of the Company's bonds outshone that of the ChinaBond Composite Index Total Return Index and performed comparatively well in the midst of a complicated business environment. While growing the existing businesses, the Company has also proactively prepared for and facilitated the rapid development of innovative business. In the first half of the year, the bond market-making business ranked 11th among the 55 market-making institutions in terms of the average daily domestic market-making volume, and the market influence was steadily improved. The overseas Bond Connect business was advancing steadily. In May 2019, the Company became one of the first batches of 8 treasury bond futures market makers in the market. The Company continuously expands the business scale of commodity investment to diversify its business, and is actively applying for sale and settlement of foreign exchange business qualification. In February 2019, the Company was awarded the "2018 Inter-bank Market Excellent Credit Default Swap Trial Quotation Agency" by the National Association of Financial Market Institutional Investors.

Chapter 4: Report of the Board of Directors

(3) Sale and trading of OTC products

The Company launched beneficiary certificates through the counter and adjusted the issuance plans of beneficiary certificates according to the market interest rates. In the first half of 2019, the Company issued 66 products through the counter, the scale of which amounted to RMB5.722 billion.

During the Reporting Period, the Company contracted the market-making business, and actively reduced holdings to cover cost. As of the end of June 2019, the Company was providing market-making services for 11 stocks, decreasing by 25 stocks as compared with the end of 2018.

5. Overseas business

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

In the first half of 2019, the Hang Seng Index increased by 2,697 points, representing an increase of approximately 10%, and the average daily trading volume amounted to HK\$82.4 billion, representing a year-on-year decrease of 24%. The new listing system of the Hong Kong Stock Exchange had encouraged new-economy companies such as pharmaceuticals and biotechnology companies to list in Hong Kong and bringing new opportunities for brokers. According to the data from Bloomberg, in the first half of the year, IPO financing in Hong Kong amounted to USD9.1 billion, representing a year-on-year decrease of 20%. The funds raised from G3 bonds in the Asian market (except Japan) amounted to USD186.8 billion, representing a year-on-year rise of 31%.

During the Reporting Period, CMS International focused on grasping the listing opportunities in Hong Kong by innovative companies and strategically strengthened the coverage on companies in the new economy. In the first half of 2019, the Company completed 6 IPO projects, 5 of which were new-economy companies listed in Hong Kong with high market profile, namely Jinxin Fertility, Hansoh Pharmaceutical, China Tobacco International (HK), CStone Pharmaceuticals and Maoyan Entertainment. IPO financing in the Hong Kong Stock Exchange were approximately USD396 million, down 15% year on year. The Company underwritten four bond projects, with financing of approximately USD155 million, a year-on-year decrease of 56%. According to the data from Bloomberg, the Company's IPO financing scale in the Hong Kong stock market ranked fourth in the first half of 2019, one place up as compared to 2018.

Chapter 4: Report of the Board of Directors

The securities business actively expanded new channels, launched new products and a new version of the US stock trading system and rolled out algorithmic transactions. The Company's overseas research continued to be among the top in mainstream ratings, and ranked among the top five in Asian Money's ratings of 2018, and were also among the top three in several research sectors. The direct investment business had transformed itself from equity investment to fund-type and customer-fund management, and successfully invested in market-influencing projects such as Sense Time, Ksyun and QQ Music. The fixed-income business gradually transformed from proprietary investment business to concentrated agency business, so as to increase the commission income and reduce overall market risks.

For the overseas subsidiaries, the Britain company became an official member of the London Stock Exchange in February, offering more diversified choices for Asian investors to directly participate in Europe's largest stock exchange.

6. Outlook for the second half of 2019

In the second half of 2019, there will still be great uncertainty as to the impact of Sino-US trade relations on the global economic trend, and the downward pressure on the domestic macroeconomy will intensify. The reform and opening-up policy will accelerate high-quality economic development, and the finance industry will return to its roots and strengthen its mission of serving the real economy. The reform at the regulatory level will adhere to the direction of marketization and legalization, and will make references to international practices. The basic systems of the capital market will continue to improve and the proportion of direct financing in the capital market will be increased, making it truly a "barometer" for economic operations and a "booster" to promote the high-quality economic development. The official opening of the STAR Market has also brought new opportunities for the sustainable and healthy development of the securities industry.

In the second half of 2019, the Company will effectively give play to the guiding role of our strategies and push forward the implementation of the sub-strategic plans for various businesses based on the four major strategic plans of investment banking, institution, wealth management and financial technology, so as to create a good start for the transformation. Specifically, the Company should focus on income-generating activities to give full play to the investment-generating capacity and the value-traction role of investment banking, and integrate resources of institutional business to further enhance the leading edges of our institutional business. The Company should also continue to deepen the transition of wealth management business and build our brands, adhere to the capital-driven model to further enhance the income contribution of capital management business and accelerate the development of various subsidiaries to further diversify sources of income.

Chapter 4: Report of the Board of Directors

(II) Analysis of Financial Statements

1. Analysis of Financial Statements

1.1 Analysis of the profitability of the Company during the Reporting Period

In the first half of 2019, the total revenue and other income of the Company amounted to RMB11.765 billion, representing a year-on-year increase of 41.78%. The net profit attributable to shareholders of the listed Company amounted to RMB3.503 billion, representing a year-on-year increase of 93.89%.

Unit: RMB'000 Currency: RMB

Business segment	Current period		Previous period		Change	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Fee and commission income	4,355,041	37.02%	4,059,579	48.92%	295,462	7.28%
Interest income	3,932,263	33.42%	4,272,396	51.49%	-340,133	-7.96%
Net gain on investment	3,000,239	25.50%	-15,056	-0.18%	3,015,295	
Other income and gains	477,300	4.06%	-19,144	-0.23%	496,444	
Total revenue and other income	11,764,843	100.00%	8,297,775	100.00%	3,467,068	41.78%

Fee and commission income recorded RMB4.355 billion, representing a year-on-year increase of 7.28%, among which the fee and commission income of securities and futures brokerage business recorded RMB2.898 billion, representing a year-on-year increase of 17.02%, which was mainly due to the increase in trading volume of stock and funds in A Share market. The income of underwriting and sponsorship business recorded RMB543 million, representing a year-on-year increase of 1.92%. The income of financial advisory business recorded RMB141 million, representing a year-on-year decrease of 8.3%. The income of asset management business recorded RMB510 million, representing a year-on-year decrease of 16.75%, which was mainly due to the decrease in management fee income from the collective asset management business.

Interest income recorded RMB3.932 billion, representing a year-on-year decrease of 7.96%, among which the interest income from deposits of the Company with Exchanges and financial institutions recorded a year-on-year decrease of 9.49%. Interest income from margin financing and securities lending recorded a year-on-year decrease of 18.01%. Interest income of securities-backed lending and stock repurchases recorded a year-on-year decrease of 27.43%. Interest income of debt instruments measured at amortised cost recorded a slight year-on-year increase of 0.23%. Interest income of financial assets at fair value through other comprehensive income recorded a year-on-year increase of 62.93%.

Net gain on investment recorded a significant year-on-year increase of RMB3.015 billion, primarily due to a significant year-on-year increase in income from investment in equity securities resulting from the rebound of stock market, and an increase in investment in fixed income business, which also recorded a relatively larger year-on-year increase in investment income.

Chapter 4: Report of the Board of Directors

Unit: RMB'000 Currency: RMB

Business segment	Current period		Previous period		Change	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Depreciation and amortization	257,599	3.26%	106,149	1.62%	151,450	142.68%
Staff costs	2,905,213	36.78%	1,626,709	24.80%	1,278,504	78.59%
Fee and commission expenses	762,073	9.65%	736,462	11.23%	25,611	3.48%
Interest expenses	2,917,925	36.94%	3,241,050	49.42%	-323,125	-9.97%
Business tax and surcharges	45,451	0.58%	49,386	0.75%	-3,935	-7.97%
Other operating expenses	1,041,861	13.19%	678,953	10.35%	362,908	53.45%
Impairment losses	-30,238	-0.38%	119,824	1.83%	-150,062	-125.24%
Total expenses	7,899,884		6,558,533		1,341,351	20.45%

In the first half of 2019, the total expenses of the Company amounted to RMB7.9 billion, representing a year-on-year increase of 20.45%, of which:

Fee and commission expenses amounted to RMB762 million, representing a year-on-year increase of 3.48%, among which expenses of securities and futures brokerage business recorded a year-on-year increase of 17.23%, expenses of underwriting and sponsorship business recorded a year-on-year decrease of 69.94%, expenses of asset management business recorded a year-on-year decrease of 55.43%, and expenses of financial advisory business recorded a year-on-year decrease of 56.22%.

Interest expenses amounted to RMB2.918 billion, representing a year-on-year decrease of 9.97%, which was mainly due to lower interest rate of the liabilities and financing.

Staff costs amounted to RMB2.905 billion, representing a year-on-year increase of 78.59%, which was mainly due to the increase in performance salary of the staff in line with the increase in revenue.

Other expenses mainly included depreciation and amortization, business tax and surcharges, other operating expenses and impairment losses. The year-on-year increase in depreciation and amortization was mainly due to the increase in the depreciation of right-of-use asset as a result of adopting the New Lease Standard. The significant decrease in impairment losses was mainly due to the impairment reversal of losses of RMB49 million from margin financing and securities lending during the year.

Chapter 4: Report of the Board of Directors

Unit: RMB'000 Currency: RMB

Business segment	Current period		Previous period		Change
	Amount	Percentage	Amount	Percentage	
Brokerage and wealth management	6,038,667	51.33%	6,203,252	74.76%	Decreased by 23.43 percentage points
Investment banking	683,702	5.81%	686,386	8.27%	Decreased by 2.46 percentage points
Investment management	1,002,197	8.52%	688,169	8.29%	Increased by 0.23 percentage points
Investment and trading	3,436,778	29.21%	516,354	6.22%	Increased by 22.99 percentage points
Others	634,024	5.39%	234,139	2.82%	Increased by 2.57 percentage points

In relation to business segment, revenue and other income from the brokerage and wealth management business recorded RMB6.039 billion, representing a year-on-year decrease of 2.65%. Revenue and other income from the investment banking business recorded RMB684 million, representing a slight year-on-year decrease of 0.39%. Revenue and other income from the investment management business recorded RMB1.002 billion, representing a year-on-year increase of 45.63%. Revenue and other income from the investment and trading business recorded RMB3.437 billion, representing a significant year-on-year increase of 565.59%. Revenue and other income from other business recorded RMB634 million, representing a significant year-on-year increase of 170.79%.

1.2 Analysis of assets and liabilities

As of the end of June 2019, the equity attributable to shareholders of the parent company was RMB82.238 billion, representing an increase of 1.88% as compared with the beginning of 2019. Net profit attributable to the parent company amounted to RMB3.503 billion, dividends amounted to RMB1.769 billion and interest payable for perpetual subordinated bonds amounted to RMB398 million.

As of the end of June 2019, total assets of the Company were RMB350.359 billion, representing an increase of RMB45.428 billion, or 14.90%, as compared with the end of 2018. The total current assets amounted to RMB323.717 billion and total non-current assets amounted to RMB26.642 billion. Excluding the accounts payable to brokerage clients and the accounts payable to underwriting clients, the total assets amounted to RMB285.665 billion, representing an increase of RMB29.646 billion, or 11.58%, as compared with the end of 2018, mainly attributable to an increase in financial assets held-for-trading and advances to customers.

As of the end of June 2019, the total liabilities of the Company were RMB268.040 billion, representing an increase of RMB43.902 billion, or 19.59%, as compared with the end of 2018. The current liabilities amounted to RMB212.163 billion and non-current liabilities amounted to RMB55.877 billion. Excluding the accounts payable to brokerage clients and the accounts payable to underwriting clients, the total liabilities amounted to RMB203.346 billion, representing an increase of RMB28.119 billion, or 16.05%, as compared with the end of 2018. The bond payable at the end of the period increased by RMB13.783 billion; short-term debt instruments decreased by RMB16.968 billion and the financial assets sold under repurchase agreements increased by RMB25.480 billion.

Chapter 4: Report of the Board of Directors

Net current assets at the end of June 2019 amounted to RMB111.554 billion. At the end of June 2019, the Company's cash and cash balances, clearing settlement funds, financial assets, advances to customers, financial assets held under resale agreements and long-term equity investment accounted for 23%, 50%, 14%, 7% and 2% of the total assets, respectively. The Company's financial assets sold under repurchase agreements, short-term borrowings and placements from other financial institutions in aggregate accounted for 35% of the total liabilities, while accounts payable to brokerage clients (including accounts payable to underwriting clients), bonds payable, and short-term financing bills accounted for 24%, 25% and 7% of the total liabilities, respectively.

As at June 30, 2019, the gearing ratio of the Company was 71.18%, representing a rise of 2.74 percentage points as compared with the end of 2018.

Note: gearing ratio = (total liabilities – accounts payable to brokerage clients – accounts payable to underwriting clients)/(total assets – accounts payable to brokerage clients – accounts payable to underwriting clients)

1.3 Cash flows

Unit: RMB'000 Currency: RMB

Item	Current period	Previous period	Change	Percentage change
Net cash used in operating activities	7,132,020	12,072,120	-4,940,100	-40.92%
Net cash used in investing activities	4,245,889	-2,436,331	6,682,220	
Net cash generated from financing activities	-5,742,821	-9,414,941	3,672,120	
Net increase (decrease) in cash and cash equivalents	5,635,088	220,848	5,414,240	2,451.57%

In the first half of 2019, the net increase in cash and cash equivalents of the Company was RMB5.635 billion. The net cash used in operating activities amounted to RMB7.132 billion. The net cash used in investing activities amounted to RMB4.246 billion. The net cash generated from financing activities amounted to RMB-5.743 billion.

Net cash used in operating activities amounted to RMB7.132 billion, representing a decrease of RMB4.94 billion as compared to the corresponding period in 2018. The decrease was primarily due to the increase in the advances to customers and the increase in the financial instruments at FVTPL of RMB12.729 billion and RMB17.527 billion, which was partially set off by decrease of financial assets held under resale agreements of RMB11.991 billion and increase of financial assets sold under repurchase agreements of RMB11.928 billion.

The net cash flow generated from investing activities was RMB4.246 billion, an increase of RMB6.682 billion compared to the corresponding period in 2018. The increase was mainly due to the year-on-year increase of RMB6.379 billion in net proceeds from disposal of debt instruments at fair value through other comprehensive income during the year.

Chapter 4: Report of the Board of Directors

Net cash generated from financing activities amounted to -RMB5.743 billion, representing an increase of RMB3.672 billion as compared to the corresponding period in 2018, primarily due to a year-on-year increase of RMB6.145 billion in the proceeds from bonds and short-term debt instruments, a year-on-year increase of RMB2.959 billion in the net proceeds from borrowings and a year-on-year increase of RMB5.291 billion in the repayment of bonds and short-term debt instruments (interest included).

(III) Analysis of investment

Analysis of total external equity investments

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

(1) Significant equity investments

Holding equity in financial companies

Target	Initial investment (RMB10,000)	Shareholding as at the beginning of the period (%)	Shareholding as at the end of the period (%)	Closing balance (RMB10,000)	Gain or loss during the Reporting Period (RMB10,000)	Change in equity attributable to the owner during the Reporting Period (RMB10,000)	Accounting item	Source
Bosera Asset Management Co., Limited	369,319.04	49.00	49.00	490,449.97	23,647.88	408.25	Long-term equity investment	Acquisition
China Merchants Fund Management Co., Ltd.	85,084.45	45.00	45.00	246,338.97	20,531.52	103.33	Long-term equity investment	Promotion and acquisition
Total	454,403.49	—	—	736,788.94	44,179.40	511.58	—	—

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

Chapter 4: Report of the Board of Directors

(2) Financial assets measured at fair value

Unit: RMB10,000 Currency: RMB

Project	As of the end of June 2019		January to June 2019	
	Initial investment cost/nominal amount	Fair value	Investment gains	Change in fair value
Financial assets at fair value through profit or loss	12,481,494.58	12,744,386.61	233,755.36	146,377.98
Debt instruments at fair value through other comprehensive income	3,692,342.80	3,819,304.63	17,461.07	-15,971.69
Financial instruments at fair value through other comprehensive income	688,253.00	718,803.46	0.00	46,542.78
Derivative financial assets		105,714.37		
Derivative financial liabilities	17,329,311.62	102,897.17	-18,054.01	-65,867.03
Financial liabilities at fair value through profit or loss	875,778.96	880,232.97	-22,314.56	8,664.96
Subtotal	—	—	210,847.86	119,747.00

Chapter 4: Report of the Board of Directors

(IV) Analysis of major subsidiaries and associated companies

1. Analysis of subsidiaries

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

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

Unit: RMB10,000 Currency: RMB

Item	For/as of the first half of 2019	For/as of the first half of 2018
Registered capital	100,000	100,000
Total revenue and other incomes	52,640	62,768
Net profit	33,594	33,621
Total assets	412,383	354,399
Net assets	376,517	309,734

(2) China Merchants Securities International Company Limited

CMS International is a wholly-owned subsidiary of the Company and has a paid-up capital of HK\$4.104 billion. CMS International is principally engaged in securities and futures contracts brokerage, custody services, listing sponsorship, financial advisory, corporate financing, investment management, asset management, market research and other businesses permitted by Hong Kong and overseas securities regulatory rules by establishing different subsidiaries.

Unit: HK\$10,000 Currency: RMB

Item	For/as of the first half of 2019	For/as of the first half of 2018
Paid-up capital	410,363	410,363
Total revenue and other incomes	61,802	47,395
Net profit	15,521	-3,486
Total assets	2,336,432	2,315,961
Net assets	572,098	545,015

Chapter 4: Report of the Board of Directors

(3) China Merchants Futures Co., Limited

China Merchants Futures is a wholly-owned subsidiary of the Company with a registered capital of RMB630 million and a paid-up capital of RMB630 million. Its principal businesses include commodity futures brokerage, financial futures brokerage, futures investment consultation and asset management. As of June 30, 2019, China Merchants Futures had four branches in Beijing, Guangzhou, Shanghai and Hangzhou as well as one wholly-owned risk management subsidiary.

Unit: RMB10,000 Currency: RMB

Item	For/as of the first half of 2019	For/as of the first half of 2018
Registered capital	63,000	63,000
Total revenue and other incomes	67,591	25,269
Net profit	6,395	7,390
Total assets	681,066	609,923
Net assets	150,655	137,426

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

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

Unit: RMB10,000 Currency: RMB

Item	For/as of the first half of 2019	For/as of the first half of 2018
Registered capital	210,000	210,000
Total revenue and other incomes	45,738	3,968
Net profit attributable to the parent company	27,890	-2,544
Total assets	680,090	640,251
Net assets attributable to the parent company	247,643	227,257

Chapter 4: Report of the Board of Directors

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

China Merchants Securities Investment Co., Ltd., a wholly-owned subsidiary of the China Merchants Securities, has a registered capital of RMB3.1 billion and a paid-up capital of RMB1.2 billion. It is principally engaged in equity investment and financial product investment etc.

Unit: RMB10,000 Currency: RMB

Item	For/as of the first half of 2019	For/as of the first half of 2018
Registered capital	310,000	120,000
Total Revenue and other incomes	592	113
Net profit	2,151	3,131
Total assets	136,605	129,754
Net assets	136,505	129,674

2. Analysis of associated companies

(1) Bosera Asset Management Co., Limited

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

Unit: RMB10,000 Currency: RMB

Item	For/as of the first half of 2019	For/as of the first half of 2018
Registered capital	25,000	25,000
Operating income	164,847	159,298
Operating profit	63,758	69,189
Net profit	48,261	52,615
Total assets	679,278	600,122
Net assets	438,393	381,431

Chapter 4: Report of the Board of Directors

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

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

Unit: RMB10,000 Currency: RMB

Item	For/as of the first half of 2019	For/as of the first half of 2018
Registered capital	131,000	131,000
Operating income	129,957	133,781
Operating profit	58,234	51,674
Net profit	45,626	42,160
Total assets	686,357	710,518
Net assets	503,077	439,775

(V) Structured entities controlled by the Company

As of June 30, 2019, the Group consolidated 13 structured entities, including mainly collective asset management schemes, limited partnership and investment funds. Under the circumstance that the Group is involved in a structured entity as manager and investor, the Group assesses whether its potential variable returns will be significantly affected by the returns attributable to its investment and the remuneration as a manager and whether the Group is a principal of the entity. As of June 30, 2019, the total assets of the consolidated structured entities amounted to RMB7.159 billion.

III. Other Disclosure

Potential risks and corresponding measures

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

Chapter 4: Report of the Board of Directors

1. Risk management profile

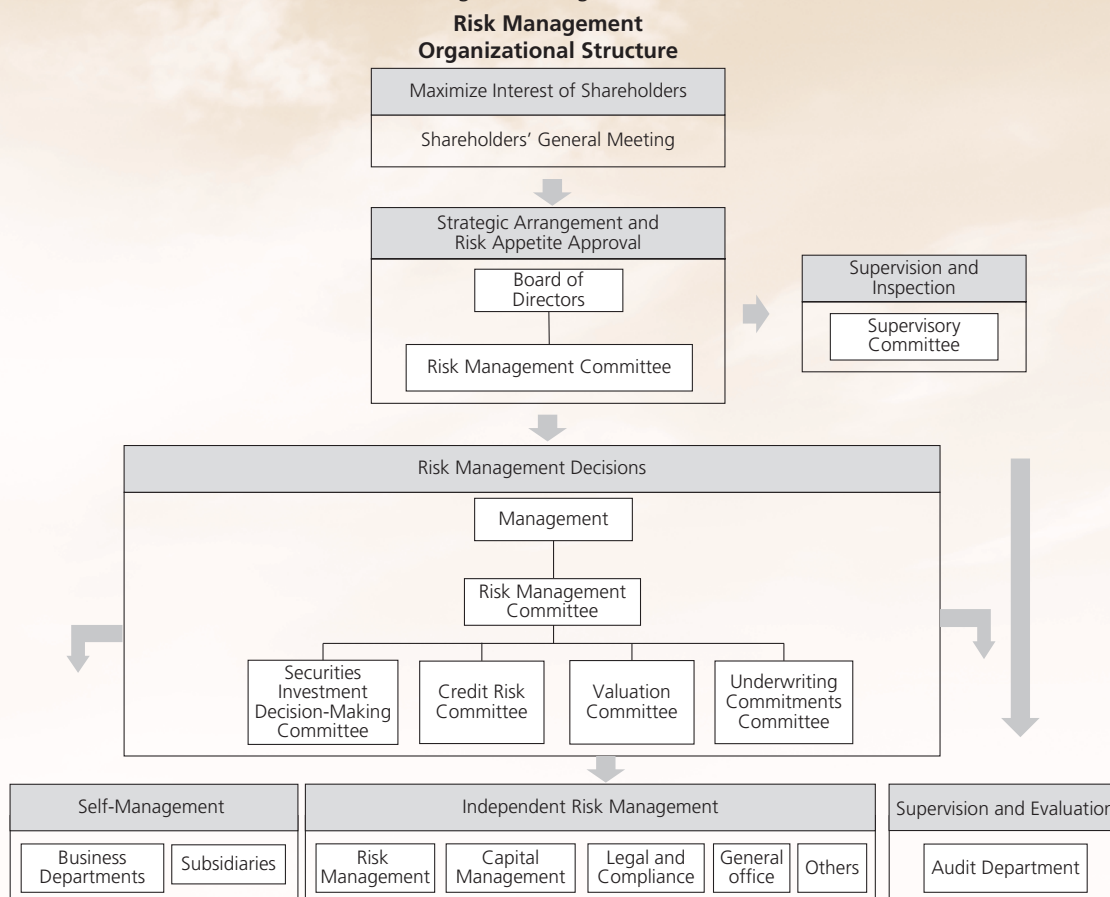
(1) Risk management structure

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

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

Chapter 4: Report of the Board of Directors

The chart below sets out our risk management organizational structure:



The overall risk management responsibilities of each organization/unit in the risk management organizational structure of the Company are as follows:

- ① The Board and its Risk Management Committee are responsible for reviewing and approving the overall risk management system, the risk appetite, risk tolerance and various risk limit indicators of the Company, considering and approving the allocation plan of economic capital of the Company, convening quarterly meetings to review quarterly risk reports and thoroughly assessing the risk management of the Company.
- ② The Supervisory Committee is responsible for supervising and examining the operation of the overall risk management system of the Company.

Chapter 4: Report of the Board of Directors

- ③ The senior management is fully responsible for the risk management in the Company's business operation. They regularly review risk assessment reports, formulate risk management measures and establish risk limit indicators. A Risk Management Committee was set up under the senior management for the highest risk management decision-maker at the operation level. The Company has also appointed a Chief Risk Officer to oversee the formation of the overall risk management system, monitor, evaluate and report the overall risk level, and provide risk management advice for business decision-making of the Company. In addition, a Securities Investment Decision-making Committee, Credit Risk Committee, Valuation Committee and Underwriting Commitments Committee were set up under the Risk Management Committee and responsible for making collective decisions based on experts suggestions on issues relating to securities investment, credit risk, securities evaluation and underwriting risks within their respective scope of authorization. The risk management of subsidiaries is managed by the overall risk management system of the Company through vertical management approach. The person-in-charge of risk management of subsidiaries shall be nominated, appointed, removed and appraised by the Chief Risk Officer of the Company.
- ④ As the department to coordinate market, credit and operating risks management of the Company, the Risk Management Department is responsible for managing the market risks and credit risks, as well as assisting and guiding other business departments in managing operational risks of the Company. As a department in charge of the liquidity risk management of the Company, the Capital Management Department is responsible for managing liquidity risks and the formation of the liquidity risk management system. The Legal and Compliance Department is responsible for managing the compliance and legal risks as well as money laundering risks of the Company and assisting the Chief Compliance Officer in reviewing, supervising and examining the compliance of both the business operations of the Company and the employees' practicing behaviours, and promoting the implementation of anti-money laundering. The General Office is responsible for managing the reputation risks of the Company together with the Risk Management Department and other relevant departments. The Audit Department is responsible for auditing and examining the effectiveness and execution of the risk management procedures of the Company as well as conducting an overall evaluation of the internal control system of the Company at least once a year.
- ⑤ Each of the business departments, branches and wholly-owned subsidiaries of the Company is directly responsible for risk management and supervision of their respective business and management fields.

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

(2) Risk management system

Guided by the Risk Management System of China Merchants Securities (《招商證券全面風險管理制度》), the Rules of Procedures for Risk Management Committee Meeting of the Board (《董事會風險管理委員會工作規則》), the Company has developed an overall risk management system that covers various risk exposures including market, credit, operational, liquidity, reputation risks and money laundering risks and specifies the boundaries and general principles of each risk category.

Chapter 4: Report of the Board of Directors

(3) Quantitative risk management indicator system

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

- ① **Coherent risk appetite and tolerance indicators:** Risk appetite framework establishes the fundamental attitude of the Board and the senior management towards the balance between risk and return based on the analysis of various risk exposures of the Company. Risk tolerance is a quantitative limit indicator that reflects the effectiveness of risk management. According to the risk appetite, the Company has set risk tolerance indicators for each specific business line based on its characteristics to specify the maximum tolerance of the risk management. After years of effort, the Company has developed clear risk appetite descriptions covering ten major risk types, namely profitability, capital and solvency, concentration risk, credit risk, market risk, liquidity risk, connected transactions, operational risk, regulatory risk and reputational risk, based on which a risk appetite indicator system and a risk tolerance indicator system were established. The Company sets its targets of risk appetite and risk tolerance at the beginning of each year and determines economic capital budget and business authorization accordingly. The Company monitors and reports risk appetite and risk tolerance on a monthly basis, and continuously reviews the risk management based on the results.
- ② **Scientific economic capital management model:** The Company took the lead to introduce an economic capital management model in the PRC securities industry in 2006, and kept on optimizing the methodologies on economic capital measurement and improving the economic capital management process. Our economic capital management covered market risk, credit risk and operational risk. The Company has developed internal models to measure market risk and credit risk of the economic capital that are sufficiently sensitive to risk factors and practically sound. It measured operational risks according to the standards under the Basel Accords. The measurement of economic capital is generally used in risk monitoring, quantitative assessment and performance assessment.
- ③ **Business authorization management system with the core of risk limits:** Within the statutory business scope, the Company granted business authorization at different levels based on the risk rating of the business. The Company granted authorization prudently based on the risk management capability, implementation of business authorization and actual risk management results of each business department, so as to improve decision-making efficiency while keeping the risks under control. Unauthorized operations were strictly prohibited. Authorized persons at each level must exercise their power and conduct business activities only within the authorized scope.
- ④ **Comprehensive stress testing mechanism:** The Company established the Administrative Measures for Stress Testing (《壓力測試管理辦法》), which specified the division of duties among departments in stress test and determined the methods and procedures of stress test. The Company conducts routine, ad hoc and comprehensive stress test on liquidity risk, credit risk and market risk, as well as net capital and other risk limit indicators, based on business and market development. With this approach, the Company can effectively evaluate changes in the operation and risk profiles under extreme circumstances.

Chapter 4: Report of the Board of Directors

(4) Risk management culture

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

(5) Risk management IT system

The Company fully understands the importance of IT system in the modern risk management and has facilitated the setting up of different types of systems. In the first half of 2019, the Company upgraded the risk data collection so as to provide comprehensive and reliable underlying risk data. Besides, the Company optimized each of the risk management system, and improved the efficiency and analytical abilities of risk management IT systems. A relatively comprehensive risk management IT system has been established covering the acquisition of daily real-time market information, monitoring of business risks, quantified risk analysis and measurement and risk reports from multiple dimensions, layers and perspectives. The system has been continuously updated to include more data and business types. An efficient and comprehensive risk monitoring and analysis have been established for all types of businesses of the parent company and its subsidiaries at home and abroad in an effort to effectively identify, measure, monitor, assess and report various risks. A net capital monitoring mechanism has been established according to the Administrative Measures for Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》) issued by the CSRC to effectively monitor various risk indicators for net capitals. Based on the mechanism, a monitoring system of consolidated risk control indicators has been developed to further strengthen the risk management of the Group. The Company has established a comprehensive risk management portal system, a market risk management system, credit risk management system, operational risk management system, liquidity risk management system and an economic capital management system. Among them, the comprehensive risk management portal system has integrated the business functions of all risk management systems, therefore it can comprehensively display risk status of the Company. Market risk management system has following functions such as automatic generation of periodic reports, quota management, analysis and reporting of various risks and departmental risks. Credit risk management system has following functions including customer information management and the management for the same customer, credit management, default management, warning management, core statistics and inquiry. Operational risk management system has following functions including risk and control self-assessment (RCSA), key risk indicators (KRI), and loss data collection (LDC), etc. Liquidity risk management system includes liquidity monitoring statement, liquidity gap management, analysis on assets and liabilities, scenario analysis and pressure tests and model for realization of financial assets. Economic capital management system has the functions of daily calculation and summary display of market risks, credit risks, operational risks and economic capitals.

Chapter 4: Report of the Board of Directors

2. *Market risk and corresponding measures*

(1) Overview

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

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

(2) Market risk management approaches

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

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

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

Chapter 4: Report of the Board of Directors

(3) Responsibilities of market risk management

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

(4) Measurement of market risk

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

① VaR

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

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

Chapter 4: Report of the Board of Directors

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

② Stress test

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

③ Sensitivity analysis

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

(5) Market risk limit management system

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

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

The Risk Management Department independently monitors each risk limit of the Company on a daily basis. The department will warn the operation management, relevant business departments and business lines in a timely manner if the risk limit is reached or exceeded. Such business departments and lines will issue analysis reports and propose appropriate measures and, according to the specific condition, reduce risk exposures or increase risk threshold based on the authorization system.

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

Chapter 4: Report of the Board of Directors

3. Credit risks and corresponding measures

(1) Overview

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

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

(2) Management of credit risk

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

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

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

- ① Credit risk limit

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

Chapter 4: Report of the Board of Directors

② Internal credit rating

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

③ Quantitative management of collaterals

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

④ Credit risk measurement model

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

(3) Responsibility for managing credit risk

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

Chapter 4: Report of the Board of Directors

(4) Credit risk management on principal businesses

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

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

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

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

Chapter 4: Report of the Board of Directors

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

Unit: RMB'000 Currency: RMB

	June 30, 2019	December 31, 2018
Issuers in Mainland China		
PRC sovereign bonds	55,902,102	50,939,463
AAA	44,188,202	36,480,181
AA+	7,413,408	7,255,461
AA	1,312,765	1,222,258
Below AA-	16,952	15,539
A-1	671,308	553,357
Non-rated	25,532,735	23,207,093
Sub-total	135,037,472	119,673,352
Issuers in Hong Kong and other regions		
PRC sovereign bonds	8,079	9,740
A	857,850	102,910
B	3,152,193	956,562
Non-rated	134,930	197,842
Sub-total	4,153,052	1,267,054
Total	139,190,524	120,940,406

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

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

Credit rating of the bonds issued in Hong Kong and other regions were derived from the lowest of Moody's, Standard & Poor's and Fitch Rating, if any. The bonds, which are not rated by the above agencies, are classified as NR. Including in A rating are the bonds comprising Aaa-Aa3 rating of Moody's, AAA-A-rating of Standard & Poor's and AAA-A- rating of Fitch; and including in B rating are the bonds comprising Baa1-B3 rating of Moody's, BBB+-B- rating of Standard & Poor's and BBB+-B- rating of Fitch; including in C rating are the bonds comprising Caa1-C rating of Moody's, CCC+-C rating of Standard & Poor's and CCC+-C rating of Fitch; and including D rating are the bonds comprising D rating of Moody's, and D rating of Fitch.

Chapter 4: Report of the Board of Directors

4. Operational risk management and corresponding measures

(1) Overview

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

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

(2) Operational risk management

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

- ① The Company have established comprehensive systems for operational risk mitigation and management in accordance with the New Basel Accord and our strategic development needs, and we effectively lead the operation of various businesses through measurement and allocation of operational risk-based economic capital;
- ② The Company have established an integrated, scientific and hierarchical system on the basis of operational risk appetite, tolerance and management policy. The Company improved the operational risk governance structure in a dynamic way by conducting gap analysis on the basis of continuous tracking and assessment of the current management status;
- ③ The Company have utilized operational risk management tools in a scientific and refined way by using operational risk and self-assessment management tools, progressively establishing a structure categorizing procedures, operational risks and control measures, and applying quantitative and qualitative operational risk exposure assessment methods;
- ④ The Company have actively implemented risk identification and self-assessments throughout the Company. With procedure rationalization as the focus and with each department branch or subsidiary as a unit, targeting on the inherent risks, residual risks of all the businesses of the Company and building sustainable assessments mechanism by adopting plan of risk alleviation, an operational risk manual has been formulated to pinpoint the importance of identification and assessments beforehand;
- ⑤ The Company have continued to set up a system of key indicators of risks to further enhance risk monitoring and warning based on risk-prone areas of different business features and operations by formulating risk management standards and conducting management by classification;
- ⑥ By using operational risk events and loss data collection management tools, the Company collected and summarized the important internal and external operational risk events encountered by each of our businesses, analyse reasons of the events and formulate alleviation measures, as well as strengthen the following-up of and improvements in the operational risk events;

Chapter 4: Report of the Board of Directors

- ⑦ On the base of the established operational risk system, the Company further improved and deepened the systematic-level utilization of three major management tools for operational risks including the systematic application of the whole process of risk identification, assessment, control, monitoring and risk reporting, so as to effectively improve the efficiency and level of the Company's operational risk management;
- ⑧ The Company improved the standard measurements for risk capital. Measurement and verification procedures for operational risk-based economic capital which were applicable for the current risk tolerance level were established. Through controlling the total amount of operational risk-based economic capital, the Company ensured a reasonable balance between the scale of various business and their respective risk tolerance capability;
- ⑨ The Company paid great attention to the training and promotion of culture relating to operational risk management. The Company emphasized the importance of conducting risk identification and control before introducing innovative products and innovative businesses, and continuous identification and investigation of potential risks in the business operation procedures. Through various kinds of trainings and promotions, operational risk management covers all the departments and branches in our front, middle and back offices, and in turn effectively strengthens all the staff's ability to control in advance, monitor during and improve after the occurrence of such events.

5. *Liquidity risks and corresponding measures*

(1) Overview

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

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

(2) Duties of liquidity risk management

The management of the Company is responsible for formulating the liquidity policy for management. A treasure operating mechanism for centralized management and control of liquidity risk has been established, and the Capital Management Department is responsible for liquidity management. The Company conducts dynamic management of the funding scale for each business and formulate financing plans by taking into account of factors such as liabilities and business development of the Company as well as the market condition.

Chapter 4: Report of the Board of Directors

(3) Management measures for liquidity risk

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

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

Chapter 5: Major Events

I. SHAREHOLDERS' GENERAL MEETING

Meeting	Date of meeting	Inquiry index of designated website for the publication of poll results	Date of the publication of resolutions
The first extraordinary general meeting of 2019, the first class meeting of A Shares of 2019 and the first class meeting of H Shares of 2019	May 20, 2019	Hong Kong Stock Exchange website	May 20, 2019
2018 Annual General Meeting	June 28, 2019	Hong Kong Stock Exchange website	June 28, 2019

II. PROPOSALS ON PROFIT DISTRIBUTION OR CONVERSION OF CAPITAL RESERVE

(I) Profit distribution proposal and proposal for capital increase by way of conversion of capital reserve for the Reporting Period

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

No interim dividends for the six months ended June 30, 2019 was proposed by the Board of Directors of the Company. No interim dividends were paid by the Company for the corresponding period of last year.

Chapter 5: Major Events

III. PERFORMANCE OF UNDERTAKINGS

Undertakings of undertaking related parties such as controlling shareholders, shareholders, related parties, acquirer and the Company during or subsisting at the time of the Reporting Period

Background	Type	Party(ies)	Details	Effective time and validity period	Whether the undertakings have a performance deadline	Whether the undertakings have been strictly performed in a timely manner	Reason for not performed in a timely manner	Follow-up actions, in case of undertaking not performed in a timely manner
Undertaking related to the initial public offering	Prevention of competition	Jisheng Investment	Pursuant to the Non-competition Undertaking Letter in favor of the Company, Jisheng Investment has undertaken that it will not engage in any business which competes directly with the existing principal businesses of the Company and its subsidiaries (whether wholly-owned or not) in accordance with laws and administrative regulations.	Upon the public offering and listing of the A Shares of the Company, and as long as Jisheng Investment is a shareholder of the Company.	Yes	Yes	—	—
Undertaking related to the initial public offering	Prevention of competition	China Merchants Group	Pursuant to the Non-competition Undertaking Letter in favor of the Company, China Merchants Group has undertaken that it and the legal entities beneficially controlled by it will not establish new securities companies or control other securities companies through acquisition in the PRC. For businesses of the same or similar nature to securities companies engaged by the non-securities companies controlled by China Merchants Group, it will make sufficient disclosure in accordance with laws upon the public offering and listing of the shares of the Company. China Merchants Group shall not harm the interests of the Company and other shareholders by virtue of its role of de facto controller of the Company.	Upon the public offering and listing of the A Shares of the Company, and as long as China Merchants Group is the de facto controller of the Company.	Yes	Yes	—	—
Undertaking related to the initial public offering	Lock-up of shares	China Merchants Group	H Shares subscribed under the Global Offering shall be locked up for three years commencing from the listing date of H Shares of the Company.	Three years from the listing date of H Shares of the Company.	Yes	Yes	—	—
Undertakings related to re-financing	Lock-up of shares	CM Finance Investment	No transfer of A Shares subscribed in the non-public offering is allowed within 60 months from the date of completion of the non-public offering of A Shares in May 2014 (note).	60 months	Yes	Yes	—	—

Chapter 5: Major Events

Background	Type	Party(ies)	Details	Effective time and validity period	Whether the undertakings have a performance deadline	Whether the undertakings have been strictly performed in a timely manner	Reason for not performed in a timely manner	Follow-up actions, in case of undertaking not performed in a timely manner
Undertakings related to re-financing	Prevention of competition	CM Finance Investment	Pursuant to the Non-competition Undertaking Letter in favor of China Merchants Securities Co., Ltd., CM Finance Investment has undertaken that it and the legal entities controlled by it will not directly or indirectly operate any business that competes or likely competes with the business operated by China Merchants Securities, and will avoid new peer competition.	As long as CM Finance Investment is a controlling shareholder of the Company.	Yes	Yes	—	—
Undertakings related to re-financing	Others	CM Finance Investment, Jisheng Investment, Best Winner Investment Limited	They have undertaken to subscribe in full for the shares available under the rights issue plan in cash.	The right issue period of the Company	Yes	Yes	—	—
Undertakings related to re-financing	Others	China Merchants Group, CM Finance Investment	They have undertaken not to interfere in the operation and management activities of the Company beyond the authority; not encroach upon the interests of the Company; not deliver interests to other units or individuals free of charge or under unfair conditions, nor damage the interests of the Company in other means; if the China Securities Regulatory Commission (CSRC) makes other new regulatory provisions on remedial measures and other new undertakings before the completion of the right issue, and the aforesaid undertakings fail to meet such provisions of the CSRC, the additional undertakings will be given in accordance with the latest provisions of the CSRC; in case of any loss caused to the Company or other shareholders due to violation of the aforesaid undertakings or refusal to perform the aforesaid undertakings, they shall be liable for compensation to the Company or other shareholders according to the laws.	As long as China Merchants Group is the de facto controller of the Company; as long as CM Finance Investment is a controlling shareholder of the Company.	Yes	Yes	—	—
Other undertakings to minority shareholders	Others	China Merchants Group, China Ocean Shipping	When there is unusual price movement in the shares of the Company, they will not reduce their shareholdings in the Company and will increase their shareholdings in accordance with laws when appropriate.	When there is unusual price movement in the shares of the Company	Yes	Yes	—	—

Note: the restricted shares was traded on the market on May 27, 2019.

Chapter 5: Major Events

IV. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRM

Details of the appointment and removal of accounting firm

On June 28, 2019, the Resolution regarding appointment of Auditing Firm of the Company for 2019 was considered and approved at the 2018 annual general meeting of the Company. Pursuant to which, the Company appointed Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the auditors for the annual report and internal control of the Company for 2019.

V. MATERIAL LITIGATIONS OR ARBITRATIONS

For litigations involved in an amount of RMB50 million or above during the Reporting Period, please refer to the relevant announcements published by the Company on the Hong Kong Stock Exchange website on January 23 and June 18, 2019, respectively.

VI. PUNISHMENT AND REMEDIAL MEASURES ON THE LISTED COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS AND ACQUIRER

CMS HK, a wholly-owned subsidiary was taken disciplinary actions against by the SFC. For details, please refer to the announcements of the Company dated May 28 and May 31, 2019 published on the Hong Kong Stock Exchange website.

VII. INTEGRITY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDERS DURING THE REPORTING PERIOD

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

Chapter 5: Major Events

VIII. MATERIAL CONTRACTS AND THEIR PERFORMANCE

Guarantees

Unit: 100 million Currency: RMB

Guarantees provided by the Company (excluding guarantees for subsidiaries)													
Guarantor	Relationship between the guarantor and the listed company	Guarantee	Amount of guarantee	Date of guarantee (date of agreement)	Effective date of guarantee	Expiry date of guarantee	Types of guarantee	Completion of guarantee	Guarantee overdue	Outstanding amount of guarantee overdue	Counter guarantee	Guarantee for related parties	Relationship
—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total guarantees provided during the Reporting Period (excluding guarantees for subsidiaries)							0						
Balance of guarantees as at the end of the Reporting Period (A) (excluding guarantees for subsidiaries)							0						
Guarantees for subsidiaries by the Company													
Total guarantees provided for subsidiaries during the Reporting Period							2.64						
Balance of guarantees for subsidiaries as at the end of the Reporting Period (B)							38.52						
Total guarantees (including guarantees for subsidiaries)													
Total guarantees (A+B)							38.52						
Percentage of total guarantees to the net assets of the Company (%)							4.68						
Including:													
Guarantees for shareholders, controlling shareholders and their related parties (C)							0						
Debt guarantee provided directly or indirectly for companies with gearing ratio over 70% (D)							0						
Amount of guarantees in excess of 50% of the net assets (E)							0						
Total amount of the above three items of guarantees (C+D+E)													
Outstanding guarantees subject to joint and several liabilities													

Chapter 5: Major Events

Guarantees provided by the Company (excluding guarantees for subsidiaries)													
Guarantor	Relationship between the guarantor and the listed company	Guarantee	Amount of guarantee	Date of guarantee (date of agreement)	Effective date of guarantee	Expiry date of guarantee	Types of guarantee	Completion of guarantee	Guarantee overdue	Outstanding amount of guarantee overdue	Counter guarantee	Guarantee for related parties	Relationship
Details of guarantees						<p>As at the end of the Reporting Period:</p> <ol style="list-style-type: none"> 1. CMS International provided guarantees in a total amount of RMB2.278 billion (including US\$5 million and HK\$2.55 billion) for bank loans of China Merchants Securities (HK) Co., Limited and China Merchants Securities (UK) Limited, wholly-owned subsidiaries of the Company. As at the end of the Reporting Period, the balance of guarantees was RMB352 million. 2. In February 2015, the first extraordinary meeting of the Company in 2015 considered and approved the provision of guarantees or counter guarantees for international bank borrowings or credit lines application in favor of CMS International and its wholly-owned subsidiary, with a total amount up to HK\$5 billion (or equivalent US\$ amount) and a term of 5 years. As at the end of the Reporting Period, the balance of guarantees was nil. 3. The provision of guarantees in favour of the transaction counterparties under the respective ISDA Agreement, CSA Agreement and other purchase and sales agreements entered into by China Merchants Securities Investment Management (HK) Co., Limited, a wholly-owned subsidiary of the Company, were considered and approved by the board of directors of CMS International between October 2013 to April 2018. 4. The provision of guarantees for China Merchants Futures (HK) and China Merchants Securities (UK) Limited, wholly-owned subsidiaries of the CMS International, under the Master Clearing Agreement were approved by the board of directors of CMS International in April 2015. 5. The provision of guarantees for China Merchants Securities Investment Management (HK) Co., Limited, a wholly-owned subsidiary of the CMS International, under the TBMA/ISMA Global Master Repurchase Agreement was approved by the board of directors of CMS International in May 2018. 6. Provision of guarantees in favor of CMS International for all obligations under the lease of office in Kwun Tong and all losses and indemnification obligations which may arise from the lease by CMS International and its subsidiaries was approved by the board of directors of CMS International in the year of 2018. 7. The provision of guarantees for China Merchants Securities Investment Management (HK) Co., Limited and China Merchants Securities (UK) Limited, wholly-owned subsidiaries of the CMS International, under the Prime Brokerage Agreement were approved by the board of directors of CMS International in January 2019. 8. On January 20, 2014, the Resolution regarding the Provision of Net Capital Guarantee for an Asset Management Subsidiary to be Established by the Company was approved at the first extraordinary meeting of the fourth session of the Board in 2014, which allowed the Company to provide net capital guarantee of up to RMB500 million for an asset management subsidiary, CMS Asset Management. 9. On September 27, 2016, the Resolution regarding the Increase in Commitment for Net Capital Guarantee in favour of the Asset Management Subsidiary by the Company was approved at the 42nd meeting of the fifth session of the Board, which allowed the Company to increase the net capital guarantee in favour of CMS Asset Management by no more than RMB3 billion in stages (together with the original guarantee of RMB500 million, the maximum amount shall be no more than RMB3.5 billion), and authorized the management of the Company to perform in stages, or terminate, such net capital guarantee within the above limit based on the actual operating condition of CMS Asset Management. <p>As at the end of the Reporting Period, the balance of net capital guarantee provided by the Company for CMS Asset Management amounted to RMB3.5 billion.</p>							

IX. POVERTY ALLEVIATION

1. Targeted poverty alleviation

Poverty alleviation is one of the three critical battles established by the 19th National Congress of the Communist Party, and also a great cause which shall be undertaken initiatives by the securities industry. China Merchants Securities continued to implement the “Decision of the PRC State Council on Poverty Alleviation” (Zhong Fa [2015] No. 34) (《中共中央國務院關於打贏脫貧攻堅戰的決定》(中發[2015]34號)) and the objectives of the working conference of the central committee on poverty alleviation through development pursuant to the general working plan formulated by the Party committee of the CSRC. In active response to the appeal of the government and the CSRC, the Company has made full use of the characteristics of the securities industry and carried out targeted poverty alleviation.

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

General target: focusing on the two counties under our paired-up poverty alleviation program to help impoverished countries realize “self-revitalization” so as to redevelop the county by themselves, rebuild their own strengths and lift out of poverty.

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

Supporting measures: the Party committee of the Company attached great importance to poverty alleviation by coordinating and deploying human and material resources, actively meeting demand from poverty alleviation work, and promoting, monitoring and periodically inspecting the alleviation work of the Company with the aim to guarantee the implementation of poverty alleviation.

2. Summary of targeted poverty alleviation works of the Reporting Period

During the first half of 2019, the Company has been and is carrying out the poverty alleviation works in following areas:

(1) In respect of Industry

- a. During the first half of 2019, the Company completed the IPO project of ChinaLin Securities, helping ChinaLin Securities become the first listed IPO security company in the Tibet Autonomous Region.
- b. The non-public offerings of shares of Muyuan Foods Co., Ltd. sponsored and underwritten by the Company as a lead underwriter was reviewed and approved by the CSRC.

Chapter 5: Major Events

(2) In respect of Finance

The Neixiang Muyuan business branch established by the Company continued to provide financial support work to enterprises at county level. By ways of site visit, business training and due diligence, the Company offered answers to questions concerning the entry into capital market raised by enterprises in Neixiang and provided assistance for enterprises in enhancing their capital operation level. During the first half of 2019, through the referral of the Company, 1 enterprise in Neixiang County was successfully listed on the NEEQ; we visited and analyzed over ten enterprises, of which 3 enterprises were proved to be qualified for listing and 1 enterprise has explicitly expressed interest in listing.

(3) In respect of Welfare

We implemented the “College Dream Project for Impoverished Students”, pursuant to which our employees donated RMB90,000 to offer financial aids amounted to RMB3,000 to each of 30 impoverished students with documentary cards from Shitai County, who have received admissions to universities in 2019, in order to help them finish college studies.

3. Poverty alleviation effect

Unit:10,000 Currency: RMB

Indicators	Amounts and details
I. Total	
Including: 1. Funds	—
2. Conversion of money from materials	9
3. Number of people under poverty alleviation with documentary cards (person)	—
II. By category	
1. Industrial development	—
Including: 1.1 Project types	<input type="checkbox"/> Agriculture and forestry <input type="checkbox"/> Tourism <input type="checkbox"/> T E-commerce <input type="checkbox"/> Asset income promotion <input type="checkbox"/> Technology <input checked="" type="checkbox"/> Others
1.2 Number of projects (project)	2
1.3 Investment	—
1.4 Number of people under poverty alleviation with documentary cards (person)	—
2. Transfer employment	—

Chapter 5: Major Events

Indicators	Amounts and details
Including: 2.1 Investment in vocational skills training	—
2.2 Number of people receiving vocational skills training (person/time)	—
2.3 Number of poor people being employed under poverty alleviation with documentary cards (person)	—
3. Relocation	—
Including: 3.1 Number of poor people receiving help in relocation and employment (person)	—
4. Education	—
Including: 4.1 Subsidies to students in need	9
4.2 Number of poor students receiving subsidized (person)	30
4.3 Investment for improving educational resources in impoverished areas	—
5. Health care	—
Including: 5.1 Investment in medical and health resources in impoverished areas	—
6. Ecological protection	—
Including: 6.1 Project title	<input type="checkbox"/> Ecological protection and construction <input type="checkbox"/> Establishing way of compensation for ecological protection <input type="checkbox"/> Establishing ecological public welfare post <input type="checkbox"/> Others
6.2 Amount of investment	—
7. Guaranteed basic living standard	—
Including: 7.1 Investment in left-behind children, women and senior people	—
7.2 Number of left-behind children, women and senior people receiving help (person)	—
7.3 Investment in assisting poor people with physical disabilities	—
7.4 Number of poor people with disabilities receiving help (person)	—

Chapter 5: Major Events

Indicators	Amounts and details
8. Social contribution	—
Including: 8.1 Contributions to east-west poverty alleviation collaboration	—
8.2 Contributions to fixed-point poverty alleviation	—
8.3 Charity funds for poverty alleviation	—
9. Other projects	—
Including: 9.1 Number of projects (project)	—
9.2 Amount of investment	—
9.3 Number of people under poverty alleviation with documentary cards (person)	—
9.4 Explanation for other projects	—
III. Awards (details and levels)	
In July 2019, the Company was awarded the “Honorary Certificate for Active Participation and Donation for Poverty Alleviation” (對脫貧攻堅工作的積極參與和愛心捐贈榮譽證書) jointly-issued by the Securities Association of China and China Foundation for Poverty Alleviation.	
In May 2019, we were awarded the “2018 Economic Development Contribution Award” by the CPC County Committee and the People’s Government of Neixiang.	

4. Staged progress in fulfilling the social responsibility of targeted poverty alleviation

As a securities company controlled by state-owned enterprises, China Merchants Securities has always regarded poverty alleviation as one of its fundamental and important political obligations. As such, it resolutely implemented the national strategy of poverty alleviation, and actively fulfilled promotion and requirements from regulators, in order to actively contribute its share during the course of offering paired-up support and conducting financial works in impoverished areas.

In respect of industry, during the first half of 2019, China Merchants Securities assisted ChinaLin Securities in becoming the first listed IPO security company in the Tibet Autonomous Region. Meanwhile, the non-public offerings of shares of Muyuan Foods Co., Ltd. sponsored and underwritten by the Company as a lead underwriter was reviewed approved by the CSRC.

In respect of finance, the Neixiang Muyuan business branch established by the Company continued to provide financial support work to enterprises at county level. By ways of site visit, business training and due diligence, the Company offered answers to questions concerning the entry into capital market raised by enterprises in Neixiang and provided assistance for enterprises in enhancing their capital operation level. During the first half of 2019, through the referral of the Company, 1 enterprise in Neixiang County was successfully listed on the NEEQ; over ten enterprises visited and analyzed by us were proved to be qualified for listing, of which 3 enterprises were proved to be qualified for listing and 1 enterprise has explicitly expressed interest in listing.

Chapter 5: Major Events

In respect of welfare, we implemented the “College Dream Project for Impoverished Students”, pursuant to which we offered financial aids amounted to RMB3,000 to each of 30 impoverished students with documentary cards from Shitai County, who have received admissions to universities in 2019, in order to help them finish college studies.

5. Subsequent plans on targeted poverty alleviation

Plans for poverty alleviation in the second half of 2019 are as follows:

(1) *In respect of Industry*

Based on the actual status of outstanding corporations in Neixiang County, Henan Province, we will make business guidance for their projects of IPOs or Listing on NEEQ respectively, assist them to utilize instruments flexibly in capital market, and offer them tailored, considerate and personalized resolutions during their different strategic development stages, in order to help them realize sustainable development and expansion.

(2) *In respect of Finance*

We continued to take “support local economic development with financial services, help localities eliminate poverty as soon as possible” as our own task by pairing up with and helping enterprises at impoverished county level, actively conducting inclusive financial services and investor education, with the aim to constantly offer listed companies and listed companies-to-be at county level with professional financial support and make contribution to local economic development.

(3) *In respect of Consumption*

- a. Coordinating with labor union to purchase local agricultural products from impoverished counties in order to actively help eliminate poverty by consumption;
- b. Promoting agricultural products from impoverished counties to employees and clients through media to drive consumption.

(4) *In respect of Welfare*

- a. Based on the poverty alleviation needs of two targeted counties, namely, Neixiang County, Henan Province and Shitai County, Anhui Province, we delivered practical welfare resolutions;
- b. We donated RMB30,000 to the “Veterans Care Fund” of Hubei Charity Foundation.

Chapter 5: Major Events

X. ENVIRONMENTAL PROTECTION

Reasons for non-disclosure of environmental protection by companies other than key pollutant discharging units

The Company will disclose the information on environmental protection in its annual environmental, social and governance report.

XI. OTHER MAJOR EVENTS

Changes in accounting policies, accounting estimates and accounting methods as compared with the previous accounting period and the reasons and impacts thereof

According to the Notice on Amending the Accounting Standards for Enterprises No.21–Leases (Caikuai [2018] No.35) issued by the MOF on December 7, 2018, the Company implemented the new standards for leases from January 1, 2019, leading to the increase in both beginning right-of-use assets and lease liabilities, although the impacts on the net assets at January 1, 2019 in the consolidated financial statements of the Group were immaterial.

XII. RELATIONSHIP WITH INVESTORS DURING THE REPORTING PERIOD

During the Reporting Period, the Company had communication with 121 domestic and overseas analysts and institutional investors in 26 batches by participating and promoting at the investment strategy conferences and communication meetings held by domestic and overseas brokers, receiving the visits by domestic and overseas analysts and institutional investors and engaging in the seminars held by analysts in the securities industry; and also had communication with 322 investors via the Shanghai Stock Exchange E-Interaction (上交所e互動), hotline calls, E-mails and WeChat, etc. The Company took the initiatives in communicating with domestic and overseas investors and potential investors on the opportunities and challenges brought by the dramatic industrial transformations such as the further opening-up of the securities industry, the new management rules on financial holdings as well as the new regulations on the administration of Equity Ownership in Securities Companies, the reforming trend in the categorizing and appraising of security companies, and the adjustments to the margin financing and securities lending business; and on the Company's new five-year strategy, the transformation of its wealth management services, its financial technology strategy, market risks and credit risk controls. The Company categorized, analyzed and combined all the questions brought up by investors and analysts on a timely basis in order to enhance its investor relations management in terms of professionalism and standardization, as well as improve its quality in investor relations management.

Chapter 5: Major Events

XIII. USE OF NET PROCEEDS FROM H SHARE ISSUANCE

According to the use of proceeds from the global offering described in the H share prospectus disclosed on September 27, 2016 and the Proposal on Change of the Use of Some Proceeds from H shares approved by the first extraordinary general meeting of China Merchants Securities in 2019, the Company plans to use the proceeds from the global offering as follows:

approximately 25% for developing the brokerage and wealth management business of the Group. As of June 30, 2019, the accumulated actual usage was approximately RMB2,257 million (as affected by exchange rate fluctuations, the accumulated actual usage was approximately RMB20 million higher than the committed usage) (As of December 31, 2018: approximately RMB2,257 million);

approximately 25% for expanding the institutional client services and investment and trading business of the Group. As of June 30, 2019, the accumulated actual usage was approximately RMB2,257 million (as affected by exchange rate fluctuations, the accumulated actual usage was approximately RMB20 million higher than the committed usage) (As of December 31, 2018: approximately RMB2,257 million);

approximately 20.7% for contributing additional capital to CMS International to support its business. As of June 30, 2019, the accumulated actual usage was approximately RMB1,855 million (As of December 31: 2018: approximately RMB1,855 million) and the remaining balance of approximately RMB2.5 million has not been used;

approximately 24.3% for contributing capital to the Company's subsidiaries and associated companies, as well as establishing new subsidiaries. As of June 30, 2019, the accumulated actual usage was approximately RMB1,495 million (As of December 31, 2018: approximately RMB1,495 million), and the remaining balance of approximately RMB680 million has not been used; and

approximately 5% for working capital and general corporate purposes. As of June 30, 2019, the accumulated actual usage was approximately RMB460 million (as affected by exchange rate fluctuations, the accumulated actual usage was approximately RMB13 million higher than the committed usage) (As of December 31, 2018: approximately RMB460 million).

As of June 30, 2019, the balance in the special account for the proceeds was HKD354,771,160.28 (As of December 31, 2018: approximately HK\$354 million) and RMB466,462,989.60 (As of December 31, 2018: approximately RMB462 million). Upon translation of HK dollar into Renminbi at the central parity rate of HK dollar against Renminbi as of June 30, 2019, the sum of the above proceeds in HK dollar and Renminbi was RMB778,540,988.45. The actual uses of the proceeds were in line with the commitment announced by the Company.

XIV. CORPORATE GOVERNANCE

(I) Compliance with code on securities transactions

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

Chapter 5: Major Events

(II) Overview of corporate governance

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

Since the H Shares listed, the Company strictly complied with the Corporate Governance Code and Corporate Governance Report under Appendix 14 of the Hong Kong Listing Rules (hereinafter referred to as the "Code and Report"). The Company satisfied all provisions under the Code and Report and substantially all of the recommended best practices under the Code and Report.

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

XV. SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

Please refer to "Events after the Reporting Period" under "Chapter 9 Financial Report" of this report.

XVI. INTERIM RESULTS REVIEWED BY THE AUDIT COMMITTEE

The Audit Committee of the Company has reviewed and confirmed that the interim results announcement for the six months ended June 30, 2019, the 2019 interim report and unaudited interim financial statements for the six months ended June 30, 2019 were prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

Chapter 6: Changes in Ordinary Shares and Shareholders

I. CHANGES IN SHARE CAPITAL

(I) Table of changes in shares

1. Table of changes in shares

Unit: share

	Before this change		Increase/decrease after this change (+, -)					After this change	
	Number	Percentage (%)	New shares issued	Bonus shares	Shares converted from reserves	Others	Sub-total	Number	Percentage (%)
I. Restricted shares	815,308,642	12.17	—	—	—	-815,308,642	-815,308,642	—	—
1. Shares held by the state	—	—	—	—	—	—	—	—	—
2. Shares held by state-owned legal person	815,308,642	12.17	—	—	—	-815,308,642	-815,308,642	—	—
3. Shares held by other domestic investors	—	—	—	—	—	—	—	—	—
including:									
Shares held by domestic non-state-owned legal person	—	—	—	—	—	—	—	—	—
Shares held by domestic natural person	—	—	—	—	—	—	—	—	—
4. Shares held by foreign investors	—	—	—	—	—	—	—	—	—
including:									
Shares held by overseas legal person	—	—	—	—	—	—	—	—	—
Shares held by overseas natural person	—	—	—	—	—	—	—	—	—
II. Unrestricted shares	5,884,100,687	87.83	—	—	—	815,308,642	815,308,642	6,699,409,329	100.00
1. RMB ordinary shares	4,903,699,507	73.20	—	—	—	815,308,642	815,308,642	5,719,008,149	85.37
2. Domestic listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas listed foreign shares	980,401,180	14.63	—	—	—	—	—	980,401,180	14.63
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	6,699,409,329	100.00	—	—	—	—	—	6,699,409,329	100.00

Chapter 6: Changes in Ordinary Shares and Shareholders

2. Changes in shares

On May 27, 2019, 815,308,642 restricted shares held by CM Finance Investment, were listed and traded. For details, please refer to the relevant announcement issued by the Company on the website of the Hong Kong Stock Exchange on May 16, 2019.

3. Impact of changes in shares on financial indicators such as earnings per share and net assets per share after the Reporting Period up to the date of approval for the publication of this interim report

Nil

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

At the seventeenth meeting of the sixth session of the Board held on March 12, 2019, the “Resolution in respect of Repurchase of A Shares of the Company by Centralized Auctions”(《關於以集中競價交易方式回購公司A股股份方案的議案》) and the “Resolution in respect of Right Issue for 2019”(《關於公司2019年度配股方案的議案》) have been passed. On May 20, 2019, the above resolutions were considered and approved at the first extraordinary general meeting for 2019, the first A Shares class general meeting for 2019 and the first H Shares class general meeting for 2019 of the Company.

For details, please refer to the relevant announcements issued by the Company on the website of the Hong Kong Stock Exchange on March 12, March 14 and May 20, 2019, respectively.

(II) Changes in restricted shares

Unit: share

Name of shareholder	Number of restricted shares at the beginning of the period	Number of restricted shares released during the Reporting Period	Increase in restricted shares during the Reporting Period	Number of restricted shares at the end of the Reporting Period	Reason for restriction	Expiry date of restriction
CM Finance Investment	815,308,642	815,308,642	—	—	No transfer of A Shares subscribed in the non-public offering is allowed within 60 months from the date of completion of the non-public offering in May 2014.	May 27, 2019
Total	815,308,642	815,308,642	—	—	/	/

II. SHAREHOLDERS

(I) Number of shareholders

Number of holders of the ordinary shares as of the end of the Reporting Period	108,434
--	---------

Chapter 6: Changes in Ordinary Shares and Shareholders

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

Unit: share

Top ten shareholders							
Name of shareholder (in full)	Changes during the Reporting Period	Number of shares at the end of the period	Percentage (%)	Number of restricted shares	Pledged or froze		Nature of shareholders
					Status	Number	
China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	—	1,575,308,090	23.51	—	Nil	—	State-owned legal person
Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)	—	1,310,719,131	19.56	—	Nil	—	State-owned legal person
HKSCC Nominees Limited (香港中央結算(代理人)有限公司)	4,760	980,043,320	14.63	—	Nil	—	Overseas legal person
China Ocean Shipping Company Limited (中國遠洋運輸有限公司)	—	418,948,014	6.25	—	Nil	—	State-owned legal person
Hebei Port Group Co., Ltd. (河北港口集團有限公司)	—	264,063,640	3.94	—	Nil	—	State-owned legal person
China Communications Construction Company Ltd. (中國交通建設股份有限公司)	—	209,399,508	3.13	—	Nil	—	State-owned legal person
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	—	200,313,024	2.99	—	Nil	—	Unknown
COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運(廣州)有限公司)	—	83,999,922	1.25	—	Nil	—	State-owned legal person
Central Huijin Asset Management Ltd. (中央匯金資產管理有限責任公司)	—	77,251,600	1.15	—	Nil	—	State-owned legal person
Hong Kong Securities Clearing Company Limited (香港中央結算有限公司)	16,922,945	62,118,563	0.93	—	Nil	—	Overseas legal person

Chapter 6: Changes in Ordinary Shares and Shareholders

Top ten holders of unrestricted shares			
Name of shareholder	Number of tradable unrestricted shares held	Class and number of shares	
		Class	Number
China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	1,575,308,090	RMB ordinary shares	1,575,308,090
Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)	1,310,719,131	RMB ordinary shares	1,310,719,131
HKSCC Nominees Limited (香港中央結算(代理人)有限公司)	980,043,320	Overseas listed foreign shares	980,043,320
China Ocean Shipping Company Limited (中國遠洋運輸有限公司)	418,948,014	RMB ordinary shares	418,948,014
Hebei Port Group Co., Ltd. (河北港口集團有限公司)	264,063,640	RMB ordinary shares	264,063,640
China Communications Construction Company Ltd. (中國交通建設股份有限公司)	209,399,508	RMB ordinary shares	209,399,508
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	200,313,024	RMB ordinary shares	200,313,024
COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運(廣州)有限公司)	83,999,922	RMB ordinary shares	83,999,922
Central Huijin Asset Management Ltd. (中央匯金資產管理有限責任公司)	77,251,600	RMB ordinary shares	77,251,600
Hong Kong Securities Clearing Company Limited (香港中央結算有限公司)	62,118,563	RMB ordinary shares	62,118,563
Statement on the related relationship or concerted actions among the aforesaid shareholders	Among the above top ten shareholders, 1. CM Finance Investment and Jisheng Investment are all subsidiaries of China Merchants Group, the controlling shareholder of the Company; and 2. China Ocean Shipping Company Limited and COSCO Shipping (Guangzhou) Co., Ltd. are all subsidiaries of China COSCO Shipping Corporation Limited.		

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

Notes 2: Given the fact that the shares of the Company are margin financing and securities lending targeted securities, the number of shares held by the shareholders will be calculated based on the aggregate number of shares and equities in their ordinary securities accounts and credit securities accounts.

Chapter 6: Changes in Ordinary Shares and Shareholders

III. INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at June 30, 2019, to the knowledge of the Directors after having made reasonable enquiry, the following persons (other than Directors, Supervisors and the chief executives of the Company) had interests or short positions in the shares or underlying shares which would be required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Number	Name of controlling shareholders and substantial shareholders	Class of shares	Nature of interest	Number of shares held (shares)	Percentage of total number of issued shares of the Company (%)	Percentage of total number of issued A Shares/H Shares of the Company (%)	Long positions ⁶ / short positions ⁷ / shares available for lending
1	China Merchants Group (招商局集團)	A Shares	Interest held by controlled corporations ¹	2,886,027,221	43.08	50.46	Long position
		H Shares	Interest held by controlled corporations ²	67,706,400	1.01	6.91	Long position
2	China Merchants Finance Investment Holdings Co., Ltd. (深圳市招商投資控股有限公司)	A Shares	Beneficial owners and interest of corporation controlled by substantial shareholders ³	2,886,027,221	43.08	50.46	Long position
3	Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)	A Shares	Beneficial owner	1,310,719,131	19.56	22.92	Long position
4	China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司)	A Shares	Interest held by controlled corporations ⁴	502,947,936	7.51	8.79	Long position
		H Shares	Interest held by controlled corporations ⁵	157,094,400	2.34	16.02	Long position
5	China Ocean Shipping Company Limited (中國遠洋運輸有限公司)	A Shares	Beneficial owner	418,948,014	6.25	7.33	Long position
6	PICC Life Insurance Company Limited (中國人民人壽保險股份有限公司)	H Shares	Beneficial owner	333,300,000	4.98	34.00	Long position
7	COSCO SHIPPING Financial Holdings Co., Limited	H Shares	Beneficial owner	157,094,400	2.34	16.02	Long position
8	Best Winner Investment Limited	H Shares	Beneficial owner	67,706,400	1.01	6.91	Long position

Chapter 6: Changes in Ordinary Shares and Shareholders

Notes:

1. China Merchants Group holds 100% of the equity interest in CM Finance Investment and Jisheng Investment, and is deemed to be interested in the same number of A shares which CM Finance Investment (23.51%) and Jisheng Investment (19.56%) are interested in under the SFO.
2. China Merchants Group holds 100% of the equity interest in Best Winner Investment Limited, and is deemed to be interested in the same number of H Shares which Best Winner Investment Limited (1.01%) is interested in under the SFO.
3. China Merchants Finance Investment Holdings Co., Ltd. directly holds 23.51% of the equity interest in the Company. China Merchants Finance Investment Holdings Co., Ltd. controls 100% interest in Shenzhen Jisheng Investment Development Co., Ltd. Therefore, it is deemed to be interested in the same number of A Shares held by Shenzhen Jisheng Investment Development Co., Ltd. (19.56%) by virtue of the SFO, accruing to 43.08% interest in aggregate both directly and indirectly.
4. China COSCO Shipping Corporation Limited holds 100% of the equity interest in China Ocean Shipping Company Limited (中國遠洋運輸有限公司) and China Shipping (Group) Company (中國海運(集團)總公司), and is therefore deemed to be interested in the same number of A Shares which China Ocean Shipping Company Limited (6.25%) and COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運(廣州)有限公司) (1.25%), a wholly-owned subsidiary of China Shipping (Group) Company, are interested in under the SFO.
5. According to the SFO, China COSCO Shipping Corporation Limited is deemed to be interested in the same number of H Shares which COSCO SHIPPING Financial Holdings Co., Limited (2.34%), a wholly-owned subsidiary of China Shipping (Group) Company (中國海運(集團)總公司), is interested in.
6. A shareholder has a “long position” if it has an interest in shares, including interests through holding, selling or issuing financial instruments (including derivatives) under which such shareholder has the following obligations and liabilities: (i) it has a right to buy the underlying shares; (ii) it is under an obligation to buy the underlying shares; (iii) it has a right to receive money if the price of the underlying shares increases; or (iv) it has a right to avoid or reduce a loss if the price of the underlying shares increases.
7. A shareholder has a “short position” if it borrows shares under a securities borrowing and lending agreement, or if it holds, sells or issues financial instruments (including derivatives) under which such shareholder has the following obligations and liabilities: (i) it has a right to require another person to buy the underlying shares; (ii) it is under an obligation to deliver the underlying shares; (iii) it has a right to receive money if the price of the underlying shares decreases; or (iv) it has a right to avoid or reduce a loss if the price of the underlying shares decreases.

Save as disclosed above, as at June 30, 2019 the Company is not aware of any other persons (other than Directors, Supervisors and the chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

IV. PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

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

Chapter 7: Directors, Supervisors and Senior Management

I. CHANGE IN SHAREHOLDINGS

Transactions of securities by directors, supervisors and relevant employees

The Company has adopted a set of codes of conduct regarding the transactions of securities by the Directors, Supervisors and relevant employees of the Company on terms no less exacting than the required standard set out in the Model Code. Having made enquiry by the Company, all Directors and Supervisors confirmed that they had complied with the requirements set out in the Model Code above during the period from January 1 to June 30, 2019. The Company is not aware of any breach of the guidelines by any relevant employee.

II. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Change	Date of Change	Reason
CHEN Zhigang (陳志剛)	Non-executive Director	Resigned	May 31, 2019	Resignation
WANG Wen (王文)	Non-executive Director	Elected	July 11, 2019	Elected at the shareholders' meeting
Wu Guangyan (吳光焰)	Vice President	Appointed	February 15, 2019	Appointed by the Board
Xie Jijun (謝繼軍)	Vice President	Appointed	March 11, 2019	Appointed by the Board
XIONG Jiantao (熊劍濤)	Chief Information Officer	Appointed	July 22, 2019	Appointed by the Board

Details of changes in Directors, Supervisors and Senior Management

From the beginning of the year to the date of approval for the publication of this report, there was no change in Supervisors of the Company and for details of changes in Directors and Senior Management of the Company, please refer to the relevant announcements issued by the Company on the website of the Hong Kong Stock Exchange on February 15, March 13, June 3, June 10, June 28, July 12 and July 22, 2019.

Chapter 7: Directors, Supervisors and Senior Management

III. MAJOR CHANGES IN RESPECT OF DIRECTORS AND SUPERVISORS

From the date of disclosure of the Company's 2018 annual report to the date of this report, SU Jian and XIONG Xianliang, non-executive Directors of the Company, was appointed as a non-executive director of Sinotrans Limited (a company listed on the Hong Kong Stock Exchange, stock code: 0598; and also a company listed on the Shanghai Stock Exchange, stock code: 601598), respectively, with effect from June 2019; Wang Daxiong, non-executive Director of the Company, was appointed as the chairman of COSCO SHIPPING Development Co., Ltd. (a company listed on Shanghai Stock Exchange, stock code: 601866; and also a company listed on Hong Kong Stock Exchange, stock code: 2866), with effect from July 2019; WONG Ti, independent Director of the Company, was appointed as independent director of China International Fund Management Co., Ltd. with effect from April 2019; WONG Ti, independent Director of the Company was appointed as an independent director of China International Fund Management Co., Ltd., with effect from April 2019.

Save as disclosed above, before the date of approval for the publication of this report, there was no other material change in relation to the Directors and Supervisors under Rule 13.51B of the Hong Kong Listing Rules.

IV. EMPLOYEES OF THE PARENT COMPANY AND MAJOR SUBSIDIARIES

(I) Employees

Number of employees of the parent company	8,370
Number of employees of major subsidiaries	688
Total number of employees	9,058
Number of resigned and retired employees with expenses borne by the parent company and major subsidiaries	51

(II) Remuneration

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

Chapter 7: Directors, Supervisors and Senior Management

(III) Training

According to the Company's strategy, and closely following the needs of business development, the Company planned and implemented classified and focused training programs in 2019, including profession, management and general training programs, covering all employees in order to support their growth and enhance the core competitiveness of the Company.

1. Professional training was conducted for all employees to raise their professionalism in securities and innovation capability through over twenty sessions of themed training programs covering investment banking, wealth management, marketing, integrated operation, financial technology, institutional business, innovative business and basic professional knowledge.
2. Management training was provided for backup, current management and senior management members to enhance their capabilities in respect of overall management and promoting reform through themed internal training programs covering organizational reform management, financial leadership improvement, management creativity, global vision for finance and the latest financial knowledge.
3. General training was mainly provided for basic level employees to improve their professionalism through various forms of online and offline training programs covering diversified subjects including corporate culture, compliance and risk control, rules and systems, business procedures and professional skill improvement.

V. INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS OF THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES

As at June 30, 2019, the Company was not aware of any Directors, Supervisors or Chief Executives having any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations which would be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or interests or short positions which would be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

Chapter 8: Relevant Information of Corporate Bonds

I. GENERAL INFORMATION OF CORPORATE BONDS

Unit: RMB100 million Currency: RMB

Name of the bond	Abbreviation	Code	Issue date	Date of expiry	Bond balance	Interest rate (%)	Payment of principal and interest	Trading place
The 2012 Type Three Corporate Bonds of China Merchants Securities Co., Ltd.	12 China Merchants 03 (12招商03)	122234	March 5, 2013	March 5, 2023	55.00	5.15	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The 2014 Corporate Bonds publicly issued by China Merchants Securities Co., Ltd.	14 China Merchants Bonds (14招商债)	122374	May 26, 2015	May 26, 2025	55.00	5.08	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The 2017 Corporate Bonds (first tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors	17 China Merchants G1 (17招商G1)	143327	October 13, 2017	October 13, 2019	45.00	4.78	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The 2017 Corporate Bonds (second tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors	17 China Merchants G2 (17招商G2)	143342	October 23, 2017	October 23, 2020	10.60	4.78	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The 2017 Corporate Bonds (third tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors	17 China Merchants G3 (17招商G3)	143369	October 31, 2017	October 31, 2020	10.00	4.85	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The 2018 Corporate Bonds (first tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors	18 China Merchants G1 (18招商G1)	143460	February 5, 2018	February 5, 2021	19.40	5.35	Annual payment of interest and one off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The 2018 Type One Corporate Bonds (second tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors	18 China Merchants G2 (18招商G2)	143626	June 12, 2018	June 12, 2020	20.00	4.78	Annual payment of interest and one off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The 2018 Type Two Corporate Bonds (second tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors	18 China Merchants G3 (18招商G3)	143627	June 12, 2018	June 12, 2021	10.00	4.78	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange

Chapter 8: Relevant Information of Corporate Bonds

Name of the bond	Abbreviation	Code	Issue date	Date of expiry	Bond balance	Interest rate (%)	Payment of principal and interest	Trading place
The 2018 Type Two Corporate Bonds (third tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors	18 China Merchants G5 (18招商G5)	143712	July 18, 2018	July 18, 2021	25.00	4.38	Annual payment of interest and one off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The 2018 Type One Corporate Bonds (fourth tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors	18 China Merchants G6 (18招商G6)	143392	August 8, 2018	August 8, 2021	30.00	3.94	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The 2018 Type One corporate bonds (fifth tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors	18 China Merchants G8 (18招商G8)	143762	September 7, 2018	September 7, 2021	18.00	4.23	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The 2019 Corporate Bonds (first tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors	19 China Merchants G1 (19招商G1)	155208	March 8, 2019	March 8, 2022	15.00	3.59	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The 2018 Corporate Bonds (seventh tranche) privately issued by China Merchants Securities Co., Ltd.	18 China Merchants F10 (18招商F10)	150930	December 5, 2018	December 5, 2021	25.00	4.15	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The 2019 Type Two corporate bonds (first tranche) privately issued by China Merchants Securities Co., Ltd	19 China Merchants F2 (19招商F2)	151114	January 17, 2019	October 14, 2019	35.00	3.48	One-off payment of principal and interest upon expiry	Shanghai Stock Exchange
The 2019 Type One corporate bonds (second tranche) privately issued by China Merchants Securities Co., Ltd	19 China Merchants F3 (19招商F3)	151412	April 10, 2019	April 10, 2021	17.00	3.85	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The 2019 Type Two corporate bonds (second tranche) privately issued by China Merchants Securities Co., Ltd	19 China Merchants F4 (19招商F4)	151413	April 10, 2019	April 10, 2022	36.00	4.00	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange

Chapter 8: Relevant Information of Corporate Bonds

Name of the bond	Abbreviation	Code	Issue date	Date of expiry	Bond balance	Interest rate (%)	Payment of principal and interest	Trading place
The 2019 Type One corporate bonds (third tranche) privately issued by China Merchants Securities Co., Ltd	19 China Merchants F5 (19招商F5)	151495	April 25, 2019	April 25, 2021	20.00	4.08	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The 2019 Type Two corporate bonds (third tranche) privately issued by China Merchants Securities Co., Ltd	19 China Merchants F6 (19招商F6)	151496	April 25, 2019	April 25, 2022	40.00	4.28	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The 2019 Type Two corporate bonds (fourth tranche) privately issued by China Merchants Securities Co., Ltd	19 China Merchants F8 (19招商F8)	151600	May 29, 2019	May 29, 2021	40.00	3.78	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The 2017 Subordinated Bonds (first tranche) of China Merchants Securities Co., Ltd.	17 China Merchants C1 (17招商C1)	145899	November 27, 2017	November 27, 2019	22.00	5.45	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The 2018 Subordinated Bonds (first tranche) of China Merchants Securities Co., Ltd.	18 China Merchants C1 (18招商C1)	150078	January 12, 2018	January 12, 2020	16.40	5.56	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The 2018 Subordinated Bonds (second tranche) of China Merchants Securities Co., Ltd.	18 China Merchants C2 (18招商C2)	150097	January 22, 2018	January 22, 2020	51.50	5.70	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange

Note: Please refer to “Other Equity Instruments” under “Chapter 9 Financial Report” of this report for the details of perpetual subordinated bonds of the Company.

Chapter 8: Relevant Information of Corporate Bonds

Payment of interest and principal of corporate bonds during the Reporting Period

Name	Abbreviation	Code	Issue completion date	Date of expiry	Amount (RMB100million)	Payment of interest and principal and implementation of special clause
The 2012 Type Three Corporate Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司2012年公司債券品種三)	12 China Merchants 03 (12招商03)	122234	March 5, 2013	March 5, 2023	55.00	Payment of interest in full as scheduled
The 2014 corporate bonds publicly issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司公開發行2014年公司債券)	14 China Merchants Bonds (14招商債)	122374	May 26, 2015	May 26, 2025	55.00	Payment of interest in full as scheduled
The 2018 Corporate Bonds (first tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2018年公司債券(第一期))	18 China Merchants G1 (18招商G1)	143460	February 5, 2018	February 5, 2021	19.40	Payment of interest in full as scheduled
The 2018 Type One Corporate Bonds (second tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2018年公司債券(第二期)(品種一))	18 China Merchants G2 (18招商G2)	143626	June 12, 2018	June 12, 2020	20.00	Payment of interest in full as scheduled
The 2018 Type Two Corporate Bonds (second tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2018年公司債券(第二期)(品種二))	18 China Merchants G3 (18招商G3)	143627	June 12, 2018	June 12, 2021	10.00	Payment of interest in full as scheduled
The 2018 Subordinated Bonds (first tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2018年次級債券(第一期))	18 China Merchants C1 (18招商C1)	150078	January 12, 2018	January 12, 2020	16.40	Payment of interest in full as scheduled
The 2018 Subordinated Bonds (second tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2018年次級債券(第二期))	18 China Merchants C2 (18招商C2)	150097	January 22, 2018	January 22, 2020	51.50	Payment of interest in full as scheduled
The 2017 perpetual subordinated bonds first tranche) of China Merchants Securities Co., Ltd (招商證券股份有限公司2017年永續次級債券(第一期))	17 China Merchants Y1 (17招商Y1)	145340	February 17, 2017	February 17, 2022	40.00	Payment of interest in full as scheduled
The 2017 perpetual subordinated bonds (second tranche) of China Merchants Securities Co., Ltd (招商證券股份有限公司2017年永續次級債券(第二期))	17 China Merchants Y2 (17招商Y2)	145371	March 3, 2017	March 3, 2022	50.00	Payment of interest in full as scheduled

Chapter 8: Relevant Information of Corporate Bonds

Name	Abbreviation	Code	Issue completion date	Date of expiry	Amount (RMB100million)	Payment of interest and principal and implementation of special clause
The 2017 perpetual subordinated bonds (third tranche) of China Merchants Securities Co., Ltd (招商證券股份有限公司2017年永續次級債券(第三期))	17 China Merchants Y3 (17招商Y3)	145545	May 22, 2017	May 22, 2022	37.00	Payment of interest in full as scheduled
The 2017 perpetual subordinated bonds (fourth tranche) of China Merchants Securities Co., Ltd (招商證券股份有限公司2017年永續次級債券(第四期))	17 China Merchants Y4 (17招商Y4)	145579	June 19, 2017	June 19, 2022	23.00	Payment of interest in full as scheduled
The 2018 Type two Corporate Bonds (first tranche) privately issued by China Merchants Securities Co., Ltd.(招商證券股份有限公司2018年非公開發行公司債券(第一期)(品種二))	18 China Merchants F2 (18招商F2)	150180	March 13, 2018	March 13, 2019	30.00	Payment of interest and principal in full as scheduled
The 2018 Type Two Corporate Bonds (third tranche) privately issued by China Merchants Securities Co., Ltd.(招商證券股份有限公司2018年非公開發行公司債券(第三期)(品種二))	18 China Merchants F6 (18招商F6)	150302	April 19, 2018	May 4, 2019	38.00	Payment of interest and principal in full as scheduled
The 2018 Corporate Bonds (fourth tranche) privately issued by China Merchants Securities Co., Ltd.(招商證券股份有限公司2018年非公開發行公司債券(第四期))	18 China Merchants F7 (18招商F7)	150414	May 21, 2018	June 5, 2019	59.00	Payment of interest and principal in full as scheduled
The 2018 Corporate Bonds (fifth tranche) privately issued by China Merchants Securities Co., Ltd.(招商證券股份有限公司2018年非公開發行公司債券(第五期))	18 China Merchants F8 (18招商F8)	150456	September 17, 2018	April 11, 2019	30.00	Payment of interest and principal in full as scheduled

Chapter 8: Relevant Information of Corporate Bonds

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

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

Abbreviation	Code	Trustee	Credit rating agency
12 China Merchants 03 (12招商03)	122234	Huatai United Securities	Shanghai Brilliance
14 China Merchants Bonds (14招商債)	122374	Everbright Securities	Shanghai Brilliance
17 China Merchants G1 (17招商G1)	143327	Everbright Securities	CCXR
17 China Merchants G2 (17招商G2)	143342	Everbright Securities	CCXR
17 China Merchants G3(17招商G3)	143369	Everbright Securities	CCXR
18 China Merchants G1 (18招商G1)	143460	Everbright Securities	CCXR
18 China Merchants G2 (18招商G2)	143626	Everbright Securities	CCXR
18 China Merchants G3 (18招商G3)	143627	Everbright Securities	CCXR
18 China Merchants G5 (18招商G5)	143712	Everbright Securities	CCXR
18 China Merchants G6 (18招商G6)	143392	Everbright Securities	CCXR
18 China Merchants G8 (18招商G8)	143762	Everbright Securities	CCXR
19 China Merchants G1 (19招商G1)	155208	Everbright Securities	CCXR
18 China Merchants F10 (18招商F10)	150930	Essence Securities	CCXR
19 China Merchants F2 (19招商F2)	151114	Essence Securities	CCXR
19 China Merchants F3 (19招商F3)	151412	Essence Securities	CCXR
19 China Merchants F4 (19招商F4)	151413	Essence Securities	CCXR
19 China Merchants F5 (19招商F5)	151495	Essence Securities	CCXR
19 China Merchants F6 (19招商F6)	151496	Essence Securities	CCXR
19 China Merchants F8 (19招商F8)	151600	Essence Securities	CCXR
17 China Merchants C1 (17招商C1)	145899	Galaxy Securities	CCXR
18 China Merchants C1 (18招商C1)	150078	Galaxy Securities	CCXR
18 China Merchants C2 (18招商C2)	150097	Galaxy Securities	CCXR
17 China Merchants Y1 (17招商Y1)	145340	Galaxy Securities	CCXR
17 China Merchants Y2 (17招商Y2)	145371	Galaxy Securities	CCXR
17 China Merchants Y3 (17招商Y3)	145545	Galaxy Securities	CCXR
17 China Merchants Y4 (17招商Y4)	145579	Galaxy Securities	CCXR

Chapter 8: Relevant Information of Corporate Bonds

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

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

Trustee	Name	Huatai United Securities Co., Ltd.
	Office address	(01A, 02, 03, 04), 17A, 18A, 24A, 25A & 26A, 5/F, HKCTS Tower, Central Business District, Futian District, Shenzhen
	Contact person	YU Shouxiang (于首祥)
	Contact number	0755-82492010
Trustee	Name	Everbright Securities Co., Ltd.
	Office address	51/F & 53/F, Tower One, Hang Lung Plaza, No. 1266 West Nanjing Road, Jing'an District, Shanghai (上海市靜安區南京西路1266號恒隆廣場1座51層、53層)
	Contact person	XUE Jiang (薛江), HUANG Liang (黃亮), XING Yiwei (邢一唯)
	Contact number	021-52523222、021-52523023
Trustee	Name	Essence Securities Co., Ltd.
	Office address	35/F & 28/F (A02), Anlian Building, No. 4018 Jintian Road, Futian District, Shenzhen (深圳市福田區金田路4018號安聯大廈35層、28層A02單元)
	Contact person	XU Yingjie (徐英杰)
	Contact number	0755-82558264
Trustee	Name	China Galaxy Securities Co., Ltd.
	Office address	Room 218, Tower C, Corporate Square, No. 35 France Street, Xicheng District, Beijing
	Contact person	XU Jinjun (許進軍)
	Contact number	010-66568061
Credit rating agency	Name	Shanghai Brilliance Credit Rating & Investors Service Co., Ltd.
	Office address	13/F, Huasheng Building, No. 398 Hankou Road, Shanghai
Credit rating agency	Name	China Chengxin Securities Rating Co., Ltd.
	Office address	Room 968, Block 1, No. 599 Xinye Road, Qingpu District, Shanghai (上海市青浦區新業路599號1幢968室)

Chapter 8: Relevant Information of Corporate Bonds

III. USE OF PROCEEDS FROM THE ISSUANCE OF CORPORATE BONDS

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

As required by relevant laws and regulations, the Company centralizes the management of proceeds from the issuance of corporate bonds, which practically ensures such proceeds to be used as prescribed in relevant prospectus. The Company has established a sound capital management regime and an effective internal financial control system, and formulated "Administrative Measures for the Use of Proceeds from Issuance of Corporate Bonds" (《債券募集資金使用管理辦法》) to govern the management and use of the proceeds. The trustees and proceeds supervision banks fulfill their regulatory duties in respect of the use of proceeds pursuant to regulatory provisions and contractual agreements.

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

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

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

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

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

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

Chapter 8: Relevant Information of Corporate Bonds

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

As prescribed in the prospectus for the corporate bonds publicly issued by the issuer, namely, “18 China Merchants G2”, “18 China Merchants G3”, “18 China Merchants G5”, “18 China Merchants G6”, “18 China Merchants G8” and “19 China Merchants G1”, all proceeds from the issuance of said bonds shall be used for “replenishment of the Company’s working capital”. As at that date of approval for publication of this report, the special account for the said proceeds from issuance of corporate bonds has been under normal operation, and all such proceeds, after deducting the issuance expenses (if any), had been used by the Company for replenishment of the Company’s working capital in accordance with relevant provisions of the prospectus.

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

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

As prescribed in the prospectuses for the bonds privately issued by the Company, namely, “18 China Merchants F1”, “18 China Merchants F2”, “18 China Merchants F3”, “18 China Merchants F6”, “18 China Merchants F7”, “18 China Merchants F8”, “18 China Merchants F9”, “18 China Merchants F10”, “19 China Merchants F1” and “19 China Merchants F2”, all proceeds from the issuance of said bonds shall be used for “replenishment of the Company’s working capital”. As at the date of approval for the publication of this report, all such proceeds, after deducting the issuance expenses (if any), had been used for replenishment of the Company’s working capital in accordance with the relevant provisions of the prospectuses.

Chapter 8: Relevant Information of Corporate Bonds

As prescribed in the prospectuses for the bonds privately issued by the Company, namely, “19 China Merchants F3”, “19 China Merchants F4”, “19 China Merchants F5”, “19 China Merchants F6” and “19 China Merchants F8”, all proceeds from the issuance of said bonds shall be used for “repayment of due corporate bonds and other debt financing instruments”. As at the date of approval for the publication of this report, all such proceeds, after deducting the issuance expenses (if any), had been used for replenishment of the Company’s working capital in accordance with the relevant provisions of the prospectuses.

IV. RATING OF CORPORATE BONDS

During the Reporting Period, the Company was granted AAA credit ratings both as an issuer of bonds and as an issuer of debt financing instruments in the PRC unanimously by credit rating agencies. None of credit rating agencies conducted any irregular follow-up rating in respect of the Company and its bonds.

On 15 March 2019, China Chengxin Securities Rating Co., Ltd. issued the Follow-Up Rating Reports (2019) on the 2018 Corporate Bonds (Fifth Tranche and Sixth Tranche) Privately Issued by China Merchants Securities Co., Ltd., and the overall credit rating of the Company remained at AAA with stable outlook, the credit ratings of the “18 China Merchants F8” and “18 China Merchants F9” remained at A-1.

On 25 April 2019, Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. issued the Follow-Up Rating Reports on China Merchants Securities Co., Ltd. and its Corporate Bonds 12 China Merchants 03 and 14 China Merchants Bonds, and the overall credit rating of the Company remained at AAA with stable outlook, the credit ratings of the “12 China Merchants 03” and “14 China Merchants Bonds” remained at AAA.

On 26 April 2019, China Chengxin Securities Rating Co., Ltd. issued the Follow-Up Rating Reports (2019) on the 2017 Corporate Bonds (First Tranche, Second Tranche and Third Tranche) and the 2018 Corporate Bonds (First Tranche) Publicly Issued by China Merchants Securities Co., Ltd. to Qualified Investors, the Follow-Up Rating Reports (2019) on The 2018 Corporate Bonds (Second Tranche, Third Tranche, Fourth Tranche and Fifth Tranche) and the 2019 Corporate Bonds (First Tranche) Publicly Issued by China Merchants Securities Co., Ltd. to Qualified Investors, the Follow-Up Rating Reports (2019) on the The 2018 Corporate Bonds (Third Tranche, Fourth Tranche and Seventh Tranche) and 2019 Corporate Bonds (First Tranche) privately issued by China Merchants Securities Co., Ltd., the Follow-Up Rating Reports (2019) on the The 2019 Corporate Bonds (Second Tranche) privately issued by China Merchants Securities Co., Ltd., the Follow-Up Rating Reports (2019) on the 2017 Perpetual Subordinated Bonds (First Tranche, Second Tranche, Third Tranche and Fourth Tranche) of China Merchants Securities Co., Ltd., the Follow-Up Rating Reports (2019) on the 2017 Subordinated Bonds (First Tranche) and The 2018 Subordinated Bonds (First Tranche and Second Tranche) of China Merchants Securities Co., Ltd.. The overall credit rating of the Company remained at AAA with stable outlook. The credit ratings of the “17 China Merchants G1”, “17 China Merchants G2”, “17 China Merchants G3”, “18 China Merchants G1”, “18 China Merchants G2”, “18 China Merchants G3”, “18 China Merchants G5”, “18 China Merchants G6”, “18 China Merchants G8”, “19 China Merchants G1”, “18 China Merchants F6”, “18 China Merchants F7”, “18 China Merchants F10”, “19 China Merchants F3”, “19 China Merchants F4” remained at AAA; the credit ratings of the “19 China Merchants F1”, “19 China Merchants F2” remained at A-1; and the credit ratings of the “17 China Merchants Y1”, “17 China Merchants Y2”, “17 China Merchants Y3”, “17 China Merchants Y4”, “17 China Merchants C1”, “18 China Merchants C1”, “18 China Merchants C2” remained at AA+.

Chapter 8: Relevant Information of Corporate Bonds

Within the time limit on follow-up rating, credit rating agencies will complete the regular follow-up rating for the year within two months after the bond issuer and bond guarantor (if any) release relevant annual reports. When it comes to fixed income products due within one year, credit rating agencies will announce the results and reports of regular follow-up rating in the sixth month after the official issuance of relevant bonds. Corresponding follow-up rating reports will be published on the website of SSE. Investors are advised to pay attention.

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

As at the date of approval for the publication of this report, based on the credit enhancement mechanism the existing bonds were issued without any guarantees. According to the repayment plans, bonds with original maturity over 1 year shall pay interest annually during the duration of the bonds and the last installment of interest payment shall be paid together with the principal. According to the repayment plans, bonds with original maturity within 1 year shall pay principal together with all interests upon maturity.

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

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

VI. DUTY PERFORMANCE OF THE TRUSTEES OF CORPORATE BONDS

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

On April 29, 2019, Huatai Securities has issued the 2018 Trust Reports on the 2012 Corporate Bonds (third tranche) of China Merchants Securities Co., Ltd..

On April 29, 2019, Everbright Securities has issued the 2018 Trust Reports on the 2014 Corporate Bonds publicly issued by China Merchants Securities Co., Ltd..

On June 12, 2019, Everbright Securities has issued the 2018 Trust Reports on the 2017 Corporate Bonds (first tranche), (second tranche) and (third tranche) and the 2018 Trust Reports on the 2018 Corporate Bonds (first tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors and the 2018 Trust Reports on the 2018 Corporate Bonds (second tranche), (third tranche), (fourth tranche) and (fifth tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors.

Chapter 8: Relevant Information of Corporate Bonds

On June 27, 2019, Essence Securities has issued the 2018 Trust Reports on the 2018 Corporate Bonds (sixth tranche) and (seventh tranche) privately issued by China Merchants Securities Co., Ltd..

On June 28, 2019, Galaxy Securities has issued the 2018 Trust Reports on the subordinated bonds of China Merchants Securities Co., Ltd. and the 2018 Trust Reports on the perpetual subordinated bonds of China Merchants Securities Co., Ltd..

Furthermore, trustees in the bonds has issued the provisional trust reports according to the requirements of relevant provisions of laws and regulations, as well as the provisions of the Bond Trusteeship Management Agreement. For details, please see the relevant announcement made by the Company on the websites of SSE.

VII. ACCOUNTING DATA AND FINANCIAL INDICATORS AS AT THE END OF THE REPORTING PERIOD AND THE END OF LAST YEAR (OR THE REPORTING PERIOD AND THE CORRESPONDING PERIOD OF LAST YEAR)

Key indicators	The end of Reporting Period	The end of last year	Increase/decrease for the end of Reporting Period over the end of last year (%)	Reasons for the change
Current ratio	1.76	1.70	3.61	—
Quick ratio	1.76	1.70	3.61	—
Gearing ratio (%)	71.18	68.44	4.00	—
Loan repayment ratio (%)	100.00	100.00	0.00	—

	The Reporting Period (January to June)	The Corresponding Period of Last Year	Increase/decrease for Reporting Period over the Corresponding Period of Last Year (%)	Reasons for the change
EBITDA/interest coverage ratio	2.62	1.73	51.54	Increase in the earnings of the Company during the Reporting Period
Interest payment ratio (%)	100.00	100.00	0.00	—

Chapter 8: Relevant Information of Corporate Bonds

VIII. PRINCIPLE AND INTEREST PAYMENTS FOR OTHER BONDS AND DEBT FINANCING INSTRUMENTS OF THE COMPANY

During the Report Period, other debts financing instruments of the Company included short-term financing bills, asset-backed special program and principal of structured notes, of which all principals and interests were settled on schedule.

IX. BANK CREDITS OF THE COMPANY DURING THE REPORTING PERIOD

As of the end of June, 2019, the Company had available credit lines from its major lending banks amounting to RMB273.3 billion, of which RMB68.8 billion were utilized.

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

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

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

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

As of 30 April 2019, total cumulative new borrowings for the year of the Company were RMB19.690 billion, representing 24.37% (over 20%) of net assets at the end of last year. For details, please see the announcements made by the Company on the websites of the Hong Kong Stock Exchange on 10 May 2019.

For the details of other material incidents of the Company, please refer to “Material Litigations or Arbitrations” and “Punishment and Remedial Measures on the Listed Company, its Directors, Supervisors, Senior Management, Controlling Shareholders and Acquirer” under “Chapter 5 Major Events” of this report and “Changes in Directors, Supervisors and Senior Management” under “Chapter 7 Directors, Supervisors and Senior Management”

The said event will not affect the standard procedures of the Board and normal operation of the Company. The Company had stable business operations, good profitability, and it had paid principals and interests concerning all of its debts as scheduled. The said matters will not exert adverse effect on the operation and solvency of the Company. Save as described above, during the Reporting Period, the material incidents stated in Clause 45 of the Administrative Measures for the Issuance and Trading of Corporate Bonds (《公司債券發行與交易管理辦法》) had not occurred, and the Company had favorable business operations, strong overall solvency and low financial risks.

Chapter 9: Financial Report

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

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

Introduction

We have reviewed the condensed consolidated financial statements of China Merchants Securities Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 100 to 190, which comprise the condensed consolidated statement of financial position as of June 30, 2019 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standards 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

August 28, 2019

Condensed Consolidated Statement of Profit or Loss

For the six months ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	Six months ended June 30,	
		2019	2018
		(Unaudited)	(Unaudited)
Fee and commission income	4	4,355,041	4,059,579
Interest income	5	3,932,263	4,272,396
Investment gains or losses, net	6	3,000,239	(15,056)
Other income and gains or losses	7	477,300	(19,144)
Total revenue, gains and other income		11,764,843	8,297,775
Depreciation and amortisation	8	(257,599)	(106,149)
Staff costs	9	(2,905,213)	(1,626,709)
Fee and commission expenses	10	(762,073)	(736,462)
Interest expenses	11	(2,917,925)	(3,241,050)
Tax and surcharges		(45,451)	(49,386)
Other operating expenses	12	(1,041,861)	(678,953)
Impairment losses under expected credit loss model, net of reversal	13	31,041	(119,824)
Other impairment losses, net		(803)	—
Total expenses		(7,899,884)	(6,558,533)
Share of results of associates		461,964	476,338
Profit before income tax		4,326,923	2,215,580
Income tax expenses	14	(812,546)	(411,098)
Profit for the period		3,514,377	1,804,482
Profit for the period attributable to:			
Shareholders of the Company and holders of other equity instruments		3,502,759	1,806,617
Non-controlling interests		11,618	(2,135)
		3,514,377	1,804,482
Earnings per share attributable to shareholders of the Company (Expressed in RMB per share)	15		
– Basic		0.46	0.21

The notes on pages 108 to 190 form part of this interim financial report.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Profit for the period	3,514,377	1,804,482
Other comprehensive income (expense):		
Items that will not be reclassified subsequently to profit or loss:		
Investments in equity instruments designated as at fair value through other comprehensive income:		
Net fair value changes during the period	465,428	(315,388)
Income tax impact	(116,357)	78,847
Sub-total	349,071	(236,541)
Items that may be reclassified subsequently to profit or loss:		
Financial assets at fair value through other comprehensive income:		
Net fair value changes during the period	14,894	142,296
Reclassification adjustment to profit or loss	(174,611)	74,662
Impairment losses under expected credit loss model, net of reversal	255	(1,258)
Income tax impact	39,843	(53,925)
Sub-total	(119,619)	161,775
Share of other comprehensive income (expense) of associates, net of related income tax	5,116	(1,315)
Exchange differences arising from foreign currency translation	16,506	107,489
Other comprehensive income for the period (net of tax)	251,074	31,408
Total comprehensive income for the period (net of tax)	3,765,451	1,835,890
Attributable to:		
Shareholders of the Company and holders of other equity instruments	3,753,833	1,838,025
Non-controlling interests	11,618	(2,135)
	3,765,451	1,835,890

Condensed Consolidated Statement of Financial Position

As at June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	As at June 30, 2019	As at December 31, 2018
		(Unaudited)	(Audited)
Non-current assets			
Property and equipment	16	1,575,477	1,628,792
Right-of-use assets	17	1,634,759	
Prepaid lease payment		—	431,685
Goodwill		9,671	9,671
Other intangible assets		18,374	19,121
Interests in associates	18	8,473,003	8,287,924
Equity instruments at fair value through other comprehensive income	19	7,188,035	6,722,607
Debt instruments at amortised cost	20	1,731,604	1,796,608
Financial assets held under resale agreements	21	2,481,132	5,277,749
Financial assets at fair value through profit or loss	27	2,356,398	2,202,967
Deferred tax assets	22	946,069	868,510
Other non-current assets	23	227,739	221,103
Total non-current assets		26,642,261	27,466,737
Current assets			
Advances to customers	24	49,006,135	42,976,430
Accounts and other receivables	25	3,659,952	3,298,003
Debt instruments at fair value through other comprehensive income	26	38,193,046	41,642,341
Debt instruments at amortised cost	20	136,470	47,587
Financial assets held under resale agreements	21	23,107,803	27,766,111
Financial assets at fair value through profit or loss	27	125,087,468	97,921,779
Derivative financial assets	28	1,057,144	1,150,232
Deposits in exchanges and non-bank financial institutions	29	1,977,916	1,431,420
Clearing settlement funds	30	15,067,835	13,796,281
Cash and bank balances	31	66,422,945	47,433,784
Total current assets		323,716,714	277,463,968
Total assets		350,358,975	304,930,705

Condensed Consolidated Statement of Financial Position (Continued)

As at June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	As at June 30, 2019	As at December 31, 2018
		(Unaudited)	(Audited)
Current liabilities			
Short-term borrowings	33	1,928,703	1,581,861
Short-term debt instruments	34	17,882,397	34,850,476
Placements from banks and other financial institutions	35	6,503,257	3,519,000
Accounts payable to brokerage clients	36	64,232,964	48,911,748
Accounts payable to underwriting clients		461,410	—
Accrued staff costs	37	3,843,264	3,654,135
Other payables and accrued charges	38	5,354,120	3,524,201
Current tax liabilities		77,851	133,968
Financial liabilities at fair value through profit or loss	39	6,208,147	7,124,452
Derivative financial liabilities	28	1,028,972	1,305,685
Financial assets sold under repurchase agreements	40	86,747,409	61,267,557
Lease liabilities	41	267,945	
Bonds payable due within one year	46	17,626,488	17,855,355
Total current liabilities		212,162,927	183,728,438
Net current assets		111,553,787	93,735,530
Total assets less current liabilities		138,196,048	121,202,267
Capital and reserves			
Share capital		6,699,409	6,699,409
Other equity instruments	42	15,000,000	15,000,000
Capital reserve		27,533,939	27,533,939
Investment revaluation reserve of financial assets at fair value through other comprehensive income	43	533,638	299,070
Foreign currency translation reserve		188,582	172,076
General reserves	44	13,897,106	13,864,963
Retained profits		18,385,125	17,153,389
Equity attributable to shareholders of the Company		82,237,799	80,722,846
Non-controlling interests		81,126	69,508
Total equity		82,318,925	80,792,354

Condensed Consolidated Statement of Financial Position (Continued)

As at June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	As at June 30, 2019	As at December 31, 2018
		(Unaudited)	(Audited)
Non-current liabilities			
Accrued staff costs	37	787,540	787,540
Deferred tax liabilities	22	404,008	148,764
Financial liabilities at fair value through profit or loss	39	2,594,183	2,404,123
Deferred income		124,135	125,734
Lease liabilities	41	1,008,459	
Long-term borrowings	45	1,382,958	1,380,015
Bonds payable	47	49,575,840	35,563,737
Total non-current liabilities		55,877,123	40,409,913
Total equity and non-current liabilities		138,196,048	121,202,267

Approved and authorized for issue by the board of directors on August 28, 2019 and are signed on its behalf by:

Huo Da

Executive Director, Chairman

Xiong Jiantao

Executive Director, President

Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to shareholders of the Company								Non-controlling interests	Total
	Share capital	Other equity instruments	Capital reserve	Investment revaluation reserve of financial assets at fair value through other comprehensive income	Translation reserve	General reserves	Retained profits	Sub-total		
				(note 43)		(note 44)				
At December 31, 2018 (Audited)	6,699,409	15,000,000	27,533,939	299,070	172,076	13,864,963	17,153,389	80,722,846	69,508	80,792,354
Effect of adoption of IFRS 16	—	—	—	—	—	—	(72,487)	(72,487)	—	(72,487)
At January 1, 2019 (Unaudited)	6,699,409	15,000,000	27,533,939	299,070	172,076	13,864,963	17,080,902	80,650,359	69,508	80,719,867
Profit for the period	—	—	—	—	—	—	3,502,759	3,502,759	11,618	3,514,377
Other comprehensive income for the period	—	—	—	234,568	16,506	—	—	251,074	—	251,074
Total comprehensive income for the period	—	—	—	234,568	16,506	—	3,502,759	3,753,833	11,618	3,765,451
Appropriation to general reserves	—	—	—	—	—	32,143	(32,143)	—	—	—
Distribution to holders of other equity instruments (note 48)	—	—	—	—	—	—	(397,749)	(397,749)	—	(397,749)
Dividends recognised as distribution (note 48)	—	—	—	—	—	—	(1,768,644)	(1,768,644)	—	(1,768,644)
At June 30, 2019 (Unaudited)	6,699,409	15,000,000	27,533,939	533,638	188,582	13,897,106	18,385,125	82,237,799	81,126	82,318,925

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

Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Profit before income tax	4,326,923	2,215,580
Adjustments for:		
Interest expenses	2,917,925	3,241,050
Share of results of associates	(461,964)	(476,338)
Depreciation and amortisation	257,599	106,149
Impairment losses (reversal), net	(30,238)	119,824
Gains on disposal of property and equipment, other intangible assets and other non-current assets	(857)	(288)
Foreign exchange (gains) losses, net	(14,251)	67,338
Net realised (gains) losses from disposal of financial assets at fair value through other comprehensive income	(174,611)	74,662
Dividend income and interest income on financial assets at fair value through other comprehensive income	(791,004)	(504,646)
Unrealised fair value changes of financial instruments at fair value through profit or loss	(891,760)	870,576
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	5,137,762	5,713,907
(Increase) Decrease in advances to customers	(6,021,335)	6,707,269
Decrease (Increase) in other current assets	11,615	(581,728)
Decrease (Increase) in financial assets held under resale agreements	7,461,628	(4,529,329)
Increase in financial assets/liabilities at fair value through profit or loss	(27,119,395)	(9,592,680)
(Increase) Decrease in deposit with exchanges and non-bank financial institutions	(545,410)	64,606
Decrease in pledged and restricted bank deposits	14,465	237,253
Increase in clearing settlement funds	(1,479,692)	(1,546,161)
Increase in cash held on behalf of customers	(13,134,721)	(3,351,283)
Increase in accounts payable to brokerage clients	15,321,216	5,287,514
Increase in accounts payable to underwriting clients	461,410	—
Increase (Decrease) in accrued staff costs	189,129	(230,812)
Increase in other current liabilities	408,609	273,712
Increase in financial assets sold under repurchase agreements	25,475,292	13,546,897
Increase in placements from other financial institutions	3,000,000	1,530,000
CASH GENERATED FROM OPERATIONS	9,180,573	13,529,165
Income taxes paid	(1,075,368)	(703,713)
Interest paid	(973,185)	(753,332)
NET CASH FROM OPERATING ACTIVITIES	7,132,020	12,072,120

Condensed Consolidated Statement of Cash Flows (Continued)

For the six months ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
INVESTING ACTIVITIES		
Dividends and interest received from investments	862,866	599,517
Purchases of property and equipment, other intangible assets and other non-current assets	(82,414)	(111,745)
Proceeds from disposals of property and equipment, other intangible assets and other non-current assets	857	288
Purchases or proceeds from disposals of debt instruments at fair value through other comprehensive income	3,469,218	(2,909,513)
Purchases of debt instruments at amortised cost	(4,638)	(14,878)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	4,245,889	(2,436,331)
FINANCING ACTIVITIES		
Dividends paid to shareholders and other equity instrument holders	(802,090)	(820,067)
Repayment of bonds and short-term debt instruments interest	(2,795,798)	(2,248,577)
Repayment of borrowings interest	(51,779)	(81,407)
Repayment of lease liabilities interest	(14,882)	
Repayment of bonds and short-term debt instruments	(48,796,780)	(44,053,210)
Proceeds from bonds and short-term debt instruments	46,521,590	40,376,260
Repayment of lease liabilities	(136,762)	
Net proceeds from short-term borrowings	333,680	(2,625,007)
Proceeds from long-term borrowings	—	42,551
Repayment of long-term borrowings	—	(5,000)
Capital redemption from non-controlling shareholders	—	(484)
NET CASH USED IN FINANCING ACTIVITIES	(5,742,821)	(9,414,941)
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,635,088	220,848
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	11,143,119	13,371,686
Effect of foreign exchange rate changes	25,678	86,623
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	16,803,885	13,679,157

Notes to the Condensed Consolidated Financial Information

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

1 CORPORATE INFORMATION

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

After completion of registration with Shenzhen Administration for Industry and Commerce, Guotong Securities Limited Liability Company (國通證券有限責任公司) restructured and changed its name to Guotong Securities Co., Ltd. (國通證券股份有限公司) on December 26, 2001, with The Approval to The Resolution about Managing The State-owned Shares of Guotong Securities Co., Ltd. (國通證券股份有限公司) (Cai Qi [2001] No. 723) issued by the Ministry of Finance of People’s Republic of China (“PRC”), The Approval for Changing the Name of Guotong Securities Co., Ltd. (國通證券股份有限公司) (Zheng Jian Ji Gou Zi [2001] No. 285) issued by the China Securities Regulatory Commission, and The Approval for Equity Restructuring of Guotong Securities Co., Ltd. (國通證券股份有限公司) (Shen Fu Gu [2001] No. 49) issued by the Municipal Government of Shenzhen. On June 28, 2002, Guotong Securities Co., Ltd. (國通證券股份有限公司) was renamed as China Merchants Securities Co., Ltd. (招商證券股份有限公司).

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

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

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

As at June 30, 2019, the Company’s registered capital was RMB6,699,409,329 and the Company has a total of 6,699,409,329 issued shares of RMB1 each.

The address of the registered office and principal place of business of the Company is No. 111, 1st Fuhua Road, Futian District, Shenzhen, Guangdong, the PRC. The Company and its subsidiaries (the “Group”) are principally engaged in securities brokerage, securities financial advisory, financial advisory relating to securities trading and securities investment activities, securities underwriting and sponsorship, proprietary trading, asset management, margin financing and securities lending, securities investment fund distribution, intermediary services to futures companies, agency sales of financial products, insurance agency and securities investment management.

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

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

2 BASIS OF PREPARATION

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

3 PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2019 are the same as those presented in the Group’s annual financial statements for the year ended December 31, 2018.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to the IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group’s condensed consolidated financial statements:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 Leases (“IAS 17”), and the related interpretations.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 16

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets.

Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Right-of-use assets (Continued)

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 Financial Instruments ("IFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities (Continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review or expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.1 Key changes in accounting policies resulting from application of IFRS 16 (Continued)

As a lessee (Continued)

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

3.1.2 Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, January 1, 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

As a lessee (Continued)

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and
- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of IFRS 16:

The Group recognised lease liabilities of RMB1,315,352 thousand and right-of-use assets of RMB1,666,339 thousand at January 1, 2019. The transition to IFRS 16 results in a decrease in retained profits on 1 January 2019 by RMB72,487 thousand.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The lessee's incremental borrowing rate ranged from 2.69% to 3.91%.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

	At January 1, 2019
Operating lease commitments disclosed as at December 31, 2018	955,091
Lease liabilities discounted at relevant incremental borrowing rates	882,241
Add: Extension options reasonably certain to be exercised	465,053
Less: Recognition exemption short-term leases	(31,942)
Lease liabilities relating to operating leases recognised upon application of IFRS 16	1,315,352
Lease liabilities as at January 1, 2019	1,315,352
Analysed as:	
Current	280,424
Non-current	1,034,928

The carrying amount of right-of-use assets as at January 1, 2019 comprises the following:

	At January 1, 2019
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	1,666,339
By class:	
Leasehold lands	431,685
Land and buildings	1,234,654

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

3.1 Impacts and changes in accounting policies of application on IFRS 16 Leases (Continued)

3.1.2 Transition and summary of effects arising from initial application of IFRS 16 (Continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at January 1, 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at December 31, 2018	Adjustments	Carrying amounts under IFRS 16 at January 1, 2019
Non-current assets			
Right-of-use assets	—	1,666,339	1,666,339
Prepaid lease payment	431,685	(431,685)	—
Current Liabilities			
Lease liabilities	—	280,424	280,424
Other payables and accrued charges	5,354,120	(8,211)	5,345,909
Capital and Reserves			
Retained profits	17,153,389	(72,487)	17,080,902
Non-current Liabilities			
Lease liabilities	—	1,034,928	1,034,928

4 FEE AND COMMISSION INCOME

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Securities and futures brokerage business	2,897,571	2,476,095
Underwriting and sponsorship business	542,907	532,691
Asset management and fund management business	509,691	612,217
Financial advisory business	140,933	153,694
Others ⁽ⁱ⁾	263,939	284,882
	4,355,041	4,059,579

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

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

5 INTEREST INCOME

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Interest income from advances to customers and securities lending	1,661,322	2,026,240
Interest income from deposits with exchanges and financial institutions	722,005	797,666
Interest income from securities-backed lending and stock repurchase agreement	645,023	888,866
Interest income from other financial assets held under resale agreements	112,909	54,978
Interest income on debt instruments at amortised cost	49,866	49,754
Interest income from debt instruments at fair value through other comprehensive income	741,138	454,892
	3,932,263	4,272,396

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

6 INVESTMENT GAINS OR LOSSES, NET

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Dividend and interest income from financial assets at fair value through profit or loss	1,735,719	1,266,346
Net gains (losses) from disposals of debt instruments measured at fair value through other comprehensive income	174,611	(74,662)
Net gains (losses) from financial assets at fair value through profit or loss	2,065,615	(1,647,758)
Net losses from financial liabilities at fair value through profit or loss	(136,496)	(136,749)
Net (losses) gains from derivative financial instruments	(839,210)	577,767
	3,000,239	(15,056)

7 OTHER INCOME AND GAINS OR LOSSES

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Income from commodity trading	435,264	—
Foreign exchange gains (losses), net	14,251	(67,338)
Government grants	9,274	9,881
Rental income	4,906	4,615
Fee from tax withholding and remitting	535	30,736
Others	13,070	2,962
	477,300	(19,144)

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

8 DEPRECIATION AND AMORTISATION

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Depreciation of right-of-use assets	128,937	
Depreciation of property and equipment	84,746	71,270
Amortization of other non-current assets	43,916	34,879
	257,599	106,149

9 STAFF COSTS

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Salaries, bonus and allowances	2,540,211	1,196,414
Contributions to retirement benefits	163,750	164,883
Other social welfare	129,076	205,142
Others	72,176	60,270
	2,905,213	1,626,709

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

10 FEE AND COMMISSION EXPENSES

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Securities and futures brokerage business	727,223	620,348
Underwriting and sponsorship business	29,613	98,519
Asset management business	2,920	6,552
Financial advisory business	2,238	5,112
Others	79	5,931
	762,073	736,462

11 INTEREST EXPENSES

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Long-term bonds payable	1,384,374	1,026,674
Financial assets sold under repurchase agreements	725,903	489,186
Structured notes	222,047	709,434
Short-term bond payables	196,722	629,988
Accounts payable to brokerage clients	95,155	88,512
Short-term financing bills payables	80,899	4,060
Placements from banks and other financial institutions	57,751	95,009
Borrowings	55,794	75,996
Margin and securities refinancing	54,608	99,389
Lease liabilities	16,901	
Others	27,771	22,802
	2,917,925	3,241,050

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

12 OTHER OPERATING EXPENSES

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Cost of sales of commodity trading	436,320	—
Advertising and promotion expenses	102,697	96,957
Operating lease rentals in respect of rented premises	73,787	218,236
Post and communications expenses	73,619	70,707
Electronic equipment operation expenses	65,443	60,565
Stock exchange fees	56,337	44,784
Business travel expenses	55,967	65,664
Securities and futures investor protection funds	33,375	20,663
General and administrative expenses	29,075	30,793
Sundry expenses	115,241	70,584
	1,041,861	678,953

13 IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Reversal of impairment in respect of debt instruments at amortised cost (note 20)	(4,162)	—
Expected credit losses in respect of financial assets held under resale agreements (note 21)	22,073	81,906
Expected credit losses (reversal of impairment) in respect of advances to customers (note 24)	(49,334)	38,071
Expected credit losses in respect of accounts and other receivables	127	1,106
Expected credit losses (reversal of impairment) in respect of debt instruments at fair value through other comprehensive income (note 26)	255	(1,259)
	(31,041)	119,824

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

14 INCOME TAX EXPENSES

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Current tax:		
— PRC Enterprise Income Tax (“EIT”)	693,843	918,598
— Hong Kong Profits Tax	17,939	2,837
	711,782	921,435
Over provision in respect of prior periods:		
— EIT	(258)	(3,960)
— Hong Kong Profits Tax	—	—
	(258)	(3,960)
Deferred taxation:		
— Origination and reversal of temporary differences (note 22)	101,022	(506,377)
	812,546	411,098

15 EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

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

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Earnings for the purpose of basic earnings per share:		
Profit attributable to Shareholders of the Company and holders of other equity instruments	3,502,759	1,806,617
Less: Profit attributable to holders of perpetual subordinated bonds	(397,749)	(401,045)
Sub-total	3,105,010	1,405,572
Number of shares:		
Weighted average number of shares in issue	6,699,409	6,699,409
Earnings per share:		
Earnings per share (RMB)	0.46	0.21

For the six months ended June 30, 2019 and 2018, there were no dilutive shares.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

16 PROPERTY AND EQUIPMENT

	Leasehold land and buildings	Motor vehicles	Electronic and communication equipment	Office equipment	Construction in progress	Total
Unaudited						
Cost						
As at January 1, 2019	1,329,857	65,116	752,581	59,137	82,099	2,288,790
Additions	—	678	19,593	1,252	17,133	38,656
Disposals	—	(4,216)	(251)	(243)	—	(4,710)
Transfer	—	—	1,058	963	(2,021)	—
Transfer to other non-current assets (note 23)	—	—	—	—	(7,168)	(7,168)
Exchange differences	—	7	266	115	124	512
As at June 30, 2019	1,329,857	61,585	773,247	61,224	90,167	2,316,080
Accumulated depreciation and impairment						
As at January 1, 2019	210,063	47,085	376,712	26,138	—	659,998
Charge for the period	17,539	3,505	59,970	3,732	—	84,746
Disposals	—	(4,005)	(133)	(231)	—	(4,369)
Exchange differences	—	6	193	29	—	228
As at June 30, 2019	227,602	46,591	436,742	29,668	—	740,603
Carrying values						
As at June 30, 2019	1,102,255	14,994	336,505	31,556	90,167	1,575,477
Audited						
Cost						
As at January 1, 2018	390,881	64,730	696,293	59,797	1,185,068	2,396,769
Additions	—	3,211	60,674	1,455	347,534	412,874
Disposals	—	(2,939)	(20,362)	(29,841)	—	(53,142)
Transfer	938,976	—	12,633	26,045	(1,410,254)	(432,600)
Transfer to other non-current assets (note 23)	—	—	—	—	(41,504)	(41,504)
Exchange differences	—	114	3,343	1,681	1,255	6,393
As at December 31, 2018	1,329,857	65,116	752,581	59,137	82,099	2,288,790
Accumulated depreciation and impairment						
As at January 1, 2018	197,550	42,973	279,152	45,007	—	564,682
Charge for the year	12,513	6,875	114,307	9,996	—	143,691
Disposals	—	(2,860)	(18,975)	(29,708)	—	(51,543)
Exchange differences	—	97	2,228	843	—	3,168
As at December 31, 2018	210,063	47,085	376,712	26,138	—	659,998
Carrying values						
As at December 31, 2018	1,119,794	18,031	375,869	32,999	82,099	1,628,792

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

17. RIGHT-OF-USE ASSETS

	Land and buildings	Leasehold land	Total
Unaudited			
Cost			
As at January 1, 2019	1,657,682	432,600	2,090,282
Additions	97,815	—	97,815
Disposals	(521)	—	(521)
Exchange differences	301	—	301
As at June 30, 2019	1,755,277	432,600	2,187,877
Accumulated depreciation and impairment			
As at January 1, 2019	423,028	915	423,943
Additions	123,449	5,488	128,937
Disposals	(35)	—	(35)
Exchange differences	273	—	273
As at June 30, 2019	546,715	6,403	553,118
Carrying values			
As at June 30, 2019	1,208,562	426,197	1,634,759

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

18 INTERESTS IN ASSOCIATES

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Cost of unlisted investments in associates	5,545,940	5,545,940
Share of post-acquisition profits and other comprehensive income, net of dividends received	3,596,213	3,411,134
	9,142,153	8,957,074
Less: Impairment loss in respect of interests in associates	(669,150)	(669,150)
	8,473,003	8,287,924

The following list contains only the particulars of material associates, all of which are unlisted corporate entities whose quoted market price is not available. All of the above associates are accounted for using the equity method in the condensed consolidated financial statements:

Name of associate	Place and date of incorporation/ establishment	Equity interest held by the Group		Principal Activities
		As at June 30, 2019	As at December 31, 2018	
Bosera Asset Management Co., Ltd.	PRC July 13, 1998	49%	49%	Fund management
China Merchants Fund Management Limited	PRC December 27, 2002	45%	45%	Fund management
Guangdong Equity Exchange Centre Co., Ltd.	PRC July 6, 2018	12%	12%	Transaction settlement services
China Merchants Xiangjiang Industrial Investment Management Co., Ltd.	PRC March 13, 2008	40%	40%	Investment management
Qingdao Asset Management Co., Ltd.	PRC September 21, 2015	30%	30%	Investment management
Twenty-first Century Technology Investment Co., Ltd.	PRC June 19, 2000	23%	23%	Investment holding

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

19 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Special accounts ⁽ⁱ⁾	7,188,035	6,722,607

⁽ⁱ⁾ The balance is an investment in a special account managed by China Securities Finance Corporation Limited ("CSFCL"). The Company determines the fair value of the investment according to the valuation report provided by CSFCL. The Company elected to designate this investment as measured at FVTOCI.

20 DEBT INSTRUMENTS AT AMORTISED COST

(1) Analysed by nature

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Non-current		
Bonds	1,732,858	1,797,953
Less: Allowance for expected credit losses	(1,254)	(1,345)
	1,731,604	1,796,608
Current		
Bonds	80,259	—
Unsecured accounts receivable loan ⁽ⁱ⁾	56,910	52,346
	137,169	52,346
Less: Allowance for expected credit losses	(699)	(4,759)
	136,470	47,587

⁽ⁱ⁾ As at June 30, 2019, unsecured accounts receivable loan were charged at the annual interest rate from 3.00% to 3.65% per annum (December 31, 2018: 2.75%).

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

20 DEBT INSTRUMENTS AT AMORTISED COST (Continued)

(2) Movements of expected credit losses are as follows:

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
At beginning of the period/year	6,104	1,345
Expected credit losses recognised	—	4,649
Reversal of impairment losses	(4,162)	—
Exchange difference	11	110
At end of the period/year	1,953	6,104

	As at June 30, 2019						
	12 months		Life time (stage 2)		Life time (stage 3)		Total
	Principal and interest	ECL	Principal and interest	ECL	Principal and interest	ECL	
Impairment allowance	1,870,027	1,953	—	—	—	—	1,953

	As at December 31, 2018						
	12 months		Life time (stage 2)		Life time (stage 3)		Total
	Principal and interest	ECL	Principal and interest	ECL	Principal and interest	ECL	
Impairment allowance	1,850,299	6,104	—	—	—	—	6,104

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

21 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

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

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Non-current		
Analysed by collateral type:		
— Stock ⁽ⁱ⁾	2,481,132	5,279,193
Analysed by market:		
— Stock exchanges	2,481,132	5,279,193
Less: Allowance for expected credit losses	—	(1,444)
	2,481,132	5,277,749
Current		
Analysed by collateral type:		
— Stock ⁽ⁱ⁾	15,346,499	17,602,330
— Bond	7,983,111	10,362,071
	23,329,610	27,964,401
Analysed by market:		
— Stock exchanges	18,364,457	19,787,735
— Interbank bond market	4,965,153	8,176,666
	23,329,610	27,964,401
Less: Allowance for expected credit losses	(221,807)	(198,290)
	23,107,803	27,766,111

⁽ⁱ⁾ Financial assets (pledged by stock) held under resale are resale agreements which qualified investors entered into with the Group with commitments to purchasing the specified securities at future dates with agreed prices. As at June 30, 2019, the fair value of securities which have been received by the group as collateral was RMB70,123,614 thousand (December 31, 2018: RMB69,527,116 thousand).

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

21 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

(2) The movements of expected credit losses are as follows:

	Six months ended June 30, 2019	Year ended December 31, 2018
	(Unaudited)	(Audited)
At beginning of the period/year	199,734	140,799
Expected credit losses recognised	22,174	58,935
Reversal of expected credit losses	(101)	—
At end of the period/year	221,807	199,734

	As at June 30, 2019						
	12 months		Life time (stage 2)		Life time (stage 3)		Total
	Principal and interest	ECL	Principal and interest	ECL	Principal and interest	ECL	
Impairment allowance	24,935,516	7,693	—	—	875,226	214,114	221,807

	As at December 31, 2018						
	12 months		Life time (stage 2)		Life time (stage 3)		Total
	Principal and interest	ECL	Principal and interest	ECL	Principal and interest	ECL	
Impairment allowance	32,047,194	89,738	486,130	16,755	710,270	93,241	199,734

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

22 DEFERRED TAX ASSETS (LIABILITIES)

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

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Deferred tax assets	946,069	868,510
Deferred tax liabilities	(404,008)	(148,764)
	542,061	719,746

The following are the major deferred tax assets (liabilities) recognised and movements thereon in the period/year:

	Financial instruments at fair value through profit and loss/ derivatives	Accrued staff cost	Deferred income	Allowance for impairment loss	Financial instruments at fair value through other comprehensive income	Property and equipment	Others	Total
Audited								
At January 1, 2018	(15,544)	667,892	31,500	61,857	(133,372)	(2,242)	57,825	667,916
Credited/(debited) to the statement of profit or loss	125,818	(103,734)	(67)	26,894	—	(1,126)	(29,252)	18,533
Credit to other comprehensive income	—	—	—	—	33,409	—	—	33,409
Exchange difference	—	—	—	—	—	(108)	(4)	(112)
At December 31, 2018	110,274	564,158	31,433	88,751	(99,963)	(3,476)	28,569	719,746
Unaudited								
At January 1, 2019	110,274	564,158	31,433	88,751	(99,963)	(3,476)	28,569	719,746
Credited/(debited) to the statement of profit or loss	(274,186)	180,645	(400)	(6,272)	—	710	(1,681)	(101,184)
Credit to other comprehensive income	—	—	—	—	(76,514)	—	—	(76,514)
Exchange difference	—	—	—	—	—	11	2	13
At June 30, 2019	(163,912)	744,803	31,033	82,479	(176,477)	(2,755)	26,890	542,061

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

23 OTHER NON-CURRENT ASSETS

(1) Analysed by nature

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Leasehold improvements and deferred expenses	227,739	221,103

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

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
At the beginning of period/year	221,103	197,917
Additions	43,384	53,467
Transfer from construction in progress	7,168	41,504
Amortisation	(43,916)	(71,785)
At the end of period/year	227,739	221,103

24 ADVANCES TO CUSTOMERS

(1) Analysed by nature

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Loans to margin clients	49,102,684	43,119,896
Less: Allowance for expected credit losses	(96,549)	(143,466)
	49,006,135	42,976,430

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

The majority of the loans to margin clients, which are secured by the underlying pledged securities and cash collateral as disclosed in note 36, are interest bearing. The Group maintains a list of approved stocks for margin lending at specified loan-to-collateral ratios. Any breaches of loan-to-collateral ratios will trigger a margin call upon which the customers have to make up the difference.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

24 ADVANCES TO CUSTOMERS (Continued)

(2) Analysed by fair value of collateral of margin financing and securities lending business are as follows:

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Collateral measured at fair value		
Cash	7,933,435	5,123,777
Debt securities	1,085,881	7,718,425
Equity securities	142,489,313	109,524,319
Funds	1,098,031	1,412
	152,606,660	122,367,933

(3) Movements of allowance of expected credit losses are as follows:

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
At beginning of the period/year	143,466	83,816
Expected credit losses recognised	—	59,038
Reversal of impairment losses	(49,334)	—
Exchange difference	2,417	612
At end of the period/year	96,549	143,466

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

24 ADVANCES TO CUSTOMERS (Continued)

(3) Movements of allowance of expected credit losses are as follows: (Continued)

	As at June 30, 2019						
	12 months		Life time (stage 2)		Life time (stage 3)		Total
	Principal and interest	ECL	Principal and interest	ECL	Principal and interest	ECL	
Impairment allowance	48,799,776	40,017	227,457	1,613	75,451	54,919	96,549

	As at December 31, 2018						
	12 months		Life time (stage 2)		Life time (stage 3)		Total
	Principal and interest	ECL	Principal and interest	ECL	Principal and interest	ECL	
Impairment allowance	42,885,536	89,902	185,446	16,058	48,914	37,506	143,466

The directors of the Company are of the opinion that an ageing analysis does not give additional value in view of the nature of the securities margin financing business. As a result, no ageing analysis is disclosed.

The concentration of credit risk is limited due to a large portfolio of independent customers and each of them is insignificant in size.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

25 ACCOUNTS AND OTHER RECEIVABLES

(1) Analysed by nature

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Accounts and other receivables from/related to:		
Clearing houses, brokers and dealers	1,990,806	2,007,388
Commission and fee income	574,428	656,413
Dividends receivables	380,000	171,500
Other tax assets	342,827	34,668
Prepayments	136,823	79,366
Other receivables	86,228	238,457
Others	152,581	113,824
	3,663,693	3,301,616
Less: Allowance for expected credit losses	(3,741)	(3,613)
	3,659,952	3,298,003

(2) Analysed by ageing

As at the end of the period/year, the ageing analysis of accounts receivables based on trade day, is as follows:

	As at June 30, 2019		As at December 31, 2018	
	Amount	Impairment allowance	Amount	Impairment allowance
Within 1 year	2,545,177	(512)	689,262	(115)
Between 1 and 2 years	15,116	(112)	16,075	(381)
Between 2 and 3 years	4,190	—	3,176	—
Over 3 years	441	—	449	—
	2,564,924	(624)	708,962	(496)

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

26 DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(1) Analysed by nature

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Current		
Government bonds	10,898,912	11,964,323
Bonds issued by policy banks	9,514,223	11,970,815
Bonds issued by commercial banks and other financial institutions	4,468,407	4,005,409
Other debt securities ⁽ⁱ⁾	13,311,504	13,701,794
	38,193,046	41,642,341

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

(2) Movements of allowance for expected credit losses

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
At beginning of the period/year	6,185	7,217
Expected impairment losses recognised	255	—
Reversal of expected credit losses	—	(1,032)
At end of the period/year	6,440	6,185

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

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

(2) Movements of allowance for expected credit losses (Continued)

	As at June 30, 2019						
	12 months		Life time (stage 2)		Life time (stage 3)		Total
	Principal and interest	ECL	Principal and interest	ECL	Principal and interest	ECL	
Impairment allowance	38,149,130	6,305	50,356	135	—	—	6,440

	As at December 31, 2018						
	12 months		Life time (stage 2)		Life time (stage 3)		Total
	Principal and interest	ECL	Principal and interest	ECL	Principal and interest	ECL	
Impairment allowance	41,648,526	6,185	—	—	—	—	6,185

27 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(1) Analysed by nature

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Current		
Debt securities	91,202,558	67,139,386
Funds	15,027,443	20,750,896
Equity investments ⁽ⁱ⁾	8,982,192	6,840,221
Others ⁽ⁱⁱ⁾	9,875,275	3,191,276
	125,087,468	97,921,779
Non-current		
Equity investments ⁽ⁱ⁾	2,356,398	2,202,967

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

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

(1) Analysed by nature (Continued)

- ⁽ⁱ⁾ Equity investments comprise of unlisted equity investments and investments in limited partnerships. Fair value of the Group's financial assets at fair value through profit or loss are determined as described in note 54.
- As at June 30, 2019, the Group entered into securities lending arrangement with clients that resulted in the transfer of equity securities under held for trading with total fair values of RM831,847 thousand (December 31, 2018: RMB357,730 thousand) to clients. These securities continued to be recognised as financial assets of the Group.
- ⁽ⁱⁱ⁾ Others mainly represent investments in collective asset management schemes and wealth management products.

28 DERIVATIVE FINANCIAL ASSETS/LIABILITIES

	As at June 30, 2019			As at December 31, 2018		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Interest derivative instrument						
Interest rate swaps	105,415,000	387,714	393,882	93,585,000	394,434	392,849
Bond futures ⁽ⁱ⁾	10,750,010	—	733	7,997,256	—	1,655
Equity derivative instrument						
Equity return swaps	1,117,249	201,030	22,393	1,152,517	210,192	19,477
Stock index futures ⁽ⁱ⁾	4,173,091	—	179	3,403,365	—	18
Options ⁽ⁱⁱ⁾	39,690,170	117,119	217,148	6,602,796	49,823	166,537
Credit derivatives						
Credit default swap	150,000	333	7,506	50,000	489	1,123
Other derivative instrument						
Commodity futures ⁽ⁱ⁾	7,912,901	281,604	299,485	9,555,315	446,665	446,316
Commodity swaps	2,484,655	38,221	84,493	2,782,782	10,486	264,023
Commodity	1,201,706	31,123	1,975	1,160,802	38,143	12,205
Forward contracts	398,334	—	1,178	98,172	—	1,482
	173,293,116	1,057,144	1,028,972	126,388,005	1,150,232	1,305,685

- ⁽ⁱ⁾ Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in the PRC stock index futures, treasury bond futures and commodity futures contracts were settled daily and the corresponding receipts and payments were included in "clearing settlement funds". Accordingly, the net onshore position of these contracts was nil at the period/year-end date.
- ⁽ⁱⁱ⁾ Options: Including over-the-counter options, exchanged-traded options and embedded derivatives of structure notes.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

29 DEPOSITS IN EXCHANGES AND NON-BANK FINANCIAL INSTITUTIONS

	As at	As at
	June 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
Deposits in stock exchanges and clearing house:		
China Securities Depository and Clearing Corporation Limited	488,958	446,899
Shanghai Clearing House	297,628	70,109
Hong Kong Securities Clearing Company Limited	75,087	44,169
China Beijing Equity Exchange	1,622	1,184
Hong Kong Stock Exchange	1,408	1,507
Deposits in futures and commodity exchanges and financial institutions:		
London Metal Exchange	344,124	184,955
Pingan Futures Co., Ltd.	244,065	190,051
Intercontinental Exchange	181,975	224,355
Yongan Futures Co., Ltd.	152,626	129,879
CITIC Futures Co., Ltd.	84,892	59,549
Jianxin Futures Co., Ltd.	37,931	22,889
China Financial Futures Exchange	16,393	10,057
Shanghai Gold Exchange	14,761	7,972
Huatai Futures Co., Ltd.	14,539	5,887
Hong Kong Futures Exchange	9,780	15,913
Nanhua Futures Co., Ltd.	7,985	11,913
Chicago Mercantile Exchange	3,437	3,432
Others	705	700
	1,977,916	1,431,420

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

30 CLEARING SETTLEMENT FUNDS

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Clearing settlement funds held with clearing house for:		
House accounts	3,705,095	3,913,233
Clients	11,362,740	9,883,048
	15,067,835	13,796,281

31 CASH AND BANK BALANCES

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Bank balances — house account	13,143,740	7,289,300
House accounts	13,098,790	7,229,886
Pledge and restricted bank deposits		
— Restricted bank deposit for purchase of bond and stock	44,950	59,414
Cash held on behalf of customers	53,279,205	40,144,484
	66,422,945	47,433,784

32 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the followings:

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Clearing settlement funds — house accounts (note 30)	3,705,095	3,913,233
Bank balances — house accounts (note 31)	13,143,740	7,289,300
Less: Pledged and restricted bank deposit (note 31)	(44,950)	(59,414)
	16,803,885	11,143,119

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

33 SHORT-TERM BORROWINGS

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Secured bank loans ⁽ⁱ⁾	1,174,883	1,576,882
Unsecured bank loans ⁽ⁱⁱ⁾	745,116	—
Interest accrued	8,704	4,979
	1,928,703	1,581,861

⁽ⁱ⁾ As at June 30, 2019, the Group pledged securities with market value amounting to RMB3,276.50 million (December 31, 2018: RMB3,618.36 million) for these loans. The Group's short-term secured bank loans bore floating interest rates ranging from 1.4% to 4.1% (December 31, 2018: 1.25% to 4.90%) per annum.

⁽ⁱⁱ⁾ As at June 30, 2019, the Group's short-term unsecured bank loans bore floating interest rates ranging from 3.35% to 3.38% (December 31, 2018: nil) per annum.

34 SHORT-TERM DEBT INSTRUMENTS

	Nominal interest rate	As at January 1, 2019	Issuance	Redemption	As at June 30, 2019
					(Unaudited)
Short-term bond payables ⁽ⁱ⁾	3.48% – 3.79%	9,000,000	5,000,000	6,000,000	8,000,000
Short-term financing bills payables ⁽ⁱⁱ⁾	2.69% – 3.03%	5,000,000	14,000,000	12,000,000	7,000,000
Principals of structured notes ⁽ⁱⁱⁱ⁾	≤3.95%	20,051,050	3,721,590	21,096,780	2,675,860
Interest accrued		799,426	493,158	1,086,047	206,537
		34,850,476	23,214,748	40,182,827	17,882,397

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

34 SHORT-TERM DEBT INSTRUMENTS (Continued)

	Nominal interest rate	As at January 1, 2018	Transfer in	Issuance/ Other Transfer	Redemption	As at December 31, 2018
						(Audited)
Short-term bond payables ⁽ⁱ⁾	3.78%–5.30%	23,030,000		12,170,000	26,200,000	9,000,000
Short-term financing bills payables ⁽ⁱⁱ⁾	3.13%–3.15%	—		14,000,000	9,000,000	5,000,000
Principals of structured notes ⁽ⁱⁱⁱ⁾	3.00%–5.50%	24,015,670		28,535,720	32,500,340	20,051,050
Interest accrued			663,983	2,233,582	2,098,139	799,426
		47,045,670	663,983	56,939,302	69,798,479	34,850,476

⁽ⁱ⁾ Short-term bond payables

As at June 30, 2019, the short-term bond payables bore fixed interest rates ranging from 3.48% to 3.79% per annum (December 31, 2018: 3.78% to 5.30%) with a period of 183 days to 270 days.

⁽ⁱⁱ⁾ Short-term financing bills payables

As at June 30, 2019, the short-term financing bills were payables debt securities issued in the PRC Inter-Bank market by the Group and bore interest rates ranging from 2.69% to 3.03% (December 31, 2018: 3.13% to 3.15%) per annum.

⁽ⁱⁱⁱ⁾ Principals of structured notes

As at June 30, 2019, the amount represents principals received from investors for subscription of structured notes issued by the Group. The structured notes bore fixed rate interest rates no more than 3.95% (December 31, 2018: 3.00% to 5.50%) per annum and variable rates linked to certain stock index. The principals and interests are repayable upon maturity within one year. The structured notes with variable rates contain non-closely related derivative as their returns are linked to the fluctuation of stock index. For those embedded derivatives, they are accounted for as derivatives in note 28 after being bifurcated from their respective host contracts.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

35 PLACEMENT FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at	As at
	June 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
Placement from banks ⁽ⁱ⁾	6,500,000	1,500,000
Placement from other financial institutions	—	2,000,000
Interest accrued	3,257	19,000
	6,503,257	3,519,000

⁽ⁱ⁾ As at June 30, 2019, the effective interest rates on placement from banks range from 1.53% to 3.27% (December 31, 2018: 3.00%) per annum. The amount is repayable within three days from the end of the Reporting Period.

36 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

	As at	As at
	June 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
Clients' deposits for margin financing and securities lending	7,933,435	5,123,777
Clients' deposits for other brokerage business	56,299,529	43,787,971
	64,232,964	48,911,748

Accounts payable to brokerage clients represent money received from and are repayable to brokerage clients, which are mainly held at banks and at clearing houses by the Group. Accounts payable to brokerage clients are interest-bearing at the prevailing interest rate.

The majority of the accounts payable balances are repayable on demand except where certain accounts payable to brokerage clients represent money received from clients for their margin financing activities under normal course of business, such as margin financing and securities lending. Only the excessive amounts over the required margin deposits and cash collateral stipulated are repayable on demand.

The directors of the Company are of the opinion that an ageing analysis does not give additional value in view of the nature of these businesses. As a result, no ageing analysis is disclosed.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

37 ACCRUED STAFF COSTS

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Non-current		
Salaries, bonus and allowances	787,540	787,540
Current		
Salaries, bonus and allowances	3,732,415	3,561,933
Short-term social welfare	52,054	52,054
Defined contribution plans	840	729
Others	57,955	39,419
	3,843,264	3,654,135

38 OTHER PAYABLES AND ACCRUED CHARGES

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Dividends payables to ordinary shareholders and holders of other equity instruments	1,956,499	592,196
Settlement payables to brokers and clearing house	1,893,338	1,560,595
Deposits of equity return swaps	536,428	458,577
Other tax payable	474,679	424,507
Commission and handling fee payable	98,860	109,498
Futures risk reserve	76,889	73,510
Others ⁽ⁱ⁾	317,427	305,318
	5,354,120	3,524,201

⁽ⁱ⁾ Others mainly represent payables of annual membership fees, investor protection fund and other payables arising from normal course of business.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

39 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at	As at
	June 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
Non-current		
Financial liabilities designated at fair value through profit or loss		
— Structured entities	2,594,183	2,404,123
Current		
Financial liabilities held for trading		
— Debt securities	5,562,864	6,839,015
— Gold	257,257	—
— Equity securities	230,387	105,660
— Others	130,834	152,363
Financial liabilities designated at fair value through profit or loss		
— Structured entities	26,805	27,414
	6,208,147	7,124,452

In these condensed consolidated financial statements, financial liabilities arising from consolidation of structured entities are designated at fair value through profit or loss by the Group, as the Group has the obligation to pay other investors upon maturity dates or on demand of the structured entities based on net book value and related terms.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

40 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Current		
Analysed by collateral type:		
Bonds	84,405,811	61,267,557
Gold	2,341,598	—
	86,747,409	61,267,557
Analysed by market:		
Stock exchange	36,804,535	31,847,196
Interbank market	47,842,153	29,361,582
Over-the-counter	2,100,721	58,779
	86,747,409	61,267,557

41 LEASE LIABILITIES

	As at June 30, 2019
	(Unaudited)
Current	267,945
Non-current	1,008,459

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

42 OTHER EQUITY INSTRUMENTS

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Perpetual subordinated bonds	15,000,000	15,000,000

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

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

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

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

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

43 INVESTMENT REVALUATION RESERVE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investment revaluation reserve of financial assets at fair value through other comprehensive income is shown as below:

	As at	As at
	June 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
At the beginning of the period/year	299,070	398,973
Debt instruments at fair value through other comprehensive income:		
Net fair value changes during the period/year	14,894	758,923
Reclassification adjustment to profit or loss	(174,611)	22,463
Income tax effects	39,907	(195,347)
Impairment of debt instruments at fair value through other comprehensive income:		
Net fair value changes during the period/year	255	(1,032)
Income tax effects	(64)	258
Equity instruments at fair value through other comprehensive income:		
Net fair value changes during the period/year	465,428	(913,992)
Income tax effects	(116,357)	228,498
Share of fair value gain on financial assets at fair value through other comprehensive income of associates	5,116	326
At the end of the period/year	533,638	299,070

44 GENERAL RESERVES

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

Pursuant to the Company Law of the PRC and the Company's articles of association, 10% of the net profit of the Company, as determined under the relevant accounting rules and financial regulations applicable to enterprises in the PRC, is required to be transferred to the statutory reserve until such time when this reserve reaches 50% of the share capital of the Company. The reserve appropriated can be used for expansion of business and capitalisation. If the statutory reserve is capitalised into share capital, the remaining reserve is required to be no less than 25% of the Company's registered capital before capitalisation.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

44 GENERAL RESERVES (Continued)

In accordance with the “Financial Rules for Financial Enterprises”, the Company is required to appropriate 10% of net profit derived in accordance with PRC GAAP before distribution to shareholders as general risk reserve from retained profits. Moreover, in accordance with the “Applicable to the Large-size Collection Asset Management Business of Securities Companies <the Guidance on Regulating the Asset Management Business of Financial Institutions> Operating Guidelines”, a subsidiary, China Merchants Securities Asset Management Co., Ltd. has to appropriate 10% of management fees from large-size collective assets management business as general risk reserve since November 2018.

Pursuant to the Securities Law of the PRC, the Company is required to appropriate 10% of net profit derived in accordance with PRC GAAP before distribution to shareholders as transaction risk reserve from retained profits and it cannot be distributed or transferred to share capital.

The movements of the general reserves are exhibited at condensed consolidated statement of changes in equity for the six months ended June 30, 2019.

45 LONG-TERM BORROWINGS

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Unsecured bank loans	1,382,958	1,380,015

As at June 30, 2019, the Group’s unsecured long-term bank loans bore floating interest rates ranging from 3.645% to 3.881% (December 31, 2018: 3.445% to 3.876%) per annum. The above loans are repayable upon maturity within three years.

46 BONDS PAYABLE DUE WITHIN ONE YEAR

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Non-convertible bonds ⁽ⁱ⁾	7,500,000	14,200,000
Subordinated bonds ⁽ⁱⁱ⁾	8,990,000	2,200,000
Interest accrued	1,136,488	1,455,355
	17,626,488	17,855,355

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

46 BONDS PAYABLE DUE WITHIN ONE YEAR (Continued)

(i) The following table presents an analysis of non-convertible bonds:

As at June 30, 2019 (unaudited)

Name	Issue amount	Value date	Maturity date	Coupon rate
17CM G1	4,500,000	13/10/2017	13/10/2019	4.78%
18CM G2	2,000,000	12/06/2018	12/06/2020	4.78%
GF Assets Management — China Merchants Securities Capital Lending Phase I Asset-backed Special Plan	1,000,000	14/11/2018	14/05/2020	3.95%

As at December 31, 2018 (audited)

Name	Issue amount	Value date	Maturity date	Coupon rate
17CM G1	4,500,000	13/10/2017	13/10/2019	4.78%
18CM F6	3,800,000	19/04/2018	04/05/2019	4.75%
18CM F7	5,900,000	21/05/2018	05/06/2019	4.84%

(ii) The following table presents an analysis of subordinated bonds:

As at June 30, 2019 (unaudited)

Name	Issue amount	Value date	Maturity date	Coupon rate
17CM C1	2,200,000	27/11/2017	27/11/2019	5.45%
18CM C1	1,640,000	12/01/2018	12/02/2020	5.56%
18CM C2	5,150,000	22/01/2018	22/01/2020	5.70%

As at December 31, 2018 (audited)

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

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

47 BONDS PAYABLE

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Non-convertible corporate bonds ⁽ⁱ⁾	47,575,840	28,773,737
Subordinated bonds	—	6,790,000
Principal of structured notes	2,000,000	—
	49,575,840	35,563,737

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

As at June 30, 2019 (unaudited)

Name	Issue amount	Value date	Maturity date	Coupon rate
12CM03	5,500,000	05/03/2013	05/03/2023	5.15%
14CM bond	5,500,000	26/05/2015	26/05/2025	5.08%
17CMG2	1,060,000	23/10/2017	23/10/2020	4.78%
17CMG3	1,000,000	31/10/2017	31/10/2020	4.85%
18CMG1	1,940,000	05/02/2018	05/02/2021	5.35%
18CMG3	1,000,000	12/06/2018	12/06/2021	4.78%
18CMG5	2,500,000	18/07/2018	18/07/2021	4.38%
18CMG6	3,000,000	08/08/2018	08/08/2021	3.94%
18CMG8	1,800,000	07/09/2018	07/09/2021	4.23%
18CMF10	2,500,000	05/12/2018	05/12/2021	4.15%
19CMG1	1,500,000	08/03/2019	08/03/2022	3.59%
19CMF3	1,700,000	10/04/2019	10/04/2021	3.85%
19CMF4	3,600,000	10/04/2019	10/04/2022	4.00%
19CMF5	2,000,000	25/04/2019	25/04/2021	4.08%
19CMF6	4,000,000	25/04/2019	25/04/2022	4.28%
19CMF8	4,000,000	29/05/2019	29/05/2021	3.78%
GF Assets Management — China Merchants Securities Capital Lending Phase II Asset-backed Special Plan	3,000,000	18/03/2019	18/03/2021	3.70%
GF Assets Management — China Merchants Securities Capital Lending Phase III Asset-backed Special Plan	2,000,000	25/04/2019	25/04/2022	4.20%

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

47 BONDS PAYABLE (Continued)

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

As at December 31, 2018 (audited)

Name	Issue amount	Value date	Maturity date	Coupon rate
12CM03	5,500,000	05/03/2013	05/03/2023	5.15%
14CM bond	5,500,000	26/05/2015	26/05/2025	5.08%
17CMG2	1,060,000	23/10/2017	23/10/2020	4.78%
17CMG3	1,000,000	31/10/2017	31/10/2020	4.85%
18CMG1	1,940,000	05/02/2018	05/02/2021	5.35%
18CMG2	2,000,000	12/06/2018	12/06/2020	4.78%
18CMG3	1,000,000	12/06/2018	12/06/2021	4.78%
18CMG5	2,500,000	18/07/2018	18/07/2021	4.38%
18CMG6	3,000,000	08/08/2018	08/08/2021	3.94%
18CMG8	1,800,000	07/09/2018	07/09/2021	4.23%
18CMF10	2,500,000	05/12/2018	05/12/2021	4.15%
GF Assets Management — China Merchants Securities Capital Lending Phase I Asset-backed Special Plan	1,000,000	14/11/2018	14/05/2020	3.95%

48 DIVIDENDS TO THE SHAREHOLDERS OF THE COMPANY AND DISTRIBUTION TO THE HOLDERS OF OTHER EQUITY INSTRUMENTS

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Dividend recognised as distribution	1,768,644	2,317,996
Distribution to holders of other equity instruments	397,749	802,090

Pursuant to the resolution of the shareholders meeting held on June 28, 2019, the Company declared cash dividends of RMB2.64 for every 10 shares (tax included) based on 6,699,409,329 shares held amounting to RMB1,768,644 thousand in total for the year ended December 31, 2018.

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

During the current period, dividend of the Group on perpetual subordinated bonds amounted to RMB397,749 thousand.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

49 INTERESTS IN CONSOLIDATED STRUCTURED ENTITIES

Structured entities consolidated by the Group are asset management schemes, limited partnership and investment funds where the Group involves as a manager or as an investor. The Group assesses whether the combination of investments it holds together with its remuneration creates exposure to variability of returns from the activities of asset management products to a level of such significance that it indicates that the Group is a principal.

As at June 30, 2019, the Group consolidated 13 structured entities (December 31, 2018: 13 structured entities). The total assets of the consolidated structured entities were RMB7,158,535 thousand (December 31, 2018: RMB6,625,393 thousand) among which RMB6,134,083 thousand (December 31, 2018: RMB6,363,118 thousand) of these investments were accounted for financial assets at fair value through profit or loss.

50 INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group is principally involved with structured entities through financial investments. These structured entities generally purchase assets through financing. The Group determines whether or not to consolidate these structured entities depending on whether the Group has control over them. The interests held by the Group in the unconsolidated structured entities are set out below:

(1) Structured entities sponsored by the Group

Unconsolidated structured entities sponsored by the Group mainly include asset management schemes and limited partnership. The nature and aim of the structured entities is to manage investors' assets and collect management fees. Financing is sustained through investment products issued to investors. The interests held by the Group in the unconsolidated structured entities mainly involve management and performance fees collected from the structured entities managed by the Group.

As at June 30, 2019, the total assets of these unconsolidated structured entities managed by the Group amounted to RMB652,835,917 thousand (December 31, 2018: RMB729,590,715 thousand).

The amount of fee income derived from these unconsolidated structured entities managed by the Group are detailed in note 4.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

50 INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

(2) Structured entities sponsored by third party institutions

The types of structured entities that the Group does not consolidate but in which it holds an interest include funds, asset management schemes, trust schemes, and wealth management products issued by banks or other financial institutions. The nature and purpose of these structured entities are to generate returns from managing assets on behalf of investors. These vehicles are financed through the issue of units to investors. The carrying amount of the related accounts in the condensed consolidated statement of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by third party institutions as at June 30, 2019 and December 31, 2018, which are set out below:

	As at June 30, 2019 (Unaudited)		
	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
Funds	—	15,027,443	15,027,443
Trust schemes	—	140,255	140,255
Wealth management products	—	7,834,979	7,834,979
Others	7,188,035	7,105,177	14,293,212
	7,188,035	30,107,854	37,295,889

	As at December 31, 2018 (Audited)		
	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
Funds	—	20,774,943	20,774,943
Wealth management products	—	459,694	459,694
Others	6,722,607	6,425,640	13,148,247
	6,722,607	27,660,277	34,382,884

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

51 SIGNIFICANT RELATED PARTY TRANSACTIONS

(1) Relationship of related parties

(a) Major shareholders

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

Shareholding percentage in the Company:

	As at June 30, 2019	As at December 31, 2018
China Merchants Finance Investment Holdings Co., Ltd.	23.51%	23.51%
Shenzhen Jisheng Investment Development Co., Ltd.	19.56%	19.56%
China Ocean Shipping (Group) Company	6.25%	6.25%

(b) Other related parties

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

(2) Related parties transaction and balances

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

Transactions between the Group and the associates:

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Fee and commission income		
— Funds managed by Bosera Asset Management Co., Ltd. and China Merchants Fund Management Limited	63,573	51,904

Balance between the Group and the associates:

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Unaudited)
	Accounts and other receivables	
Bosera Asset Management Co., Ltd. and China Merchants Fund Management Limited	380,000	171,500

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

51 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(2) Related parties transaction and balances (Continued)

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

Transactions between the Group and other related parties:

Name of related party	Description of transactions	Six months ended June 30,	
		2019	2018
		(Unaudited)	(Unaudited)
Other income, gains from related party			
— China Merchants Bank Co., Ltd.	Interest income	182,343	200,543
— China Merchants Bank Co., Ltd.	Underwriting income	11,236	12,800
— China Merchants Bank Co., Ltd.	Assets management income	29,272	24,014
— China Merchants Bank Co., Ltd.	Financial advisory income	—	39,192
— Sinotrans Ltd.	Financial advisory income	21,752	—
Expenses paid or payable to related party			
— China Merchants Bank Co., Ltd.	Third-party funds depository business	(17,580)	(18,562)
— China Merchants Bank Co., Ltd.	Custodian fee income	(120,225)	(158,005)
— China Merchants Bank Co., Ltd.	Interest expenses	(7,127)	(24,866)
— China Merchants Bank Co., Ltd.	Rental expense	(29,473)	(26,041)
— China Merchants Property Co., Ltd.	Other operating expenses	(136,898)	—

* English name translated is for identification purpose only.

The Group also has the following balances with its other related parties:

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Bank balances		
— China Merchants Bank Co., Ltd.	21,040,794	14,591,303
Borrowings		
— China Merchants Bank Co., Ltd.	264,101	—
Placements from banks		
— China Merchants Bank Co., Ltd.	900,449	1,500,625

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

51 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(3) Key management personnel

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

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Short-term benefits:		
— Salaries, bonus and allowances	6,963	6,628
Post-employment benefits:		
— Contribution to retirement schemes	870	948
	7,833	7,576

(4) Other related party transactions

In December 2015, China Merchants Shekou Industrial Zone Holdings Co., Ltd. issued A Shares for the purpose to acquire China Merchants Property Development Co., Ltd. and issued A Shares to certain specific targets for fund raising purpose. The Company subscribed 84,746 thousand of the non-public offering of China Merchants Shekou Industrial Zone Holdings Co., Ltd. through the structured entity controlled by China Merchants Zhiyuan Capital Investment Co., Ltd., a subsidiary of the Group. As at June 30, 2019, the fair value of the above shares were amounting to RMB1,727,308 thousand (December 31, 2018: RMB1,388,588 thousand).

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

52 SEGMENT INFORMATION

(1) Business segment

For management purposes, the Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's operating segments represents a strategic business unit that offers services which are subject to risks and returns that are different from the other operating segments. Segment information is measured in accordance with the accounting policies and measurement criteria adopted by each segment when reporting to the Board of Directors, which are consistent with the accounting and measurement criteria in the preparation of the condensed consolidated financial statements. The Group's operating segments are as follows:

- (a) Brokerage and wealth management segment engages in the trading of stocks and futures contracts on behalf of clients. Moreover, the activities of providing margin financing, securities lending and sales of financial products and other wealth management products are included in this segment;
- (b) Investment banking segment provides investment banking services to the Group's clients, including financial advisory, equity underwriting, debt underwriting and sponsorship;
- (c) Investment management segment primarily engages in assets management, investing advisory and deal execution services. Moreover, investment income from private equity investment management and alternative investment are included in this segment;
- (d) Investment and trading segment engages in trading equity securities, fixed-income securities, derivatives, other financial products and market maker service; and
- (e) Others segment primarily includes head office operations, investment holding as well as interest income and interest expense incurred for generating working capital for general operation.

No operating segments above have been aggregated in presentation. Management monitors the operating results of the Group's business units separately for the purpose of resource allocation and other operating decisions. Segment performance is measured consistently with operating profit or loss in the condensed consolidated financial statements. However, income taxes are not allocated to operating segments.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

52 SEGMENT INFORMATION (Continued)

(1) Business segment (Continued)

The operating and reportable segment information provided to the chief operating decision maker for the six months ended June 30, 2019 and 2018 is as follows:

	Brokerage and wealth management	Investment banking	Investment management	Investment and trading	Others	Elimination	Total
Unaudited							
For the six months ended June 30, 2019							
– Segment revenue	6,032,685	683,702	1,002,055	3,436,778	162,848	(30,525)	11,287,543
– Segment other income and gains or losses	5,982	—	142	—	471,176	—	477,300
Segment revenue and other income, gains or losses	6,038,667	683,702	1,002,197	3,436,778	634,024	(30,525)	11,764,843
Segment expenses	(4,236,085)	(370,004)	(135,142)	(2,188,378)	(1,000,800)	30,525	(7,899,884)
Segment result	1,802,582	313,698	867,055	1,248,400	(366,776)	—	3,864,959
Share of results of associates	—	—	1,021	19,287	441,656	—	461,964
Profit before income tax	1,802,582	313,698	868,076	1,267,687	74,880	—	4,326,923
Unaudited							
As at June 30, 2019							
Segment assets and liabilities							
Segment assets	136,551,388	1,179,230	10,939,010	185,136,224	22,213,699	(5,660,576)	350,358,975
Segment liabilities	(92,946,471)	(1,507,438)	(4,881,088)	(158,525,339)	(15,840,290)	5,660,576	(268,040,050)
Other segment information							
Amounts included in the measure of segment profit or loss or segment assets:							
Interest income	2,871,175	—	38,683	890,378	162,552	(30,525)	3,932,263
Interest expense	(1,426,364)	(23,798)	(38,621)	(1,453,460)	(6,207)	30,525	(2,917,925)
Capital expenditure	(45,188)	(2,678)	(3)	(2,842)	(31,239)	—	(81,950)
Depreciation and amortisation	(141,421)	(23,930)	(3,483)	(12,517)	(76,248)	—	(257,599)
Impairment losses recognised	30,455	—	(217)	—	—	—	30,238

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

52 SEGMENT INFORMATION (Continued)

(1) Business segment (Continued)

	Brokerage and wealth management	Investment banking	Investment management	Investment and trading	Others	Elimination	Total
Unaudited							
For the six months ended June 30, 2018							
– Segment revenue	6,194,550	686,385	686,197	516,354	263,958	(30,525)	8,316,919
– Segment other income and gains or Losses	8,702	1	1,972	—	(29,819)	—	(19,144)
Segment revenue and other income, gains or losses	6,203,252	686,386	688,169	516,354	234,139	(30,525)	8,297,775
Segment expenses	(4,324,107)	(548,842)	(252,973)	(1,290,823)	(172,313)	30,525	(6,558,533)
Segment result	1,879,145	137,544	435,196	(774,469)	61,826	—	1,739,242
Share of results of associates	—	—	(2)	28,907	447,433	—	476,338
Profit/(loss) before income tax	1,879,145	137,544	435,194	(745,562)	509,259	—	2,215,580
Audited							
As at December 31, 2018							
Segment assets and liabilities							
Segment assets	121,418,925	434,552	10,258,167	161,933,307	16,817,015	(5,931,261)	304,930,705
Segment liabilities	(95,013,357)	(1,381,780)	(4,751,722)	(115,226,185)	(13,696,568)	5,931,261	(224,138,351)
Unaudited							
For the six months ended June 30, 2018							
Other segment information							
Amounts included in the measure of segment profit or loss or segment assets:							
Interest income	3,433,573	—	46,451	558,939	263,958	(30,525)	4,272,396
Interest expense	(1,998,645)	(8,711)	(67,540)	(1,196,679)	—	30,525	(3,241,050)
Capital expenditure	(50,463)	(303)	(4,985)	(470)	(55,661)	—	(111,882)
Depreciation and amortisation	(89,089)	(1,164)	(892)	(1,703)	(13,301)	—	(106,149)
Impairment losses recognised	(121,082)	—	1,258	—	—	—	(119,824)

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

52 SEGMENT INFORMATION (Continued)

(2) Geographical segments

The Group operates mainly in Mainland China and Hong Kong, where its assets are located and the revenue from external customers are generated. The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property and equipment, right-of-use assets, goodwill, other intangible assets, interests in associates and other non-current assets ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided. The geographical location of the specified non-current assets is based on the physical or operation location of the asset: in the case of property and equipment, right-of-use assets, interests in associates and other non-current assets, they are based on the physical location, in the case of goodwill and other intangible assets, they are based on the location of operations.

	Mainland China	Outside Mainland China	Total
For the six months ended June 30, 2019 (Unaudited)			
Segment Revenue			
Revenue from external customers	10,898,058	389,485	11,287,543
Other income and gains or losses	464,705	12,595	477,300
	11,362,763	402,080	11,764,843
For the six months ended June 30, 2018 (Unaudited)			
Segment Revenue			
Revenue from external customers	7,915,681	401,238	8,316,919
Other income and gains or losses	(15,789)	(3,355)	(19,144)
	7,899,892	397,883	8,297,775

Specific non-current assets

	Mainland China	Outside Mainland China	Total
As at June 30, 2019 (Unaudited)			
Specified non-current assets	11,838,757	100,266	11,939,023
As at December 31, 2018 (Audited)			
Specified non-current assets	10,059,424	107,187	10,166,611

(3) Information about major customers

There were no customers for each of the six months period ended June 30, 2019 and 2018 contributed over 10% of the total revenue of the Group.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT

(1) Risk management structure

Since its establishment, the Group has been developing an all-around, innovative and forward-looking risk management system, which is aligned with its operational strategy and focuses on its frontier departments at business level. The structure of the risk management of the Company consists of five levels, including strategical arrangement by the Board of Directors, supervision and scrutiny by the Supervisory Committee, decision-making by the senior management and the Risk Management Committee, check-and-balance and internal controls maintained by relevant risk management departments and direct management of other departments, branches and its wholly-owned subsidiaries.

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

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

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk

The Group's exposure to credit risk represents the potential economic loss that may arise from the failure of a debtor or counterparty to meet its obligation according to their contractual commitment. The Group is primarily exposed to four types of credit risk: (i) risk arising from default of customers to repay debts in businesses of margin financing and securities lending, securities-backed lending or stock repurchases; (ii) risk of losses of principal and interests for investments in debt securities, trust products and other credit products due to default of the issuers or borrowers; (iii) risk arising from default of a counterparty to meet its payment obligation in trading of over the counter ("OTC") derivatives such as equity swaps, interest rate swap and OTC futures; (iv) risk arising from the default of customers in brokerage business in respect of trading of securities, futures and other financial products, when there was shortfall of funds after liquidation of client's accounts on settlement dates.

In respect of margin financing and securities lending, securities-backed lending, stock repurchase business and other financing businesses, the Group has established a multi-level authorisation system for business management and a comprehensive risk management system covering the entire process through due diligence of customers, approval of credit grant, post-loan evaluation, dynamic adjustment to collaterals, mark to market system, mandatory liquidation and disposal on default.

For debt securities investment business, the Group has developed an internal credit rating mechanism to control risks of default and down-grading of debt securities as well as default of counterparties. The Group sets minimum rating requirements for various types of investments and counterparties by business authorisation system and minimizing the loss arising from different types of investments and default of counterparties through diversification strategy.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

For OTC derivatives trading business, the Group has formulated a set of management measures and rules to determine eligibility of investors, due diligence of customers, grant of credit to counterparties, discount rate of securities, effective monitoring of gearing ratio, management of collateral and follow-up measures on default of customers, in order to strengthen the management before, during and after the transactions.

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

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

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

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

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

The loss given default is estimated based on historical data and subject to a prospective adjustment. The Group uses the following criteria to determine whether there is significant increase in credit risks:

- (a) The credit rating of foreign bonds is lowered to a level below BBB- (not included), the credit rating of domestic bonds is lowered to a level below AA (not included), or the original debt rating is below AA but has not yet been identified as there was a significant increase in credit risks, but there is an external rating downgrade.
- (b) Other events being identified as significant increase in credit risks, for example:
 - The significant adverse changes in the industry or policies, geographical environment of issuers, or deterioration of the issuers' own business operations;
 - The consolidated financial statements of issuers exhibit significant adverse changes in main operations or financial indicators;
 - The significant adverse changes (if any) in the effectiveness of credit enhancement measures;
 - The issuers and the entities that provide credit enhancement are discredited by environmental protection or safety production bureau, or other important situations, or occurrence of any event that may affect debt repayment ability; the entities provide credit enhancement are delinquent or refused to bear the liability arising from credit enhancement in other debts;
 - Other significant important events identified by the Group.

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

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

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

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

(a) Maximum credit risk exposure

	As at June 30, 2019	As at December 31,2018
	(Unaudited)	(Audited)
Financial assets at fair value through profit or loss ⁽ⁱ⁾	92,174,660	67,497,116
Derivative financial assets	1,057,144	1,150,232
Advances to customers	49,006,135	42,976,430
Financial assets held under resale agreements	25,588,935	33,043,860
Accounts and other receivables	3,584,498	3,264,229
Deposit with exchanges and non-bank financial institutions	1,977,916	1,431,420
Clearing settlement funds	15,067,835	13,796,281
Cash and bank balances	66,422,945	47,433,784
Debt instruments at amortised cost ⁽ⁱⁱ⁾	1,868,074	1,844,195
Debt instruments at fair value through other comprehensive income	38,193,046	41,642,341
	294,941,188	254,079,888

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

⁽ⁱⁱ⁾ Debt instruments at amortised cost subject to credit risk represent investments in debt securities and customer loans receivable.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(b) Risk concentration

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

As at June 30, 2019 (Unaudited)

	Mainland China	Outside Mainland China	Total (Unaudited)
Financial assets at fair value through profit or loss	88,205,885	3,968,775	92,174,660
Derivative financial assets	694,075	363,069	1,057,144
Advances to customers	46,019,151	2,986,984	49,006,135
Financial assets held under resale agreements	25,588,935	—	25,588,935
Accounts and other receivables	2,054,198	1,530,300	3,584,498
Deposit with exchanges and non-bank financial institutions	1,359,800	618,116	1,977,916
Clearing settlement funds	14,657,891	409,944	15,067,835
Cash and bank balances	57,491,496	8,931,449	66,422,945
Debt instruments investment at amortised cost	1,811,809	56,265	1,868,074
Debt instruments at fair value through other comprehensive income	37,994,424	198,622	38,193,046
	275,877,664	19,063,524	294,941,188

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(b) Risk concentration (Continued)

As at December 31, 2018 (Audited)

	Mainland China	Outside Mainland China	Total (Audited)
Financial assets at fair value through profit or loss	66,230,063	1,267,053	67,497,116
Derivative financial assets	654,938	495,294	1,150,232
Advances to customers	39,032,744	3,943,686	42,976,430
Financial assets held under resale agreements	33,043,860	—	33,043,860
Accounts and other receivables	1,188,083	2,076,146	3,264,229
Deposit with exchanges and non-bank financial institutions	954,789	476,631	1,431,420
Clearing settlement funds	13,421,829	374,452	13,796,281
Cash and bank balances	39,257,531	8,176,253	47,433,784
Debt instruments investment at amortised cost	1,796,608	47,587	1,844,195
Debt instruments at fair value through other comprehensive income	41,642,341	—	41,642,341
	237,222,786	16,857,102	254,079,888

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(c) Credit rating analysis of financial assets

The carrying amounts of debt securities, including the bond collateral of the resale agreements, at the end of the period/year categorised by rating distribution are as follows:

	As at	As at
	June 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
Rating		
Issuers in Mainland China (note)		
PRC sovereign bonds	55,902,102	50,939,463
AAA	44,188,202	36,480,181
AA+	7,413,408	7,255,461
AA	1,312,765	1,222,258
AA- below	16,952	15,539
A-1	671,308	553,357
Non-rated	25,532,735	23,207,093
Sub-total	135,037,472	119,673,352
Issuers in Hong Kong and other regions (note)		
PRC sovereign bonds	8,079	9,740
A	857,850	102,910
B	3,152,193	956,562
Non-rated	134,930	197,842
Sub-total	4,153,052	1,267,054
	139,190,524	120,940,406

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

Credit rating of overseas bonds were derived from the lowest of Moody's, Standard & Poor's and Fitch Rating, if any. Bonds which are not rated by the above agencies are classified as non-rated. Included in A rating are the bonds comprising Aaa-A3 rating of Moody's, AAA-A- rating of Standard & Poor's and AAA-A- rating of Fitch; included in B rating are the bonds comprising Baa1-B3 rating of Moody's, BBB+-B- rating of Standard & Poor's and BBB+-B- rating of Fitch; included in C rating are the bonds comprising Caa1-C rating of Moody's, CCC+-C rating of Standard & Poor's and CCC+-C rating of Fitch; and included in D rating are the bonds comprising D rating of Standard & Poor's and D rating of Fitch.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(3) Liquidity risk

(a) *Origin and management of market risk*

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

In order to prevent liquidity risk, the Group has established high-quality current asset reserves and minimum excess reserve quota system. The Group has formulated liquidity emergency management plans to store minimum excess reserve in the funding plan. The Group has reserved treasury bond, PBOC bills and other highly liquid assets which can be liquidated at any time under extreme circumstances for unexpected expenses. In addition, the Group has actively developed management for funding gaps. By using management tools of cash flow gap, sensitivity analysis and stress testing, the Group can identify potential risks as early as possible to arrange financing and adjust the pace of fund usage for business purposes in advance to effectively manage the payment risk. The Group has also continuously expanded their financing channels and has a balanced distribution of debt maturities, so as to avoid the payment risk caused by single financing channel or servicing debts when due. Besides, the Group has established internal risk reporting system to promptly monitor the liquidity risk in the operation of each business and at each branch. Moreover, the Group takes measures to promote the safe, sound and sustainable operation of each business and each branch.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(3) Liquidity risk (Continued)

(b) Undiscounted cash flow by contractual maturities

As at June 30, 2019 (Unaudited)

	Carrying amount	On demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
Non-derivative financial liabilities								
Borrowings	3,305,463	—	1,923,683	10,957	39,386	1,416,555	—	3,390,581
Short-term debt instruments	17,675,860	—	6,946,930	5,108,577	5,943,446	—	—	17,998,953
Placements from banks and other financial institutions	6,500,000	—	6,503,257	—	—	—	—	6,503,257
Bonds payable	66,065,840	—	109,500	267,888	19,121,939	48,461,079	5,762,640	73,723,046
Financial assets sold under repurchase agreements	86,688,902	—	84,053,780	364,817	2,411,307	—	—	86,829,904
Financial liabilities at fair value through profit or loss	8,802,330	3,189,049	4,853,444	502,580	257,257	—	—	8,802,330
Accounts payable to brokerage clients	64,232,964	64,232,964	—	—	—	—	—	64,232,964
Other payable and accrued charges	2,645,864	2,612,485	33,248	—	131	—	—	2,645,864
Accounts payable to underwriting clients	461,410	—	461,410	—	—	—	—	461,410
Lease liabilities	1,276,404	—	23,080	50,480	204,451	705,929	502,951	1,486,891
Total	257,655,037	70,034,498	104,908,332	6,305,299	27,977,917	50,583,563	6,265,591	266,075,200
Derivative financial liabilities — net settlement	1,028,972	786,781	44,856	86,356	104,715	6,264	—	1,028,972

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(3) Liquidity risk (Continued)

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

As at December 31, 2018 (Audited)

	Carrying amount	On demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
Non-derivative financial liabilities								
Borrowings	2,956,897	—	1,579,232	10,818	38,809	1,435,607	—	3,064,466
Short-term debt instruments	34,051,050	—	8,228,279	17,285,090	9,642,401	—	—	35,155,770
Placements from banks and other financial institutions	3,500,000	—	2,502,492	1,025,783	—	—	—	3,528,275
Bonds payable	51,963,737	—	384,734	387,040	18,187,296	34,048,914	6,040,848	59,048,832
Financial assets sold under repurchase agreements	61,208,778	—	60,827,370	463,127	111	—	—	61,290,608
Financial liabilities at fair value through profit or loss	9,528,575	2,888,048	6,640,527	—	—	—	—	9,528,575
Accounts payable to brokerage clients	48,911,748	48,911,748	—	—	—	—	—	48,911,748
Other payables and accrued charges	2,240,195	2,211,935	28,260	—	—	—	—	2,240,195
Total	214,360,980	54,011,731	80,190,894	19,171,858	27,868,617	35,484,521	6,040,848	222,768,469
Derivative financial liabilities — net settlement	1,305,685	1,120,668	40,500	58,653	85,864	—	—	1,305,685

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk

(a) *Origin and management of market risk*

Market risks of the Group refer to the risks of loss resulting from adverse changes in the market. Securities held by the Group are derived from the proprietary investment, market-making business and other investment activities. Movements in securities holding primarily arise from the relevant strategies of proprietary investments and needs of market-making. The securities of the Group are measured at fair values which fluctuates daily according to the market factors and change in the portfolios of the securities. Market risks of the Group primarily include: (i) equity price risk, which represents the exposures arise from fluctuation in the spot price, future price and volatility of indices such as stocks, equity portfolio, commodities and stock index futures; (ii) interest rate risk, which primarily represents the exposures arise from movements in the yield curve of fixed income investment, fluctuation in interest rates and credit spreads; and (iii) commodity risk, which represents exposures arise from changes in the spot price, future price and the relevant volatility; and (iv) exchange rate risk, which represents the exposures arise from changes in the spot rate, future rate and volatility of foreign currency exchange rates.

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

(b) *Price risk*

Value at Risk ("VaR")

The Group adopts Value at Risk ("VaR") as the risk evaluation tool for measuring the market risk of the entire securities investment portfolio which comprises various financial instruments. VaR analysis is a statistical technique that estimates the potential maximum losses that could occur on risk positions due to movements in interest rates, stock prices or currency rates over a specified time period and at a given level of confidence.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk (Continued)

(b) Price risk (Continued)

Value at Risk ("VaR") (Continued)

The analysis of the Group's VaR (confidence level of 95% and a holding period of one trading day) by types of risks is as follows:

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Market risk of equity price (note)	212,859	191,994
Market risk of interest rate	44,936	51,405
Market risk of commodity price	8,011	6,491
Market risk of foreign exchange	984	157
Diversification effect	(39,286)	(58,517)
Total	227,504	191,530

Note: The VaR of market risk of equities included the specific directional investment in the specific accounts in China Securities Finance Corporations. VaR value of these investments calculated based on CSI 300 Index volatilities.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk (Continued)

(c) Interest rate risk

The tables below summarize the Group's interest-bearing financial assets and liabilities as at period/year by their remaining terms to repricing or contractual maturity date, whichever is earlier. Other financial assets and liabilities not included below are not exposed to significant interest rate risk.

	At June 30, 2019 (Unaudited)						
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
Financial assets							
Equity instruments at fair value through other comprehensive income	—	—	—	—	—	7,188,035	7,188,035
Debt instruments at fair value through other comprehensive income	195,701	429,431	4,878,797	28,712,841	3,976,276	—	38,193,046
Financial assets at fair value through profit or loss	856,694	4,979,868	26,956,560	41,608,108	16,470,279	36,572,357	127,443,866
Derivative financial assets	—	—	—	—	—	1,057,144	1,057,144
Advances to customers	5,404,685	8,953,180	34,648,270	—	—	—	49,006,135
Financial assets held under resale agreements	9,393,557	970,508	12,743,738	2,481,132	—	—	25,588,935
Debt instruments at amortised cost	—	—	360,085	1,507,989	—	—	1,868,074
Accounts and other receivables	—	—	—	—	—	2,564,300	2,564,300
Deposit in exchanges and non-bank financial institutions	1,977,916	—	—	—	—	—	1,977,916
Clearing settlement funds	15,067,835	—	—	—	—	—	15,067,835
Cash and bank balances	66,422,945	—	—	—	—	—	66,422,945
Sub-total	99,319,333	15,332,987	79,587,450	74,310,070	20,446,555	47,381,836	336,378,231

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk (Continued)

(c) Interest rate risk (Continued)

	At June 30, 2019 (Unaudited)						
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
Financial liabilities							
Borrowings	1,928,703	—	—	1,382,958	—	—	3,311,661
Short-term debt instruments	6,937,879	5,076,876	5,600,070	—	—	267,572	17,882,397
Placements from banks and other financial institutions	6,503,257	—	—	—	—	—	6,503,257
Bonds payable	104,619	167,849	17,354,020	44,092,600	5,483,240	—	67,202,328
Financial assets sold under repurchase agreements	84,042,796	362,914	2,341,699	—	—	—	86,747,409
Derivative financial liabilities	—	—	—	—	—	1,028,972	1,028,972
Financial liabilities at fair value through profit or loss	4,853,444	502,580	257,257	—	—	3,189,049	8,802,330
Accounts payable to brokerage clients	64,232,964	—	—	—	—	—	64,232,964
Other payables and accrued charges	287	—	—	—	—	2,645,577	2,645,864
Accounts payable to underwriting clients	—	—	—	—	—	461,410	461,410
Lease liabilities	22,549	49,112	196,284	635,367	373,092	—	1,276,404
Sub-total	168,626,498	6,159,331	25,749,330	46,110,925	5,856,332	7,592,580	260,094,996
Net position	(69,307,165)	9,173,656	53,838,120	28,199,145	14,590,223	39,789,256	76,283,235

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk (Continued)

(c) Interest rate risk (Continued)

	At December 31, 2018 (Audited)						
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
Financial assets							
Equity instruments at fair value through other comprehensive income	—	—	—	—	—	6,722,607	6,722,607
Debt instruments at fair value through other comprehensive income	493,917	59,354	2,426,175	32,136,852	6,526,043	—	41,642,341
Financial assets at fair value through profit or loss	1,846,797	3,665,559	20,210,762	25,820,503	14,142,660	33,057,185	98,743,466
Derivative financial assets	—	—	—	—	—	1,150,232	1,150,232
Advances to customers	6,219,030	6,755,567	29,171,675	—	—	—	42,146,272
Financial assets held under resale agreements	13,923,282	3,343,567	10,445,357	5,277,749	—	—	32,989,955
Debt instruments at amortised cost	—	—	148,249	1,695,946	—	—	1,844,195
Accounts and other receivables	—	—	—	—	—	708,466	708,466
Deposit in exchanges and non-bank financial institutions	1,431,420	—	—	—	—	—	1,431,420
Clearing settlement funds	13,796,281	—	—	—	—	—	13,796,281
Cash and bank balances	47,433,784	—	—	—	—	—	47,433,784
Sub-total	85,144,511	13,824,047	62,402,218	64,931,050	20,668,703	41,638,490	288,609,019

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk (Continued)

(c) Interest rate risk (Continued)

	At December 31, 2018 (Audited)						
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
Financial liabilities							
Borrowings	1,576,882	700,960	679,055	—	—	—	2,956,897
Short-term debt instruments	8,149,620	16,619,870	9,160,170	—	—	121,390	34,051,050
Placements from banks and other financial institutions	2,500,000	1,000,000	—	—	—	—	3,500,000
Bonds payable	—	—	16,400,000	30,081,689	5,482,048	—	51,963,737
Financial assets sold under repurchase agreements	60,749,277	459,391	110	—	—	—	61,208,778
Derivative financial Liabilities	—	—	—	—	—	1,305,685	1,305,685
Financial liabilities at fair value through profit or loss	6,640,527	—	—	—	—	2,888,048	9,528,575
Accounts payable to brokerage clients	48,911,748	—	—	—	—	—	48,911,748
Other payables and accrued charges	287	—	—	—	—	2,239,908	2,240,195
Sub-total	128,528,341	18,780,221	26,239,335	30,081,689	5,482,048	6,555,031	215,666,665
Net position	(43,383,830)	(4,956,174)	36,162,883	34,849,361	15,186,655	35,083,459	72,942,354

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk (Continued)

(c) Interest rate risk (Continued)

Sensitivity analysis

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

Sensitivity to profit

	Six months ended June 30,	
	2019	2018
	(Unaudited)	(Unaudited)
Change in basis points		
Increase by 100bps	(2,505,898)	(1,464,409)
Decrease by 100bps	2,644,092	1,535,622

Sensitivity to equity

	As at	As at
	June 30,	December 31,
	2019	2018
	(Unaudited)	(Audited)
Change in basis points		
Increase by 100bps	(3,475,531)	(2,659,049)
Decrease by 100bps	3,655,975	2,771,028

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk (Continued)

(d) Foreign currency rate risk

Foreign exchange rate risk represents the adverse changes in the financial position and cash flows of the Group due to changes in foreign exchange rates. The Group conducts sensitivity analysis on foreign exchange rates to measure its foreign exchange rate risks. The table below indicates the sensitivity analysis on exchange rate changes in currencies that the Group has significant exposure, which calculates the impacts of a reasonably possible change in the exchange rate of a foreign currency against Renminbi on the equity, assuming all other variables were held constant. A negative amount reflects a potential decrease in equity, and a positive amount reflects a potential increase in equity.

Sensitivity analysis of exchange rate

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Change in exchange rate		
Depreciation of USD by 3%	(102,696)	(85,780)
Depreciation of HKD by 3%	(68,246)	(65,878)

The table above indicates the impacts on the equity of a depreciation of 3% in USD and HKD against Renminbi. There will be an opposite impact with the same amount as shown in the above table if the above exchange rates appreciate by the same percentage.

(5) Operational risk

The Group's operational risks arise from imperfection or problematic internal processes, people and systems or external events. The operational risk factors of the Group summarised into seven categories, including: internal fraud, external fraud, employee policies and workplace safety, clients, products and business activities, physical property damage, business interruption and IT system failures, execution, settlement and process management.

The Group emphasise balance of business scale, profitability and risk tolerance level, adhering to carrying out various operations with prudence, and will not sacrifice operational risk management and controls. During the current period, the Group continued to strengthen operational risk management, and established a sound operational risk management system gradually, which was commensurate with the business nature, scale and complexity of the Group. Through operation risk control and self-assessment, operation risk events and loss data collection and operation risk key risk indicators landing implementation of the three major management tools system and continuous optimization improvement, combining to the trading system and the key areas of business operation risk special verification activities, effectively improve the depth and breadth of operational risk management.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(6) Capital management

The Group's objectives of capital management are:

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

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

- The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100% ("Ratio 1");
- The ratio of core net capital divided by on-balance-sheet and off-balance-sheet assets shall be no less than 8% ("Ratio 2");
- The ratio of high-quality liquidity assets divided by net cash outflows for the next 30 days shall be no less than 100% ("Ratio 3");
- The ratio of available stable funds divided by required stable funds shall be no less than 100% ("Ratio 4");
- The ratio of net capital divided by net assets shall be no less than 20% ("Ratio 5");
- The ratio of net capital divided by liabilities shall be no less than 8% ("Ratio 6");
- The ratio of net assets divided by liabilities shall be no less than 10% ("Ratio 7");
- The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100% ("Ratio 8"); and
- The ratio of the value of non-equity securities and derivatives held divided by net capital shall not exceed 500% ("Ratio 9").

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the "Securities Company Management Guidelines" and "Securities Company Control Indicators Management Guidelines".

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

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

53 FINANCIAL RISK MANAGEMENT (Continued)

(6) Capital management (Continued)

As at June 30, 2019 and December 31, 2018, the Company maintained the above ratios as follows:

	As at June 30, 2019	As at December 31, 2018
	(Unaudited)	(Audited)
Net Capital	48,173,095	52,815,746
Net Asset Value	76,182,253	75,518,016
Sum of Risk Base Capital Provisions	19,086,916	17,090,060
On-Balance-Sheet and Off-Balance-Sheet Total Assets	278,560,579	251,421,719
Ratio 1	252.39%	309.04%
Ratio 2	14.78%	15.52%
Ratio 3	203.27%	277.30%
Ratio 4	158.03%	159.64%
Ratio 5	63.23%	69.94%
Ratio 6	25.06%	31.77%
Ratio 7	39.64%	45.42%
Ratio 8	27.49%	22.27%
Ratio 9	314.44%	246.47%

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

Certain subsidiaries of the Group are also subject to capital requirements under the PRC, Hong Kong and overseas regulations, imposed by the CSRC, the Hong Kong Securities and Futures Commission and the UK Financial Conduct Authority, respectively.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

54 FAIR VALUE OF FINANCIAL INSTRUMENTS

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

Level 1: Inputs are quoted prices (unadjusted) in active market for identical assets or liabilities that the entity can access at the measurement date;

Level 2: Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;

Level 3: Inputs are unobservable inputs for the asset or liability.

(1) Fair value of the financial assets and financial liabilities that are not measured on a recurring basis

The fair value of financial assets and financial liabilities not measured at fair value on a recurring basis is estimated using discounted cash flow method.

The directors of the Company consider that the carrying amounts of the financial assets and financial liabilities not measured at fair value on a recurring approximate their fair values as at June 30, 2019 and December 31, 2018.

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

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

Since the level 2 and level 3 of financial assets and liabilities are not quoted in an active market, valuation technique is used to estimate the fair value. When estimating fair value using valuation technique, observable inputs and data from the practical market (e.g. yield curve of interest rate products, foreign currency exchange rate, implied volatility, etc.) are adopted. If the observable inputs in the market cannot be obtained, the observable input data that are calibrated as closely as possible to the market observable data are used for estimating the fair value. Meanwhile, the credit risk, volatility, correlation, etc. of the Group and counterparties are estimated by the management. Changes in these factors will affect the estimated fair value of the financial instruments, therefore there were uncertainty of accounting estimation on the level 2 and level 3 of financial assets and liabilities.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

54 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

Financial assets/Financial liabilities	Fair value as at June 30, 2019	Fair value as at December 31, 2018	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	(Unaudited)	(Audited)				
(1) Financial assets at fair value through profit or loss						
Debt securities						
– Traded on stock exchanges	844,153	231,419	Level 1	Quoted closing prices in an active market	N/A	N/A
– Traded on stock exchanges	31,240,594	22,086,234	Level 2	China Bond Valuation-future cash flows are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty	N/A	N/A
– Traded on interbank market	58,213,364	44,770,677	Level 2	China Bond Valuation-future cash flows are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty	N/A	N/A
– Unlisted	904,447	51,056	Level 3	Discounted cash flows with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty	Credit risk spread.	The higher the credit risk spread, the lower the fair value
Equity investment						
– Traded on stock exchanges	7,145,651	4,526,005	Level 1	Quoted closing prices in an active market	N/A	N/A
– Traded on stock exchanges (inactive)	4,858	112,661	Level 2	Adjusted quoted closing prices for stocks suspended for trading	N/A	N/A
– Traded National Securities Exchange and Quotation System	360,621	402,179	Level 2	Bid prices made by market dealers	N/A	N/A
– Traded on stock exchange	841,715	1,388,589	Level 2	Adjusted quoted prices	N/A	N/A
– Traded National Securities Exchange and Quotation System	67,042	82,561	Level 3	Adjusted quoted prices	Discount for lack of marketability	The higher the discount, the lower the fair value
– Unlisted	1,653,688	1,628,033	Level 3	Adjusted recent transaction prices	Discount for lack of marketability	The higher the discount, the lower the fair value
	158,425	145,473	Level 3	Based on the net asset values of the underlying investment portfolio and adjustments of related expenses	Third party valuation	The higher the third party valuation, the higher the fair value

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

54 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Financial assets/Financial liabilities	Fair value as at June 30, 2019	Fair value as at December 31, 2018	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	(Unaudited)	(Audited)				
Funds						
- Listed	965,861	543,101	Level 1	Quoted closing prices in an active market	N/A	N/A
- Unlisted	14,061,582	20,207,795	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses	N/A	N/A
Other investment						
- Wealth management and trust products and others	166,437	111,188	Level 1	Quoted closing prices in an active market	N/A	N/A
	9,300,065	2,283,265	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses	N/A	N/A
	14,270	27,147	Level 3	Based on the net asset values of the investment, determined with reference to third party valuation of underlying investment portfolio and adjustments of related expenses	Third party valuation of underlying investment portfolio	The higher the third party valuation, the higher the fair value.
	1,501,093	1,527,363	Level 3	Comparable companies analysis valuation	Discount for lack of marketability	The higher the discount, the lower the fair value.
(2) Debt instruments at fair value through other comprehensive income						
Debt securities						
- Traded on stock exchanges	19,005,189	20,790,141	Level 2	China Bond Valuation-future cash flows are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty	N/A	N/A
- Traded on interbank market	19,187,857	20,852,200	Level 2	China Bond Valuation-future cash flows are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty	N/A	N/A
(3) Equity instruments at fair value through other comprehensive income						
- Special accounts	7,188,035	6,722,607	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses	N/A	N/A

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

54 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Financial assets/Financial liabilities	Fair value as at June 30, 2019	Fair value as at December 31, 2018	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	(Unaudited)	(Audited)				
(4) Derivative financial instruments						
– Interest rate swap – assets (note)	387,714	394,434	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the Reporting Period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
– Interest rate swap – liabilities (note)	393,882	392,849	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the Reporting Period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
– Treasury bond futures – assets (note)	—	—	Level 1	Quoted closing prices in an active market.	N/A	N/A
– Treasury bond futures – liabilities (note)	733	1,655	Level 1	Quoted closing prices in an active market.	N/A	N/A
– Equity return swap – assets	201,030	210,192	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
– Equity return swap – liabilities	22,393	19,477	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
– Stock index future – assets (note)	—	—	Level 1	Quoted closing prices in an active market.	N/A	N/A
– Stock index future – liabilities (note)	179	18	Level 1	Quoted closing prices in an active market.	N/A	N/A
– Options – assets	102,313	42,101	Level 1	Quoted closing prices in an active market.	N/A	N/A
– Options – liabilities	125,581	116,966	Level 1	Quoted closing prices in an active market.	N/A	N/A
– Over-the-counter options – assets	14,806	7,722	Level 2	Option pricing model.	N/A	N/A
– Over-the-counter options – liabilities	91,567	49,571	Level 2	Option pricing model.	N/A	N/A
– Credit default swap – assets	333	489	Level 2	Calculated based on the difference between discounted cash flows with future cash flows that are estimated based on unsecured rates and secured rates.	N/A	N/A
– Credit default swap – liabilities	7,506	1,123	Level 2	Calculated based on the difference between discounted cash flows with future cash flows that are estimated based on unsecured rates and secured rates.	N/A	N/A

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

54 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Financial assets/Financial liabilities	Fair value as at June 30, 2019	Fair value as at December 31, 2018	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	(Unaudited)	(Audited)				
- Commodity futures – assets (note)	281,604	446,665	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Commodity futures – liabilities (note)	299,485	446,316	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Commodity swap – assets	38,221	10,486	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty.	N/A	N/A
- Commodity swap – liabilities	84,493	264,023	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty.	N/A	N/A
- Commodity – assets	31,123	38,143	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty.	N/A	N/A
- Commodity – liabilities	1,975	12,205	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty.	N/A	N/A
- Forward contracts – assets	—	—	Level 2	Discounted cash flows with future cash flows that are estimated based on future rates and contractual rates, discounted at a rate that reflects the credit risk of counterparty.	N/A	N/A
- Forward contracts – liabilities	1,178	1,482	Level 2	Discounted cash flows with future cash flows that are estimated based on future rates and contractual rates, discounted at a rate that reflects the credit risk of counterparty.	N/A	N/A
(5) Financial liabilities at fair value through profit or loss						
- Designated at fair value through profit or loss	2,620,988	2,431,537	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
- Financial liabilities held for trading	618,478	258,023	Level 1	Quoted closing prices in an active market.	N/A	N/A
	5,562,864	6,839,015	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A

Note: Under the daily mark-to-market and settlement arrangement, any gains or losses of the stock index futures, treasury bond futures, commodity futures and interest rate swaps contracts in PRC were settled daily and the corresponding receipts and payments were included in “clearing settlement funds” as at June 30, 2019 and December 31, 2018. Accordingly, the net position of these contracts was nil at the end of each Reporting Period.

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

54 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

	At June 30, 2019 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss	9,122,102	114,022,799	4,298,965	127,443,866
– Debt securities	844,153	89,453,958	904,447	91,202,558
– Equity investments	7,145,651	1,207,194	1,879,155	10,232,000
– Funds	965,861	14,061,582	—	15,027,443
– Others	166,437	9,300,065	1,515,363	10,981,865
Derivative financial assets	383,917	673,227	—	1,057,144
Debt instruments at fair value through other comprehensive income	—	38,193,046	—	38,193,046
Equity instruments at fair value through other comprehensive income	—	7,188,035	—	7,188,035
	9,506,019	160,077,107	4,298,965	173,882,091
Financial liabilities				
Financial liabilities at fair value through profit or loss	618,478	8,183,852	—	8,802,330
Derivative financial liabilities	425,978	602,994	—	1,028,972
	1,044,456	8,786,846	—	9,831,302

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

54 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	At December 31, 2018 (Audited)			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss	5,411,713	91,251,400	3,461,633	100,124,746
– Debt securities	231,419	66,856,911	51,056	67,139,386
– Equity investments	4,526,005	1,903,429	1,856,067	8,285,501
– Funds	543,101	20,207,795	—	20,750,896
– Others	111,188	2,283,265	1,554,510	3,948,963
Derivative financial assets	488,766	661,466	—	1,150,232
Debt instruments at fair value through other comprehensive income	—	41,642,341	—	41,642,341
Equity instruments at fair value through other comprehensive income	—	6,722,607	—	6,722,607
	5,900,479	140,277,814	3,461,633	149,639,926
Financial liabilities				
Financial liabilities at fair value through profit or loss	258,023	9,270,552	—	9,528,575
Derivative financial liabilities	564,955	740,730	—	1,305,685
	822,978	10,011,282	—	10,834,260

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

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019
(Expressed in thousands of Renminbi, unless otherwise stated)

54 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Reconciliation of Level 3 fair value measurements

	Financial assets at fair value through profit or loss (Unaudited)
As at January 1, 2019	3,461,633
Gains or losses for the period	122,582
Purchases	912,497
Sales and settlements	(204,884)
Transfers into level 3	7,137
As at June 30, 2019	4,298,965
Total gains or losses for the period included in profit or loss for assets held at the end of the Reporting Period	111,742

	Financial assets at fair value through profit or loss (Audited)
As at January 1, 2018	4,475,354
Gains or losses for the year	264,676
Purchases	789,198
Sales and settlements	(2,072,528)
Transfers into level 3	23,137
Transfers out of level 3	(18,204)
As at December 31, 2018	3,461,633
Total gains or losses for the period included in profit or loss for assets held at the end of the Reporting Period	220,472

Notes to the Condensed Consolidated Financial Information (Continued)

For the period ended June 30, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

55 CONTINGENCIES

As at June 30, 2019, the Group was not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, the Group expect would materially adversely affect its financial position or results of operations.

56 EVENTS AFTER THE REPORTING PERIOD

The corporate bond named "18CMF9" (security code: 150750) with an amount of RMB3.00 billion and annual interest rate of 3.79% was due on July 12, 2019.

The corporate bond named "19CMF1" (security code: 151113) with an amount of RMB1.50 billion and annual interest rate of 3.38% was due on July 19, 2019.

Pursuant to the resolution of the shareholders meeting held on June 28, 2019, based on the total ordinary shares of 6,699,409,329 of the company, the Company declared cash dividends of RMB2.64 for every 10 shares (tax included), with total cash dividend amounting to RMB1,768,644.06 thousand. As at August 27, 2019, the Group distributed all dividends declared totaling RMB1,768,644.06 thousand (tax included).

57 COMPARATIVE FIGURES

Certain comparative figures have been restated to conform to the presentation of current period.

Chapter 10: Documents Available for Inspection

	(I) Financial statements with signatures and seals of the authorized representative of the Company, person-in-charge of accounting and the head of accounting department.
Documents available for inspection	(II) Original copies of all documents and announcements published by the Company during the Reporting Period on the designated websites of the place where the Company's securities are listed.
	(III) Other relevant information.

Chairman of the Board: HUO Da

Submission date approved by the Board: August 28, 2019

Chapter 11: Information Disclosure of a Securities Company

I. RELEVANT INFORMATION ON THE MAJOR ADMINISTRATIVE APPROVALS OF THE COMPANY

No.	Issuing authority	Title	Document No.	Date of announcement
1	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of Xie Jijun as a Managerial-level Senior Management of a Securities Firm	Shen Zheng Ju Xu Ke Zi [2019] No. 16	March 12, 2019
2	the Securities and Fund Institution Supervision Department of the CSRC	Reply to the opinions on Conducting Treasury Bond Futures Market-making Business by China Merchants Securities Co., Ltd.	Ji Gou Bu Han [2019] No. 1024	May 6, 2019
3	SASAC	Reply on Issues in Relation to Share Allotment by China Merchants Securities Co., Ltd.	Guo Zi Chan Quan [2019] No. 252	May 16, 2019
4	the Financial Market Department of the PBOC	Notice of the Financial Market Department of the PBOC on the Maximum Outstanding Balance of Short-term Financing Bonds of China Merchants Securities Co., Ltd.	Yin Shi Chang [2019] No. 129	June 20, 2019
5	the Securities and Fund Institution Supervision Department of the CSRC	Regulatory Advices on Issuance of Financial Bonds by China Merchants Securities Co., Ltd.	Ji Gou Bu Han [2019] No. 1581	June 24, 2019
6	PBOC	Decisions of the PBOC on Approval of Administrative License	Yin Shi Chang Xu Zhun Yu Zi [2019] No. 101	June 28, 2019
7	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of Wang Wen (王文) as a Director of a Securities Firm	Shen Zheng Ju Xu Ke Zi [2019] No. 53	July 11, 2019

II. CLASSIFICATION OF THE COMPANY BY THE REGULATORY DEPARTMENT

2019	AA(Class A)
2018	AA(Class A)
2017	AA(Class A)

CMS 招商证券

Address : 38/F-45/F, Block A, Jiangsu Building,
Yitian Road, Futian District, Shenzhen

Telephone : 0755-82943666

Fax : 0755-82943100

Postal code : 518026

www.cmschina.com.cn

Customer Service Hotline : 95565

