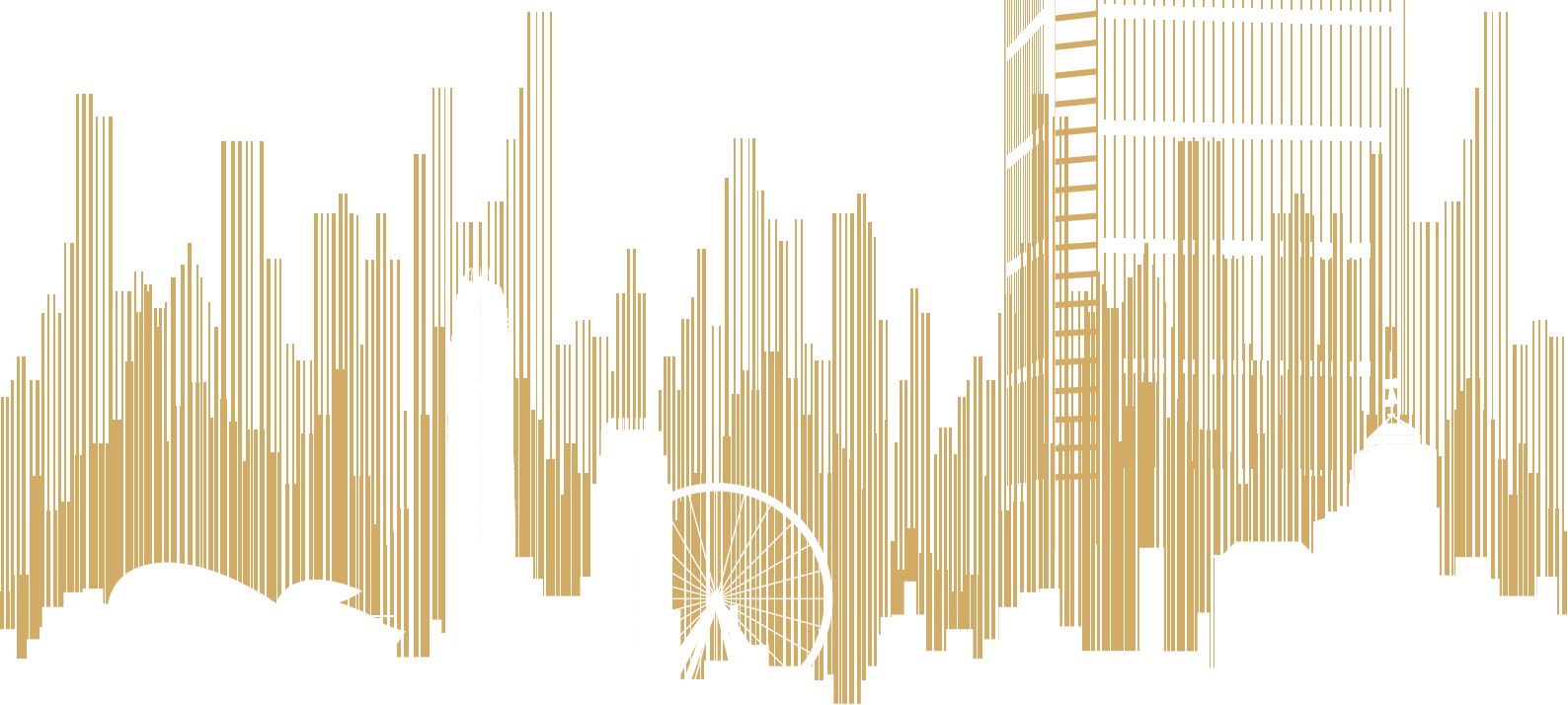
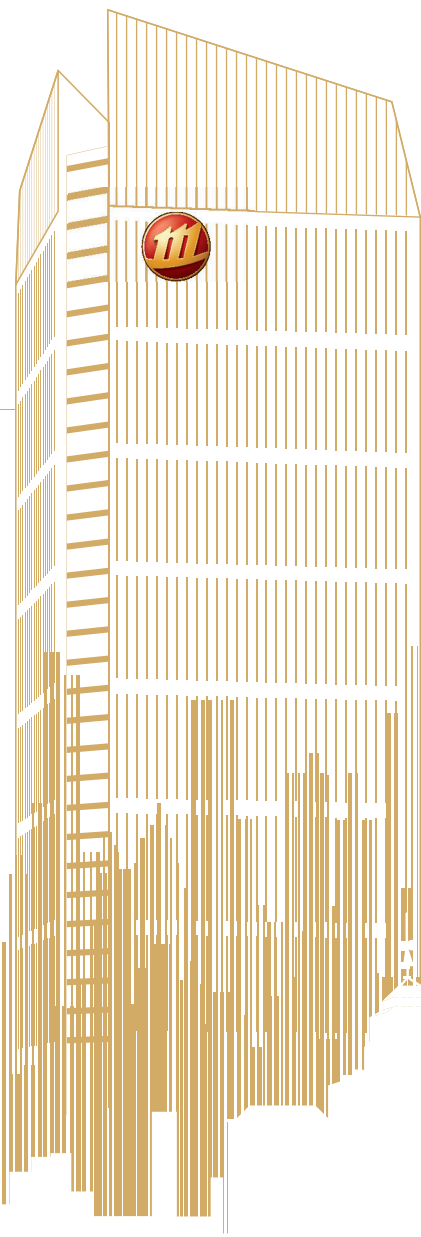


# CMS 招商证券

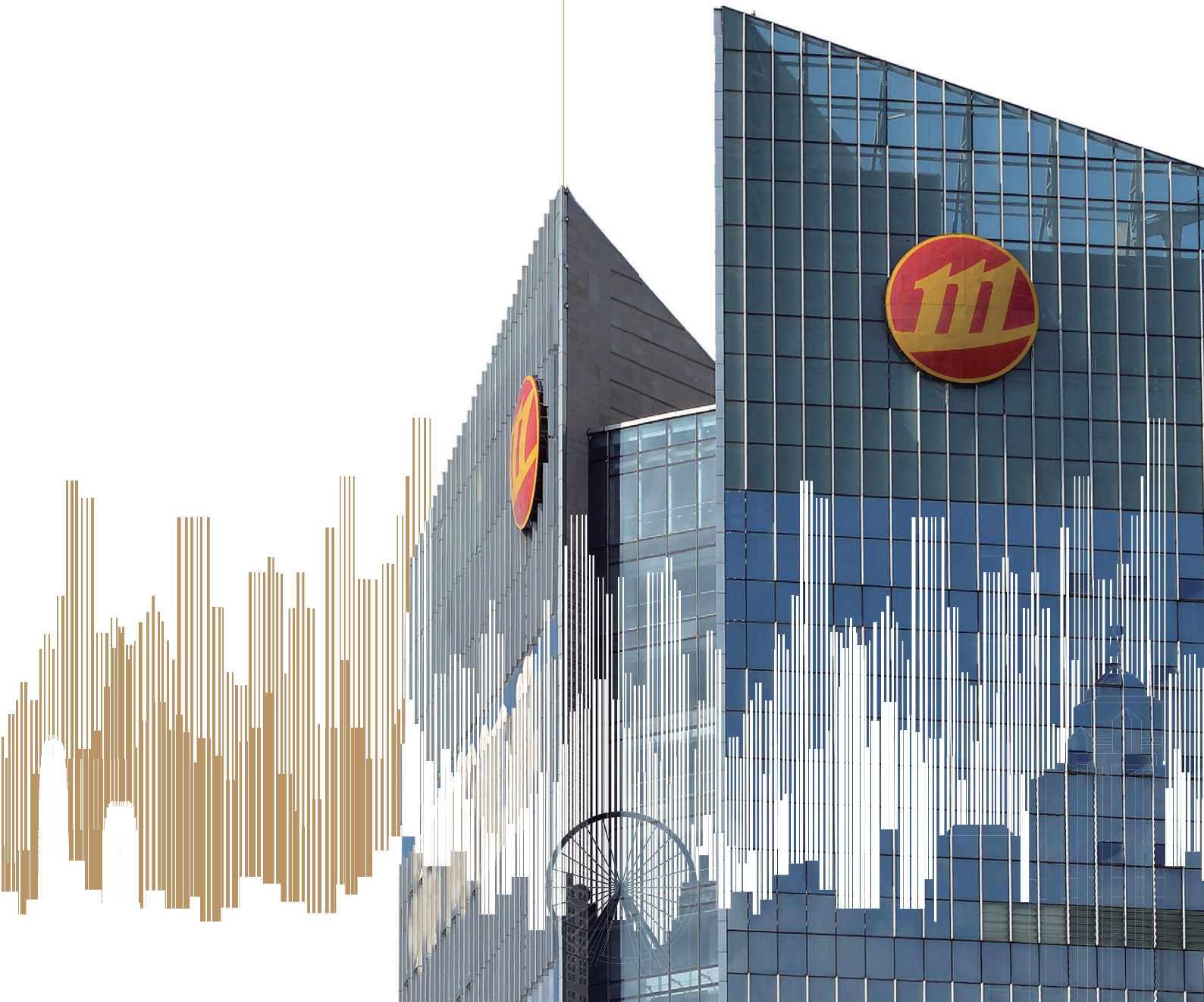
(A joint stock company incorporated in the People's Republic of China with limited liability)  
Stock code: 6099

## 2019 ANNUAL REPORT



# 2019 ANNUAL REPORT

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HUO Da  
Chairman

# China Merchants Securities joins hands with you to create a brilliant future

## STATEMENT OF HUO DA, CHAIRMAN, FOR THE 2019 ANNUAL REPORT

2019 marked the 70th anniversary of the founding of the People's Republic of China, and was also a critical year for building a moderately prosperous society in all respects and achieving the first centenary goal. The capital market focused on the major theme of intensifying financial supply-side structural reform, with twelve initiatives on fully intensifying reform implemented to shape a new market layout. China Merchants Securities endeavored to accomplish new goals and create a new landscape, and turned external pressure into strategic focus, reform momentum and innovation vitality, thereby achieving outstanding results.

We have always upheld the concept of dynamic and balanced development of quality, efficiency and scale, and achieved significant growth in operating results. Our total revenue and other income for the year and profit of the year attributable to shareholders of the Company amounted to RMB25.659 billion and RMB7.282 billion, respectively, both achieved the second highest results in the Company's history. Our ranking rose to one of the highest levels in the past decade, continued to outpace the market in general and outperform our industry peers, making a good start on accomplishing the strategic goal of "being admitted as one of the top five enterprises in terms of overall competitiveness". The Company has been granted the "AA" regulatory rating under the "A" category for securities firms by the CSRC for 12 consecutive years, demonstrating its stable operation and controllable risks.

We have coordinated human resources and capital to inject vitality into the Company's long-term development. With the support of all parties, the Company's program package of "A+H shares rights issue, share repurchase and employee stock ownership scheme" achieved significant breakthroughs. The share repurchase and employee stock ownership scheme have been completed, and the rights issue plan will soon be implemented. These will further enrich the Company's capital strength and effectively support the Company's principal business segments to become better and stronger. The Company's key employees and the Company's development have been closely connected together, and the inherent momentum will be further activated, consolidating the fundamental force of the Company's long-term development.

We have intensified transformation and reform, and injected momentum to our high-quality development. Leveraging on the SOE reform of "Double Hundred Actions" and the quality and efficiency enhancement projects, the Company further optimized the organizational structure, improved the mechanism of "staff can get in and out; cadre can go up and down; salary can be high and low", and improved the management standard. The Company launched two major consulting projects, namely process reform and data governance, created three profiling (company profiling, customer profiling and product profiling), and fully speeded up digital transformation. The Company launched the "Gazelle Program" to develop inclusive financing and leverage the synergy of "investment banking + investment + R&D", in order to provide small, medium and micro enterprises with financial services covering the full life cycle in all aspects.

Since the beginning of 2020, the novel coronavirus pneumonia epidemic have brought shock and impact on the global economy, financial markets and people's livelihood. The Company has endeavored to undertake the missions on epidemic prevention and control as well as resumption of work and production. In line with the spirit of "contributing to the development of China and catching up with the times", the Company has proactively fulfilled its social responsibilities, and is the first in the industry to make donation for epidemic prevention and control, with a total donation amount of RMB11.162 million. The Company also took the initiative to reduce or waive the rent of self-owned properties for non-state-owned tenants in the amount of RMB1.57 million. In the new year, the Company will continue to accomplish its fundamental mission with even stronger determination. 2020 is the concluding year for building a moderately prosperous society in all respects and implementing the "Thirteenth Five-Year" Plan. The new "Securities Law" has opened up a new era of industry development. The new five-year strategic plan of China Merchants Securities has also entered its second year. We are at the starting point of a new round of higher-level competition. We will further intensify reform, forge ahead, operate with integrity, develop steadily and create better results with practical actions to reward our shareholders, customers, employees and the community for their trust and support to us.

With arduous adventure ahead, setting sail together, China Merchants Securities joins hands with you to create a brilliant future!





XIONG  
Jiantao

**Executive Director,  
President**

## Striving to build the best investment bank with top-tier results

### STATEMENT OF XIONG JIANTAO, PRESIDENT, FOR THE 2019 ANNUAL REPORT

In 2019, adhering to the principle of “seizing the moment with foresights”, China Merchants Securities focused on production and operation on the one hand, and reform and innovation on the other hand. We successfully achieved our annual operating target of “outperforming the market and striving for a higher position”. Our total revenue and other income for the year and profit of the year attributable to shareholders of the Company amounted to RMB25.669 billion and RMB7.282 billion, representing a year-on-year increase of 42% and 65%, respectively. ROE was 9.51%, representing a year-on-year increase of 3.93 percentage points. These three core indicators all surpassed the estimation at the beginning of the year and achieved the second highest results in the Company’s history. The Company has been granted the “AA” regulatory rating under the “A” category for securities firms for 12 consecutive years.

Looking back to 2019, the Company’s principal business segments all achieved breakthroughs. Firstly, the customer service business continued to be the backbone for the Company’s stable revenue. The market share and ranking of the retail brokerage business rose steadily, and the market share in terms of net income from agency trading business hit a record high. For wealth management, the number of high-net-worth customers, clients and AUM increased substantially year-on-year. The custody and outsourcing business continued to maintain its industry leading position. The investment banking business effectively made use of its value-leading function, achieving a year-on-year increase of 36% in terms of net fee income. Secondly, the capital intermediary trading business achieved stable growth in scale and income while effectively preventing risks. The balance of margin financing and securities lending as at the end of the year increased by 33% from the end of 2018, and the market share in terms of interest income from stock pledge business increased by 12% year-on-year. Thirdly, the capital investment business grown substantially, becoming a powerful driving force for the growth of annual revenue of the Company. Revenue from the investment and trading business segment increased by 352% year-on-year, and in particular, the amount of bond investment and investment income both hit a record high. Fourthly, the income-generating ability of each subsidiary continuously enhanced, becoming an important diversified source of income for the Company. Fifthly, the Company solidly promoted transformation and reform. Leveraging on the opportunity of the SOE Reform “Double-hundred Action” and the quality and efficiency improvement program, the Company achieved significant progress in the promotion of A+H shares rights issue, share repurchase and employee stock ownership scheme, and continuously promoted key reforms such as the mechanism of “staff can get in and out; cadre can go up and down; salary can be high and low”, data governance, process reengineering and the “Gazelle Program”, injecting momentum to the Company’s long-term development.

2020 is a critical transitional year for the Company’s new five-year development strategy, and is also an important year for continuously promoting the SOE Reform “Double-hundred Action” and the quality and efficiency improvement program. The novel coronavirus pneumonia epidemic that occurred at the beginning of the year has brought certain uncertainties to the macroeconomic and financial situation and industry development, and exerted greater pressure on securities firms for resuming operation and production and stabilizing and increasing income. China Merchants Securities will endeavor to engage in epidemic prevention and control, strive to resume operation and production and aim at achieving the annual target, so as to minimize the impact of the epidemic and successfully complete the tasks for achieving annual target. We believe that, with the strong support and care of all shareholders and all sectors of the society, under the guidance of the Board and through the joint efforts of all employees, we will continue to maintain the momentum for business development and aim at building the best investment bank in China with international competitiveness!

## Important Notice

**I. The Board, the Supervisory Committee, Director(s), Supervisor(s) and senior management of the Company undertake that the information in this annual report is true, accurate and complete and contains no false record, misleading statement or material omission, and assume joint and several liabilities to the information in this report.**

**II. All Directors of the Company attended the Board meeting.**

**III. Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu have issued standard unqualified auditor's reports for the Company.**

**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 report are true, accurate and complete.**

**V. Proposal on profit distribution or capitalization of common reserve for the Reporting Period considered and approved by the Board**

As the Company is currently promoting issues related to the rights issue, pursuant to Article 18 of the Administrative Measures for Securities Issuance and Underwriting of the CSRC, in the situation that the proposals on profit distribution or capitalization of common reserve have not been submitted for approval at the shareholders' general meeting or have been approved but not yet executed, listed companies should issue securities after the execution of the aforementioned proposals. If the Company implements the rights issue after the 2019 annual general meeting and profit distribution, the Company's capital and working capital will not be increased and replenished in time, which will directly affect the current profit and long-term development of the Company.

Considering comprehensive factors such as the interests of shareholders and the development of the Company, the Company will not make profit distribution in 2019, nor will it capitalise its capital reserve.

The Company will distribute profits as soon as possible upon the completion of the rights issue in accordance with the requirements of relevant regulatory authorities and the provisions of the Articles of Association.

**VI. Risks Statement relating to forward-looking statements**

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

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

No

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

No

**IX. The Company prepared this report in both English and Chinese versions. In the event of any discrepancy in the interpretation between the English version and Chinese version of this report, unless otherwise specified, 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.

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 "Potential risks" of this report.



# Contents

Chapter 1	Definitions	9
Chapter 2	Corporate Profile and Key Financial Indicators	11
Chapter 3	Summary of Operation	29
Chapter 4	Report of the Board of Directors	31
Chapter 5	Major Events	84
Chapter 6	Changes in Ordinary Shares and Shareholders	111
Chapter 7	Directors, Supervisors, Senior Management and Employees	127
Chapter 8	Corporate Governance Report	161
Chapter 9	Corporate Bonds	197
Chapter 10	Financial Report	212
Chapter 11	Documents Available for Inspection	366
Chapter 12	Information Disclosure of a Securities Company	367

# Chapter 1: Definitions

## I. Definitions

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

Common terms and expressions	
"Company Law"	the Company Law of the PRC (《中華人民共和國公司法》)
"Securities Law"	the Securities Law of the PRC (《中華人民共和國證券法》)
"Articles of Association"	the Articles of Association of China Merchants Securities Co., Ltd.
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"SFC"	the Securities and Futures Commission of Hong Kong
"CSRC Shenzhen Office"	the Shenzhen office of the CSRC
"SASAC"	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
"Exchanges"	the Shanghai Stock Exchange and the Shenzhen Stock Exchange
"SSE"	the Shanghai Stock Exchange (上海證券交易所)
"SZSE"	the Shenzhen Stock Exchange (深圳證券交易所)
"SSE website"	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> , 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"	<a href="http://www.hkexnews.hk">http://www.hkexnews.hk</a> , the website of The Stock Exchange of Hong Kong Limited
"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 controlled subsidiaries
"Company's website"	<a href="http://www.cmschina.com">http://www.cmschina.com</a> , the website of China Merchants Securities Co., Ltd.
"China Merchants Group"	China Merchants Group Limited (招商局集團有限公司)
"CM Finance Investment"	China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)
"Jisheng Investment"	Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)
"China Ocean Shipping"	China Ocean Shipping Co., Ltd. (中國遠洋運輸有限公司)
"China Merchants Bank"	China Merchants Bank Co., Ltd. (招商銀行股份有限公司)
"CMS International"	China Merchants Securities International Company Limited (招商證券國際有限公司)
"China Merchants Futures"	China Merchants Futures Co., Limited (招商期貨有限公司)

## Chapter 1: Definitions

Common terms and expressions	
"CMS Zhiyuan"	China Merchants Zhiyuan Capital Investment Co., Ltd. (招商致遠資本投資有限公司)
"CMS Investment"	China Merchants Securities Investment Co., Ltd. (招商證券投資有限公司)
"CMS Asset Management"	China Merchants Securities Asset Management Co., Ltd. (招商證券資產管理有限公司)
"Bosera Funds"	Bosera Asset Management Co., Limited (博時基金管理有限公司)
"China Merchants Fund"	China Merchants Fund Management Co., Ltd. (招商基金管理有限公司)
"ECT"	E-Capital Transfer Co., Ltd. (證通股份有限公司)
"Shanghai Brilliance"	Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. (上海新世紀資信評估投資服務有限公司)
"CCXI"	China Chengxin International Credit Rating Co., Ltd. (中誠信國際信用評級有限責任公司)
"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 from time to time)
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"A Share(s)"	domestic share(s) in the ordinary share capital of our Company with a nominal value of RMB 1.00 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 RMB 1.00 each, which are listed on the Hong Kong Stock Exchange (stock code: 6099)
"A Shareholder(s)"	holders of A Shares
"H Shareholder(s)"	holders of H Shares
"the Reporting Period", "the Current Period"	from January 1, 2019 to December 31, 2019
"Previous Period"	from January 1, 2018 to December 31, 2018
"RMB", "RMB 10,000", and "RMB 100 million"	Renminbi 1 Yuan, Renminbi 10,000 Yuan and Renminbi 100 million Yuan

## Chapter 2: Corporate Profile and Key Financial Indicators

### I. Corporate Information

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

### Registered Capital and Net Capital of the Company

Unit: Yuan Currency: RMB

	As at the end of the Reporting Period	As at the end of Last Year
Registered capital	6,699,409,329.00	6,699,409,329.00
Net capital	48,651,440,529.94	52,815,746,346.60

### Business Qualifications of the Company

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

No.	Qualification	Approval authority	Date of approval
1	Market maker of stock index options	The Securities and Fund Institution Supervision Department of the CSRC	December 2019
2	Lead market maker of the CSI 300 ETF options	SZSE	December 2019
3	Trading authority for access to stock options business	SZSE	December 2019
4	Sale and settlement of foreign exchange business	State Administration of Foreign Exchange	August 2019
5	Participation in securities refinancing of the STAR Market	China Securities Finance Co., Ltd.	July 2019
6	Market maker of treasury bond futures	The Securities and Fund Institution Supervision Department of the CSRC	May 2019
7	Credit protection contract business	SSE	February 2019
8	Lead market maker of listed funds business	SSE	February 2019
9	Credit derivatives business	The Securities and Fund Institution Supervision Department of the CSRC	December 2018
10	Market maker of crude oil futures	Shanghai International Energy Exchange	October 2018
11	Market maker of nickel futures	Shanghai Futures Exchange	October 2018

## Chapter 2: Corporate Profile and Key Financial Indicators

No.	Qualification	Approval authority	Date of approval
12	Market maker of copper options	Shanghai Futures Exchange	September 2018
13	Dealer of OTC options business	Securities Association of China	August 2018
14	Market maker of Bond Connect “Northbound Trading”	China Foreign Exchange Trading Center	July 2018
15	Conducting pilot cross-border businesses	The Securities and Fund Institution Supervision Department of the CSRC	April 2018
16	Core dealer of credit risk mitigation instruments	National Association of Financial Market Institutional Investors	January 2017
17	Qualification to issue credit risk mitigation certificates	National Association of Financial Market Institutional Investors	January 2017
18	Qualification to issue credit-linked notes	National Association of Financial Market Institutional Investors	January 2017
19	Non-bank member of the Shanghai Commercial Paper Exchange	General Administration Department of the People’s Bank of China	November 2016
20	Trading authority for access to Southbound Trading business under Shenzhen-Hong Kong Stock Connect	SZSE	November 2016
21	Approval for provision of online account opening service	The Securities and Fund Institution Supervision Department of the CSRC	April 2015
22	Approval for financing through exercising incentive share options of listed companies	SZSE	March 2015
23	Licence for spot gold proprietary trading business	The Securities and Fund Institution Supervision Department of the CSRC	March 2015
24	Licence for providing payment services for customers’ funds	China Securities Investor Protection Fund Corporation Limited	March 2015
25	Licence for stock options market-making business	CSRC	January 2015
26	Licence for market-making business for SSE 50 ETF options trading	SSE	January 2015
27	Proprietary trading of stock options	SSE	January 2015
28	Licence for options settlement	CSDC	January 2015
29	Stock options trading participant on the SSE	SSE	January 2015
30	Licence for pilot online securities business	Securities Association of China	November 2014
31	Trading authority for access to Southbound Trading business	SSE	October 2014
32	Ordinary member of Interbank Market Clearing House Co., Ltd. for centralised settlement of RMB interest rate swaps	Interbank Market Clearing House Co., Ltd.	June 2014



## Chapter 2: Corporate Profile and Key Financial Indicators

No.	Qualification	Approval authority	Date of approval
33	Qualification of lead manager business (market-making business)	National Equities Exchange And Quotations Co., Ltd.	June 2014
34	Licence for OTC options trading business	Securities Association of China	February 2014
35	Licence for securities investment fund custody business	CSRC	January 2014
36	Qualification for agency business of securities pledge registration	The Custody Department of CSDC	July 2013
37	Authority for stock-pledged repo business	SSE	June 2013
38	Authority for stock-pledged repo	SZSE	June 2013
39	Participation in interest rate swap transactions	CSRC Shenzhen Office	May 2013
40	Permit for conducting insurance agency businesses	China Insurance Regulatory Commission (currently the China Banking and Insurance Regulatory Commission)	April 2013 (latest certificate obtained in April 2019)
41	Qualification of lead manager business (recommendation and brokerage businesses)	National Equities Exchange And Quotations Co., Ltd.	March 2013
42	Licence for OTC trading business	Securities Association of China	February 2013
43	Licence for equity total return swap business	The Institution Supervision Department (currently the Securities and Fund Institution Supervision Department) of the CSRC	January 2013
44	Licence for special institutional client business of insurance companies	China Insurance Regulatory Commission (currently the China Banking and Insurance Regulatory Commission)	January 2013
45	Qualification for sale of financial products	CSRC Shenzhen Office	December 2012
46	Qualification of lead underwriting debt financing instruments of non-financial enterprises	National Association of Financial Market Institutional Investors	November 2012
47	Qualification to provide comprehensive custodian services for private investment funds	The Institution Supervision Department (currently the Securities and Fund Institution Supervision Department) of the CSRC	October 2012
48	Licence for margin and securities refinancing	China Securities Finance Co., Ltd.	August 2012
49	Qualification of underwriting private placement bonds of small and medium enterprises	Securities Association of China	June 2012
50	Licence for stock repurchase business	CSRC	May 2012
51	Qualification for dealer-quoted bond pledged repo transactions	The Institution Supervision Department (currently the Securities and Fund Institution Supervision Department) of the CSRC	January 2012
52	Qualification for third-party custodian services for one customer – multiple bank services	CSRC Shenzhen Office	June 2011
53	Qualification for margin financing and securities lending business	CSRC	June 2010
54	Licence for direct investment business	CSRC	August 2009

## Chapter 2: Corporate Profile and Key Financial Indicators

No.	Qualification	Approval authority	Date of approval
55	Qualification for intermediary introduction business for China Merchants Futures	CSRC	February 2008
56	Category A clearing participant of CSDC	CSDC	February 2008
57	Licence for overseas securities investment management business	CSRC	August 2007
58	Primary dealer on the integrated e-platform for fixed income securities of the SSE	SSE	July 2007
59	Permit for foreign exchange operation in the securities business	State Administration of Foreign Exchange	December 2006 (latest certificate obtained in November 2012)
60	Clearing participant of CSDC	CSDC	March 2006
61	Primary dealer of SSE 180 Index Exchange Traded Fund	SSE	March 2006
62	Qualification for quote transfer business	Securities Association of China	January 2006
63	Licence for underwriting business of commercial paper	The People's Bank of China	July 2005
64	Qualification for operation of foreign shares business	CSRC	September 2002
65	Qualification for open-end securities investment fund consignment business	CSRC	August 2002
66	Qualification for trusted investment management business	CSRC	May 2002
67	Qualification for online securities agency business	CSRC	February 2001
68	Qualified member of interbank market	General Administration Department of the People's Bank of China	September 1999
69	Qualifications for RMB special stocks business (unrestricted) in Shanghai	Shanghai Securities Management Office	November 1996
70	Licence for starting foreign exchange business	Shenzhen Office of the State Administration of Foreign Exchange	October 1996
71	Pilot unit of equity trading agency system for non-listed companies	Property Right Transfer Leading Group Office of the Shenzhen Municipal Government	January 1996
72	Licence for starting proprietary business	Shenzhen Securities Management 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	Licence for dealing in futures contracts	SFC	June 2014
2	Licence for advising on futures contracts	SFC	June 2014
3	Licence for asset management	SFC	March 2010
4	Licence for dealing in securities	SFC	February 2009
5	Licence for advising on securities	SFC	February 2009
6	Licence for advising on corporate finance	SFC	February 2009

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

No.	Qualification	Approval authority	Date of approval
1	Licence for commodities futures brokerage, financial brokerage and futures investment consulting	CSRC	December 2018*
2	Member of Shanghai International Energy Exchange	Shanghai International Energy Exchange	May 2017
3	Licence for basis trading	China Futures Association	April 2017
4	Licence for OTC derivatives business	China Futures Association	April 2017
5	Licence for warehouse receipt services	China Futures Association	December 2016
6	Filing for entry of the interbank bond market	The People's Bank of China	July 2016
7	Licence for asset management	CSRC	March 2013
8	Licence for futures investment consultancy	CSRC	August 2011
9	Member of Dalian Commodity Exchange	Dalian Commodity Exchange	December 2009
10	Member of Zhengzhou Commodity Exchange	Zhengzhou Commodity Exchange	March 2009
11	Member of Shanghai Futures Exchange	Shanghai Futures Exchange	October 2008
12	Clearing and Settlement Member of China Financial Futures Exchange	China Financial Futures Exchange Co., Ltd.	December 2007
13	Licence for financial futures trading settlement	CSRC	November 2007

\*Note: In December 2018, China Merchants Futures renewed the Securities and Futures Business Licence (《經營證券期貨業務許可證》).

## Chapter 2: Corporate Profile and Key Financial Indicators

Qualification 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 (深圳市合格境內投資者境外投資試點工作聯席會議辦公室)	November 2015
2	Qualification for securities asset management business and qualified domestic institutional investors	CSRC	January 2015

## 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

## Chapter 2: Corporate Profile and Key Financial Indicators

### III. Basic Information

Registered address of the Company	No. 111, Fuhua Yi Road, Futian Street, Futian District, Shenzhen
Postal code	518046
Office address of the Company	No. 111, Fuhua Yi Road, Futian Street, Futian District, Shenzhen
Postal code	518046
Principal place of business in Hong Kong	48/F, One Exchange Square, 8 Connaught Place, Central, Hong Kong
Company's website	<a href="http://www.cmschina.com">http://www.cmschina.com</a>
E-mail address	IR@cmschina.com.cn

### IV. Information Disclosure and Place of Document Inspection

Designated media for information disclosure	China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily
Website designated by the CSRC for annual report publication	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a>
Website designated by the Hong Kong Stock Exchange for annual report publishing	<a href="http://www.hkexnews.hk">http://www.hkexnews.hk</a>
Place for inspection of the Company's annual reports	No. 111, Fuhua Yi Road, Futian Street, Futian District, Shenzhen

### V. Information on the Company's Shares

Information on the Company's Shares				
Classes	Exchange at which the shares are listed	Stock abbreviation	Stock code	Previous stock abbreviation
A Shares	SSE	CMS	600999	—
H Shares	Hong Kong Stock Exchange	CMS	6099	—



## Chapter 2: Corporate Profile and Key Financial Indicators

### VI. Other Information

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

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

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

On August 26, 1994, with the approval of The People's Bank of China pursuant to the Approval for the Incorporation of CMB Securities Company (Yin Fu [1994] No.161) (《關於成立招銀證券公司的批覆》(銀覆[1994] 161號)) and the permission by the Shenzhen Administration for Industry and Commerce, China Merchants Bank, building on its Securities Department, established Shenzhen CMB Securities Company with a registered capital of RMB 150 million. On September 28, 1994, the Shenzhen Administration for Industry and Commerce permitted Shenzhen CMB Securities Company to change its name to CMB Securities Company (招銀證券公司).

On November 6, 1998, with the approval of The People's Bank of China pursuant to the Approval for the Reformed Structure and Capital Increase of CMB Securities Company (招銀證券公司) (Yin Fu [1997] No.529) (《關於招銀證券公司增資改制的批覆》(銀覆[1997] 529號)) and the CSRC pursuant to the Approval for the Reformed Structure and Capital Increase and Change of Name of CMB Securities Company (招銀證券公司) (Zheng Jian Ji Gou Zi [1998] No. 27) (《關於同意招銀證券公司增資改制、更名的批覆》(證監機構字[1998] 27號)) and with the permission of the Shenzhen Administration for Industry and Commerce, CMB Securities Company introduced 11 new shareholders for the purpose of capital increase and structure reform, and changed its name to Guotong Securities Limited Liability Company (國通證券有限責任公司). Its registered capital increased from RMB 150 million to RMB 800 million. China Merchants Bank contributed to the capital by means of the net assets of CMB Securities Company while the 11 new shareholders contributed to the capital by means of cash.

On August 31, 2000, with the approval of the CSRC pursuant to the Approval for the Capital Increase of Guotong Securities Limited Liability Company (CSRC Ji Gou Zi [2000] No.15) (《關於核准國通證券有限責任公司增資擴股的批覆》(證監機構字[2000] 15號)) and the permission of the Shenzhen Administration for Industry and Commerce, Guotong Securities Limited Liability Company (國通證券有限責任公司) increased its capital. With a total of RMB 1.4 billion capital injection made by 12 shareholders including China Merchants Bank, the registered capital of the Company increased to RMB 2.2 billion.

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

## Chapter 2: Corporate Profile and Key Financial Indicators

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

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

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

On November 17, 2009, being approved by the CSRC pursuant to the Approval for the Initial Public Offering of China Merchants Securities Co., Ltd., (Zheng Jian Xu Ke [2009] No. 1132) (《關於核准招商證券股份有限公司首次公開發行股票的批覆》(證監許可[2009] 1132號)) and the SSE pursuant to the Notice on the Listing and Trading of RMB Ordinary Shares of China Merchants Securities Co., Ltd., (Shang Zheng Fa Zi [2009] No. 18) (《關於招商證券股份有限公司人民幣普通股股票上市交易的通知》(上證發字[2009] 18號)), the Company launched its initial public offering of 358,546,141 A Shares on the SSE, among which 286,837,000 shares and 71,709,141 shares were subscribed and settled online and offline, respectively. With an offer price of RMB 31 per share, the Company raised a total of RMB 11.115 billion and received a net proceeds of RMB 10.883 billion after deducting offering expenses of RMB 232 million. Following the completion of the offering, the total share capital of the Company increased from 3,226,915,266 shares to 3,585,461,407 shares.

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

## Chapter 2: Corporate Profile and Key Financial Indicators

In May 2014, being approved by the CSRC pursuant to the Approval for the Private Placement of Shares of China Merchants Securities Co., Ltd., (Zheng Jian Xu Ke [2014] No. 455) (《關於核准招商證券股份有限公司非公開發行股票的批覆》(證監許可[2014] 455號)), the Company issued 1,147,035,700 shares (A Shares) at RMB 9.72 each by way of private placement, raising a total of RMB 11,149,187,004.00 and receiving a net proceeds of RMB 11,101,736,135.93 after deducting the offering expenses of RMB 47,450,868.07. The new shares were registered and deposited with Shanghai office of the CSDC on May 27, 2014. On October 15, 2014, the Company completed the registration for the increase of the registered capital to RMB 5,808,135,529.

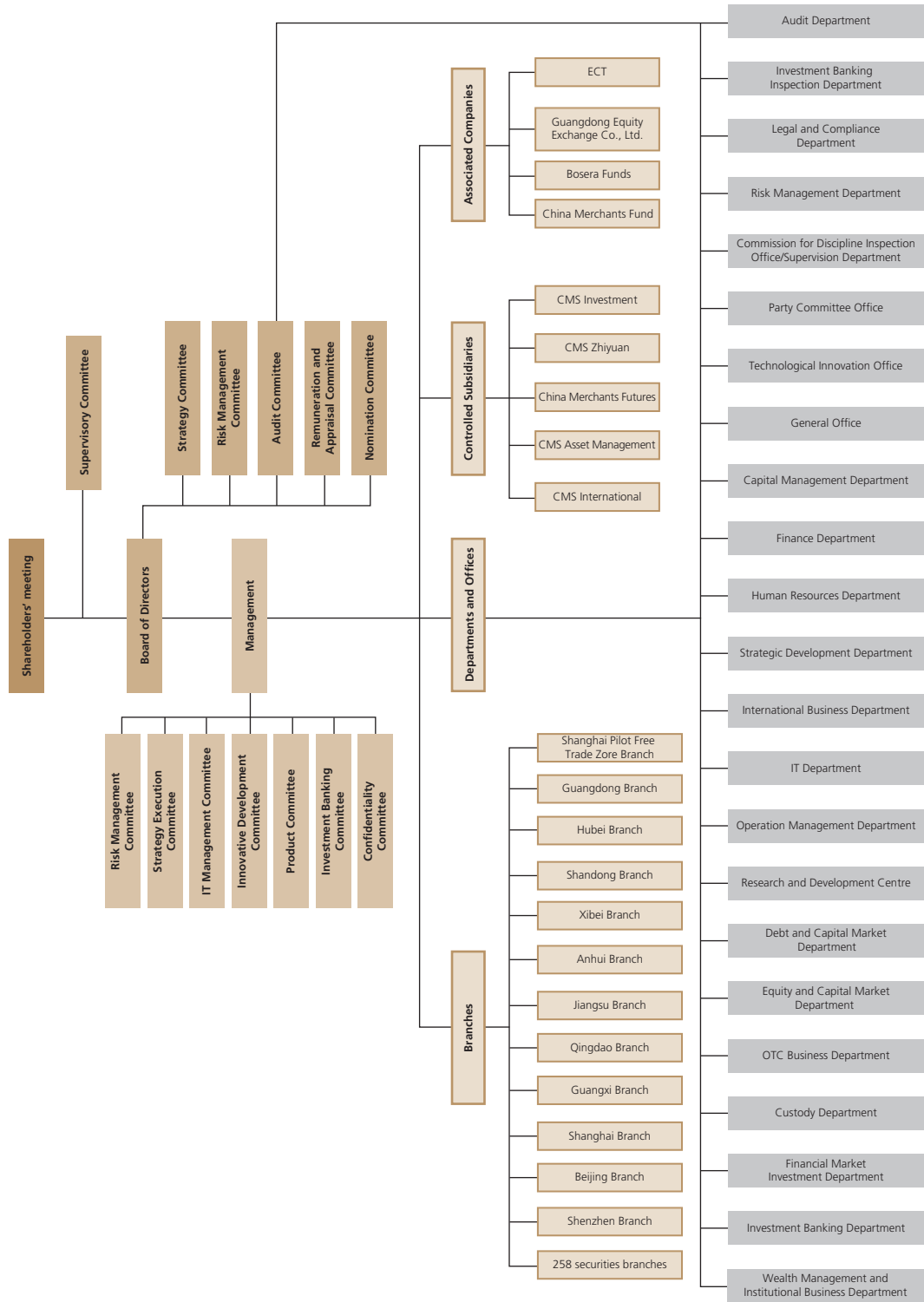
On October 7, 2016, the Company completed the public issuance of overseas-listed foreign shares (H Shares) at an offer price of HK\$12.00 per share, raising total proceeds of HK\$10,695,285,600.00. After deducting the offering expenses, the net proceeds amounted to RMB 8,947,439,178.14. On the same day, being approved by the Hong Kong Stock Exchange, the Company issued 891,273,800 overseas-listed foreign shares (H Shares) for the listing and trading on the Main Board of the Hong Kong Stock Exchange. Following the offering, the total share capital of the Company has increased from 5,808,135,529 shares to 6,699,422,311 shares. Due to a change in the shareholding by Liaoneng Holdings, an original state-owned shareholder of the Company, the deregistration for 12,982 A Shares which should have been transferred by it has not yet completed.

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

In November and December 2018, the registered address and office address has been changed to “No.111, Fuhua Yi Road, Futian Street, Futian District, Shenzhen (深圳市福田區福田街道福華一路111號)”.

(II) Corporate organizational structure

As at the end of the Reporting Period, our corporate organizational structure was as follows:



## Chapter 2: Corporate Profile and Key Financial Indicators

No.	Company name	Address	Date of Incorporation	Registered Capital (RMB ten thousand)	Person in charge	Contact number
1	CMS International	48/F, One Exchange Square, Central, Hong Kong	July 14, 1999	N/A	WU Guangyan (吳光焰)	0755-82943666
2	China Merchants Futures	9/F Unit 9-15, 7/F Unit 1-8 and Unit 22-26, Duty Free Building, No. 6 Fuhua Yi Road, Futian District, Shenzhen	January 4, 1993	63,000	LI Zongjun (李宗軍)	0755-82943666
3	CMS Zhiyuan	Unit 1501, 15/F, Building 3, Courtyard No. 1, Yuetan South Street, Xicheng District, Beijing	August 28, 2009	210,000	DENG Xiaoli (鄧曉力)	0755-82943666
4	CMS Investment	Room 201, Block A, Comprehensive Office Building of Qianhai Shenzhen-Hong Kong Cooperation Zone, 1 Liyumen Street, Qianwan 1st Road, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen	December 2, 2013	310,000	ZHAO Bin (趙斌)	0755-82943666
5	CMS Asset Management	Room 201, Block A, 1 Qianwan 1st Road, Qianhai Shenzhen-Hong Kong Cooperation Zone, Shenzhen	April 3, 2015	100,000	DENG Xiaoli (鄧曉力)	0755-82943666

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

As at the end of the Reporting Period, the Company has opened 258 securities branches, and there is another 1 branch which have been approved for preparation but have not commenced operation. The distribution of those operating securities branches is as follow:

Regional Distribution	Number of branches
Beijing and Tianjin	33
Yangtze River Delta: Shanghai, Jiangsu and Zhejiang	50
Guangdong Pearl River Delta	57
Other cities	118



## Chapter 2: Corporate Profile and Key Financial Indicators

### (IV) Amount of other branches and their distribution

As at the end of 2019, the Company had 12 branches, the basic information of which is as follows:

No.	Name of the branch	Date of incorporation	Place of business	Person-in-charge	Contact number
1	Shenzhen Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司深圳分公司)	February 1, 2010	Suite 16F2, 16G & 16H, Times Fortune Building, South Eastern Part, Central Area, Futian District, Shenzhen	HE Jincheng (何錦成)	0755-82922188
2	Shanghai Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司上海分公司)	February 12, 2010	Room 3008, Orient Building, No.1500 Century Avenue, Pudong New District, Shanghai	SHEN Yun (沈雲)	021-68407177
3	Beijing Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司北京分公司)	February 26, 2010	Unit A1A2, 8/F, Unit C2D1, 9/F & Unit B1B2, 11/F, No.118 Jianguo Road, Chaoyang District, Beijing	YAN Xiaohui (嚴曉暉)	010-65684912
4	Guangxi Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司廣西分公司)	May 25, 2011	3/F, Shidailidu Mansion, No.38-1 Jinhua Road, Qingxiu District, Nanning, Guangxi	HU Yi (胡毅)	0771-5596333
5	Qingdao Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司青島分公司)	September 1, 2011	Level 2, 100 Duplex, No.17-21 Xian Xa Lin Road, Laoshan District, Qingdao, Shandong	PENG Xiuling (彭秀玲)	0532-66889555
6	Jiangsu Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司江蘇分公司)	December 28, 2012	3/F, Touzi Building, No.414 Zhongshannan Road, Nanjing	MURONG Xinyao (慕容馨韻)	025-52868366
7	Anhui Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司安徽分公司)	January 4, 2013	Suite 1-501 to 1-511, Hui Feng Plaza, No.118 Sui Xi Road, Luyang District, Hefei	YANG Delong (楊德龍)	0551-65697168
8	Shandong Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司山東分公司)	January 9, 2013	3/F, Huang Ting Complex, No.15 Quancheng Road, Lixia District, Jinan	LI Hongying (李紅英)	0531-67885777
9	Xibei Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司西北分公司)	February 5, 2013	Semiconductor Industrial Park, No.125 Gao Xin Jin Ye Road, Xi'an, Shaanxi Province	WANG Feng (王鋒)	029-38013258
10	Guangdong Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司廣東分公司)	May 16, 2013	Room 1101B, No.5 Huasui Road, Tianhe District, Guangzhou	YU Jinbiao (余錦標)	020-38394801
11	Hubei Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司湖北分公司)	October 4, 2013	No.236 Zhong Bei Road, Wuchang District, Wuhan	ZHANG Yin (張銀)	027-86770878
12	Shanghai Pilot Free Trade Zone Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司上海自貿試驗區分公司)	January 3, 2017	Room 603, 6/F, 68 Bohang Road, China (Shanghai) Pilot Free Trade Zone	WANG Jinbao (王金寶)	021-23519186

## Chapter 2: Corporate Profile and Key Financial Indicators

### VII. 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, Shanghai
	Names of the signing accountants	HONG Ruiming (洪銳明), LIU Lei (劉磊)
International accounting firm appointed by the Company	Name	Deloitte Touche Tohmatsu
	Office address	35th Floor, One Pacific Place, 88 Queensway, Hong Kong
	Names of the signing accountant	CHEN Hemei (陳和美)
Domestic legal adviser appointed by the Company	Name	Beijing Jingtian Gongcheng Law Firm, Shenzhen Office
	Office address	Unit 05-06, 16/F, China Resources Tower, No.2666 Keyuan South Road, Yuehai Street, Nanshan District, Shenzhen
International legal adviser appointed by the Company	Name	Clifford Chance
	Office address	27th Floor, Jardine House, One Connaught Place, Central, Hong Kong
A Share Registrar	Name	Shanghai Branch of CSDC
	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

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

#### (I) Key accounting data

Unit: Thousand Currency: RMB

Key accounting data	2019	2018	Year-on year increase/decrease (%)	2017
Total revenue and other income	25,659,101	18,069,548	42.00	19,258,886
Profit of the year attributable to shareholders of the Company	7,282,381	4,424,986	64.57	5,785,956
Profit of the year attributable to shareholders of the Company after deduction of non-recurring profit or loss	7,304,946	4,419,589	65.29	5,783,983
Net cash from operating activities	-1,149,490	36,690,925	-103.13	-27,311,295
Other comprehensive income	350,269	186,910	87.40	476,241

	As at the end of 2019	As at the end of 2018	Year-on year increase/decrease (%)	As at the end of 2017
Total assets	381,771,889	304,930,705	25.20	285,643,555
Total liabilities	296,644,038	224,138,351	32.35	206,309,851
Equity attributable to shareholders of the Company	85,048,321	80,722,846	5.36	79,230,149
Total equity	85,127,851	80,792,354	5.37	79,333,704

## Chapter 2: Corporate Profile and Key Financial Indicators

### (II) Key financial indicators

Key financial indicator	2019	2018	Year-on year increase/decrease (%)	2017
Basic earnings per share (RMB per share)	0.97	0.54	78.93	0.78
Diluted earnings per share (RMB per share)	0.97	0.54	78.93	0.78
Basic earnings per share after deduction of non-recurring profit or loss (RMB per share)	0.97	0.54	79.82	0.78
Weighted average return on net assets (%)	9.51	5.58	Increased by 3.93 percentage points	8.39
Weighted average return on net assets after deduction of non-recurring profit or loss (%)	9.54	5.57	Increased by 3.97 percentage points	8.38

## Chapter 2: Corporate Profile and Key Financial Indicators

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

Unit: Yuan Currency: RMB

Items	As at the end of the Reporting Period	As at the end of Last Year
Net capital	48,651,440,529.94	52,815,746,346.60
Net assets	78,190,124,913.63	75,518,016,192.53
Sum of risk capital provisions	20,227,306,973.01	17,090,060,265.22
Total assets on- and off-balance sheet	309,933,814,118.10	251,421,719,027.43
Risk coverage ratio (%)	240.52	309.04
Capital leverage ratio (%)	13.44	15.52
Liquidity coverage ratio (%)	222.67	277.30
Net stable funding ratio (%)	157.77	159.64
Net capital/net assets (%)	62.22	69.94
Net capital/liabilities (%)	22.26	31.77
Net assets/liabilities (%)	35.78	45.42
Value of proprietary equity securities and its derivatives/net capital (%)	32.50	22.27
Value of proprietary non-equity securities and its derivatives/net capital (%)	329.96	246.47

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

#### 1. Earnings

Unit: Million Currency: RMB

Items	2019	2018	2017	2016	2015
Revenue and other income	25,659	18,070	19,259	18,552	34,989
Total expenses	17,767	13,540	12,998	12,728	21,906
Profit before income tax	8,774	5,447	7,107	6,453	13,634
Profit for the year — attributable to shareholders of the Company	7,282	4,425	5,786	5,403	10,909

## Chapter 2: Corporate Profile and Key Financial Indicators

### 2. Assets

Unit: Million Currency: RMB

Items	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015
Total assets	381,772	304,931	285,644	243,058	291,656
Total liabilities	296,644	224,138	206,310	183,143	243,224
Accounts payable to brokerage clients	61,724	48,912	51,095	67,582	88,749
Equity attributable to shareholders of the Company	85,048	80,723	79,230	59,826	48,351
Share capital	6,699	6,699	6,699	6,699	5,808

### 3. Key financial indicators

Items	2019	2018	2017	2016	2015
Basic earnings per share (in RMB)	0.97	0.54	0.78	0.91	1.88
Diluted earnings per share (in RMB)	0.97	0.54	0.78	0.91	1.88
Weighted average return on net assets (%)	9.51	5.58	8.39	10.58	23.95
Gearing ratio (%)	73.40	68.44	66.18	65.86	76.13

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

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

There was no difference between the net profit for 2019 and 2018 and net assets as of December 31, 2019 and December 31, 2018 as set out in the consolidated financial statements prepared in accordance with the China Accounting Standards for Business Enterprises and in the consolidated financial statements prepared in accordance with the International Financial Reporting Standards.

## Chapter 3: Summary of Operation

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

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

Operating with a client-oriented approach, the Group 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:

**Wealth management and institutional business:** the Company trades stocks, funds, bonds, futures and other derivatives on behalf of our clients and provides them with other value-added services such as investment consultancy, investment portfolio recommendation, sales of products, account assessment and assets allocation in return for fees and commissions. The Company also provides capital-based intermediary services (including margin financing and securities lending as well as stock pledge repo) 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, separately managed account, 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 turnover of stocks and funds in the SSE and the SZSE was RMB 542.661 billion, representing a year-on-year increase of 38.71%. The CSI 300 Index, the ChiNext Index and the ChinaBond Composite Total Return Index (Total Value) rose by 36.07%, 43.79% and 4.59% year-on-year, respectively. The amount of financing through IPO in the primary market was RMB 253.367 billion, representing a year-on-year increase of 84.28%. The amount of refinancing (excluding share issuance for asset acquisition, same for below) was RMB 675.279 billion, representing a year-on-year increase of 50.69%. Bonds (excluding central bank bills and interbank deposit certificates) issued totaled RMB 26.93 trillion, representing a year-on-year increase of 18.82%. As at the end of the Reporting Period, the balance of margin financing and securities lending on the SSE and the SZSE amounted to RMB 1,019.285 billion, representing a year-on-year increase of 34.88%. The balance of stock pledge repo amounted to RMB 431.146 billion, representing a year-on-year decrease of 30.25%. The total principal amount of custodian funds of brokerage management amounted to RMB 12.29 trillion, representing a year-on-year decrease of 12.90%.



## Chapter 3: Summary of Operation

According to the statistics from the Securities Association of China, in 2019, the operating income of 133 securities firms (data from unaudited financial statements) amounted to RMB 360.483 billion, representing a year-on-year increase of 35.37%. Net profit amounted to RMB 123.095 billion, representing a year-on-year increase of 84.77%. As at the end of the Reporting Period, the total assets of the securities industry amounted to RMB 7.26 trillion, representing a year-on-year increase of 16.10%. Net assets amounted to RMB 2.02 trillion, representing a year-on-year increase of 6.96%. Net capital amounted to RMB 1.62 trillion, representing a year-on-year increase of 3.01%.

### II. Analysis on Core Competitiveness during the Reporting Period

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 significant competitive advantages. First, the Company adheres to continuous stable operations. It has been granted the highest “AA” rating for securities firms for 12 consecutive years, which represents a strong pillar for the Company to rely on when seeking policy support, seizing significant opportunities for new pilot projects, making responses to the volatile capital market and facing peer competition in the future. Second, our service capability with a full-service platform that covers a whole industrial chain, a balanced business structure and a 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 a solid foundation with 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 enjoys the strong brand name of “China Merchants” and its shareholders background as well as good reputation in the market.

During the Reporting Period, the Company’s total revenue and other income amounted to RMB 25.659 billion, representing a year-on-year increase of 42%, and net profit attributable to the parent company amounted to RMB 7.282 billion, representing a year-on-year increase of 64.57%. According to the statistics from the Securities Association of China, in terms of net income from agency trading (including leasing of trading seats), interest income from margin financing and securities lending, interest income from stock pledge, net income from investment banking and net income from agency sale of financial products, the Company ranked seventh, sixth, seventh, sixth and eighth, respectively. According to the statistics from the Asset Management Association of China and Wind, in terms of number of private and mutual funds under custody, scale of assets under management, average monthly active private AUM by securities firms in the fourth quarter and net income from asset management, the Company ranked first, fourth, fourth and ninth, respectively. According to the statistics from Wind (using issue date as statistics caliber), in terms of overall scale of domestic equity and bond lead underwriting, equity lead underwriting (excluding share issuance for asset acquisition) and bond lead underwriting, the Company ranked fifth, seventh and fifth, respectively.

## Chapter 4: Report of the Board of Directors

### I. Operation Discussion and Analysis

In 2019, the global economy showed a downturn with increasing risks and challenges emerged. The Sino-US trade friction became the biggest threat to global economic growth. While the domestic macro economy faced significant downward pressure, the economy remained stable and structural adjustment advanced steadily. Regulators continued to focus on intensifying financial supply-side structural reform to prevent systemic financial risks and speed up the two-way opening-up of the financial industry. The stock market recovered as compared to 2018. As at the end of 2019, the SSE Composite Index and SZSE Component Index rose 22.37% and 44.08% year-on-year, respectively; core market data such as the amount of financing in the primary market, the average daily trading volume of stocks and funds in the secondary market and the scale of margin financing and securities lending achieved positive growth year-on-year; and the operating income and net profit of the securities industry also achieved positive growth year-on-year.

In 2019, the Company seized the moment with foresights, reinforced its confidence and successfully implemented its reform strategy. First, revenue increased substantially and operating results for the current period improved significantly. The total revenue and other income and net profit attributable to shareholders of the parent company for the year amounted to RMB 25.659 billion and RMB 7.282 billion, representing a year-on-year increase of 42% and 64.57%, respectively. ROE was 9.51%, representing a year-on-year increase of 3.93 percentage points. The Company's operating income and net profit both achieved the second highest results in history, and profitability and comprehensive competitiveness were further enhanced. Second, the Company solidly advanced transformation and reform and continuously strengthened its sustainable development capability. Leveraging on the opportunity of the SOE Reform "Double-hundred Action" and the quality and efficiency improvement program of China Merchants Group, the Company launched and intensively promoted key reforms, such as the mechanism of "staff can get in and out; cadre can go up and down; salary can be high and low", data governance, process reengineering and the "Gazelle Program". In March 2020, the Company's employee stock ownership scheme was officially implemented, which was conducive to fully motivating the employees and further promoting the long-term, sustainable and sound growth of the Company. Third, the Company comprehensively improved the level of internal control and continued to maintain compliance and sound operation. Facing strict regulation, the Company continuously strengthened risk prevention and control and comprehensively improved compliance management. There was no occurrence of non-compliance incidents with major risks during the year, and various types of risk losses remained at a low level. The Company has been granted the "AA" regulatory rating under the "A" category for securities firms for 12 consecutive years. In addition, the Company participated in international credit rating for the first time in 2019 and has been granted Baa1 rating by Moody's, representing a stable outlook. This will be beneficial to the Company in saving overseas financing costs and improving its capability for integrated cross-border services.

## Chapter 4: Report of the Board of Directors

### II. Operating Results of Major Businesses for the Reporting Period

#### (I) Analysis of principal businesses

The Company provides a full range of financial products and services to individual, institutional and corporate clients. The Company's business is principally divided into four segments: wealth management and institutional business, investment banking, investment management as well as investment and trading.

Unit: RMB 100 million

Business segment	2019	Percentage	2018	Percentage	Year-on-year change
Wealth management and institutional business	119.68	46.64%	113.53	62.83%	5.41%
Investment banking	18.80	7.33%	16.00	8.86%	17.47%
Investment management	18.74	7.30%	13.81	7.64%	35.64%
Investment and trading	73.59	28.68%	33.62	18.60%	118.90%
Others	26.40	10.29%	4.34	2.40%	507.61%

Revenue from wealth management and institutional business segment recorded a year-on-year increase of 5.41% and its percentage of the total revenue and other income decreased by 16.19 percentage points. Revenue from investment banking business segment recorded a year-on-year increase of 17.47% and its percentage of the total revenue and other income decreased by 1.53 percentage points. Revenue from investment management business segment recorded a year-on-year increase of 35.64% and its percentage of the total revenue and other income decreased by 0.34 percentage points. Revenue from investment and trading business segment recorded a significant year-on-year increase of 118.90% and its percentage of the total revenue and other income increased by 10.07 percentage points. Revenue from other business segments recorded a significant year-on-year increase of 507.61% and its percentage of the total revenue and other income increased by 7.88 percentage points.

#### 1. Wealth management and institutional business

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

In 2019, the Company established a new wealth management and institutional business department, which strongly supported the Company's strategy of building specialized institutional and wealth management business, in order to meet the challenges brought by the decline in brokerage commission rates and the transformation of brokerage business.

### (1) Brokerage and wealth management

In 2019, the one-way trading volume of stocks and funds in the A share market amounted to RMB 132.41 trillion, representing a year-on-year increase of 39.28%. The average net commission rate of the industry decreased by 9.29% year-on-year to 0.279%, which showed a continuous downward trend over the past years.

During the Reporting Period, the market share of trading volume of stocks and funds and the market share of net income from agency trading of the Company both increased year-on-year. Among which, the market share of net income from agency trading reached 4.42%, ranked seventh in the industry. Adhering to a customer-oriented philosophy and principally driven by Fintech and big data, the Company enhanced multiple core service scenarios of the Zhiyuan Yi Hu Tong (智遠一戶通) APP, launched the “Smart Family” series, enhanced post-investment analysis of big data and further broadened the diversity of the Zhiyuan Yi Hu Tong APP. In 2019, the Company’s APP recorded a monthly active user of 3.021 million, representing a year-on-year increase of 27.8%.

The Company steadily promoted the transformation of its brokerage business to wealth management. On the basis of meeting client’s trading and investment demand, the Company provided asset allocation services to optimize client’s asset structure, reduce asset fluctuations generated by market cycles, achieve steady growth of client’s assets and achieve income stability. In terms of meeting client’s trading demand, through the continuous upgrade of the “Zhiyuan Wealth Management” wealth management plan, leveraging on the Company’s internal research resources and industry-leading technological system, the Company provided five categories of service packages, namely Zhifu (智富), Zhixun (智訊), Zhiying (智贏), Zhirui (智睿) and Zhizun (智尊). In respect of financial product allocation services, leveraging on the research edges as a securities firm, the Company provided market analysis, investment advice on asset allocation, investment portfolio recommendations under different customer risk assessments and introduction of key financial products to continuously explore client’s wealth management needs. The Company improved product introduction and customization efficiency, enhanced the customer experience of the wealth management column of the Zhiyuan Yi Hu Tong APP, strengthened the marketing efforts of its branches, improved after-sales service support of products and gradually built a specialized wealth management model. In 2019, the Company’s agency sales of financial products amounted to RMB 834.685 billion, representing a year-on-year increase of 10.68%.

## Chapter 4: Report of the Board of Directors

Operating indicators	Major operational data of wealth management		
	2019	2018	Year-on-year change
Trading volume of stocks and funds (unit: RMB 100 million) (note 1)	108,420.56	75,046.07	44.47%
Market share of the trading volume of stocks and funds	4.09%	3.95%	Increased by 0.14 percentage points
Ranking in terms of net revenue from agency securities trading	7	7	—
Number of eligible accounts (unit: 10,000) (note 2)	1,186.62	1,024.72	15.80%
Number of new accounts opened in the year (unit 10,000)	133.54	143.69	-7.07%
Number of branches (note 3)	258	249	Increased by 9 branches
Number of wealth management advisors	859	820	4.76%
Number of accumulated clients under wealth management plans (unit: 10,000)	269.68	264.37	2.01%
Trading volume under clients of wealth management plans (unit: RMB 100 million)	16,658.46	13,202.26	26.18%
Total sales of wealth management products (unit: RMB 100 million) (note 4)	8,346.85	7,541.19	10.68%
Net revenue from the agency sales of financial products (unit: RMB 10,000)	19,651	17,515	12.20%

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

- Note:
1. Transaction volume of stocks and funds of the Company represents bilateral transaction volume.
  2. Eligible accounts refer to capital accounts which are not dormant or unqualified.
  3. As at the end of 2019, the Company has opened 258 securities branches, and there is another 1 branch which has been opened in February 2020.
  4. Total sales of wealth management products include mutual funds, private investment funds, collective asset management products of the Company (including subscription for and subsequent purchase of margin management products), trust products and products of fund subsidiaries.

In respect of options brokerage business, on 23 December 2019, three new stock index options, namely the SSE and SZSE's "CSI 300 ETF options" and the CFFEX's "CSI 300 stock index options", were launched simultaneously, which was a milestone in the Chinese capital market and brought major development opportunities to the stock options business. During the Reporting Period, the Company's brokerage stock options business developed actively, ranking sixth in terms of market share of aggregate trading volume. As at the end of 2019, the Company's market share of aggregate number of customers was 8.88%, continued to rank first in the industry. In 2019, the Company was awarded "Top 10 Options Broker" for the second session by the SSE.

In respect of futures business, in 2019, as affected by the further resumption of normal trading of stock index futures market, increase in futures and options variety and additional capital, the trading volume and value of the Chinese futures market increased by 30.81% and 37.85% year-on-year, respectively. Meanwhile, due to the decline in fee rates and adjustment of exchange policies, the revenue of the futures industry only achieved slight growth. During the Reporting Period, China Merchants Futures accelerated the transformation of its brokerage business, enhanced its services and support for IB business, strengthened the collaboration and development of institutional business and vigorously developed commodity business. The Company's industry ranking in terms of operating income, net profit and customer's equity steadily improved.

In respect of overseas market, as at the end of 2019, the Hang Seng Index closed at 28,189.8 points, representing an increase of 9%, and the average daily stock turnover in the Hong Kong market amounted to HK\$87.2 billion, representing a year-on-year decrease of 19%. During the Reporting Period, CMS International actively expanded its products and channels in the equities business, launched a new version of the US stock trading system, introduced algorithmic trading, explored stock swap business and actively studied the feasibility of high-frequency trading.

### **(2) Capital-based intermediary services**

The Company's capital-based intermediary services mainly include margin financing and securities lending as well as stock pledge repo.

In 2019, the scale of margin financing and securities lending business in the securities market steadily expanded. As at the end of the Reporting Period, the balance of margin financing and securities lending business in the industry amounted to RMB 1,019.285 billion, representing a year-on-year increase of 34.88%; the scale of stock pledge repo continued to shrink, and the risks were gradually mitigated. The STAR Market was successfully launched in July, which not only made great breakthroughs in trading mechanism and securities refinancing mechanism, but also played an important role in activating the market and boosting the income of securities firms.

During the Reporting Period, the Company proactively responded to changes in market situation. While prudently controlling risks, the Company continued to strengthen the compliance of the capital-based intermediary business, the comprehensiveness of due diligence and the effectiveness of continuous management, so as to achieve a balanced development in terms of quality, scale and efficiency. As at the end of 2019, the balance of the Company's margin financing and securities lending amounted to RMB 51.459 billion, representing a year-on-year increase of 33.03%, and the overall maintenance coverage ratio was 308.66%. The balance of stock pledge repo amounted to RMB 30.285 billion, and the overall collateral coverage ratio was 294.68%. Of which, contribution from self-owned capital was RMB 21.088 billion, representing a year-on-year decrease of 7.66%, and the collateral coverage ratio was 344.22%. In addition, the Company was one of the first pilot brokerages for market-oriented securities refinancing of the STAR Market, and actively established a win-win model of cooperation with lending institutions such as mutual funds, so as to increase the supply of securities, while vigorously compete for securities lending customers and expand the scale of securities lending business of the Company.

## Chapter 4: Report of the Board of Directors

Capital-based intermediary business			
Operating indicators	2019	2018	Year-on-year change
Balance of margin financing and securities lending (unit: RMB 100 million)	514.59	386.81	33.03%
Market share of margin financing and securities lending	5.05%	5.12%	Decreased by 0.07 percentage points
Balance of stock pledge repo (unit: RMB 100 million)	302.85	388.07	-21.96%

Source: SSE and SZSE, internal statistics of the Company

In the overseas market, in April 2019, the SFC introduced new financing rules that impose more regulatory requirements on margin business, in particular illiquid collateral, which has restricted the development of business scale to a certain extent. As at the end of 2019, the balance of margin business of CMS International was HK\$ 4.371 billion.

### (3) Institutional client integrated services

The integrated service system for institutional clients is based on investment research, trading and custody services, and provides value-added services such as product sales, margin financing and securities lending, market making, operation outsourcing and fund incubation. An integrated service system that provides a full package of solutions for institutional clients has been initially established.

#### ① Institutional integrated services

In 2019, the Company continued to place equal emphasis on research services and product allocation to continuously enhance its competitiveness in institutional integrated services. The Company enhanced and improved the research service methods for public offering funds and specialized private funds, promoted diversified research resources and comprehensively enhanced the satisfaction of institutional clients. With customers as the focus, excellent public offering and private fund products were introduced. The Company fully explored the marketing potential of the brokerage branches, improved the product conversion rate of customer assets and speeded up its wealth management transformation. The Company strengthened the settlement model of brokerage firm and the cooperation in fund market-making business, securities refinancing business and other relevant businesses to meet the diversified service needs of institutional clients. The Company strengthened the capabilities of capital introduction, incubation and investment, and further improved its market competitiveness in terms of comprehensive services to institutional clients. The Company has continuously optimized the “integrated institutional services” platform, so as to develop specialized edges for its institutional client business.



### ② Research

During the Reporting Period, the Company actively promoted research transformation, strengthened new economy and new industry research capabilities and focused on the support for the Company's core businesses such as investment banking, wealth management, institutional business and investment, while also provided full support for the Gazelle Program of the Company, exploring high-quality target customers for the "investment plus investment banking" business of the Company. The Company continued to improve the standard of research services for mutual fund clients and increase the market share of the Company's fund trading volume. In 2019, mutual fund trading volume of the Company accounted for 4.58%. The Company's research covers macroeconomic analysis, investment strategy, sector and company research, fixed-income products and derivatives, etc.. As at the end of 2019, the Company's stock research involves 1,252 listed companies in 18 industry sectors and 72 categories on the CSRC, covering 89% of the total market capitalization of CSI 300 Index constituent stocks and 84% of the total market capitalization of ChiNext Index constituent stocks, and the Company takes the leading positions in the research of a wide variety of areas, including food and beverage, environmental protection, paper and light industry, electronic household appliances, communications, media, macro-economy, quantization, electronics, automobiles, electric devices, as well as new energy, military industry, small and mid-cap, fixed income, coal, petrochemical, finance, real estates, etc..

In respect of overseas research, CMS International achieved remarkable results. In Asia Money's ranking in 2019, the Company's overseas research ranked top five in the categories of China H shares, Red-Chips, P-Chips (private enterprise shares) and Hong Kong (local).

### ③ Custody and outsourcing

In 2019, the development of the asset management industry made progress amidst stability. As at the end of 2019, the overall AUM of mutual and private funds was RMB 14.8 trillion and RMB 13.74 trillion, representing a year-on-year increase of 12.98% and 7.51%, respectively. The private fund industry continued to lessen its restrictions on foreign investment. As at the end of the Reporting Period, 23 well-known WFOEs (wholly foreign owned enterprises) successfully registered as private investment fund managers. Meanwhile, one new custody securities firm and eight new fund outsourcing service institutions were established during the year, resulted in more intense industry competition.

During the Reporting Period, the Company's custody and outsourcing business continued to transform to integrated financial services. The Company has focused its efforts on strengthening its collaboration with customers, and improved the quality and efficiency through Fintech. Meanwhile, the Company actively expanded the scope of fund outsourcing services, and maintained steady growth of asset custody and fund outsourcing business by providing value-added services such as financial engineering modeling and development and performance evaluation. As at the end of 2019, the number of custody and outsourcing products (including asset management subsidiaries) of the Company was 20,586, representing a year-on-year increase of 11.49%, and the size was RMB 2,239.9 billion, representing a year-on-year increase of 13.12%. The Company carried out a series of marketing activities focusing on key customers such as large-scale private funds, large-scale key SOEs, WFOEs, mutual funds and bank wealth management, with leading edges in serving large-scale private fund managers and foreign private funds.

## Chapter 4: Report of the Board of Directors

According to the statistics from the Asset Management Association of China, in 2019, the number of private funds products under our custody accounted for 25.03% of the brokerage custody industry. We ranked first in the brokerage industry in terms of number of private fund products and mutual fund products under custody for six consecutive years, and ranked first in the industry in terms of number of custody and outsourcing service products of WFOEs. In addition, the Company is also the only institution in the industry to provide operational outsourcing for mutual funds, the first to provide “custody plus outsourcing” services for bank wealth management products, and the first to provide services for “private asset allocation fund products”. In 2019, the Company’s custody and outsourcing business was awarded the “Best Private Funds Custody Broker” of the China Fund Yinghua Award and the “Most Influential Custodian Broker of the Year” of the Golden Tripod Awards of National Business Daily.

### 2. *Investment banking business*

Investment banking business of the Company includes equity underwriting, debt underwriting and financial advisory businesses.

In 2019, the Company established an investment banking business synergy committee to integrate resources from the Company to promote the coordinated development of investment banking business, while also vigorously promoted the industrial specialization of investment bank and the layout of key regions, further improving customer service capabilities.

#### (1) **Equity underwriting**

In 2019, the approval rate for issuance of IPO rebounded significantly, and the overall IPO approval rate rose from 65.29% in 2018 to 92.86% (excluding those cases of which reviews have been cancelled and approvals were deferred). Meanwhile, the A Share equity financing market recovered, benefiting from the rapid implementation of the registration-based IPO system of the STAR Market and the loosening of refinancing regulatory policies. According to the statistics from Wind, the total amount of equity financing in the A Share market (excluding share issuance for asset acquisition, same for below) was RMB 928.646 billion, representing a year-on-year increase of 58.58%. A total of 202 IPOs were completed in the A Share market, with a financing size of RMB 253.367 billion, representing a year-on-year increase of 84.28%, of which, a total of 72 IPOs on the STAR Market were completed, with a financing size of RMB 84.007 billion. The total proceeds raised from refinancing amounted to RMB 675.279 billion, representing a year-on-year increase of 50.69%.

During the Reporting Period, the Company seized business opportunities arising from the STAR Market and consolidated its edges in the IPO business. According to the positioning and requirements of the STAR Market, the Company closely focused on high-quality science and technology innovation enterprises in high-tech and strategically emerging sectors such as new generation information technology, biomedicine, advanced equipment and new materials, and carried out continuous targeted marketing and actively increased project reserves on the STAR Market. Through establishing efficient and collaborative business process and mechanism within the Company, the Company ensured the smooth application and issuance of projects under the STAR Market. The Company vigorously promoted the industrial specialization of investment banks. Through the optimization and adjustment of organizational structure, the Company established nine industry departments and strengthened the professional service capabilities by using customer list system and comprehensive performance assessment. The Company further strengthened the key regional layouts and set up regional offices in certain key cities (regions) to enhance regional marketing service capabilities. In addition, the Company continued to strengthen the collaboration between industrial and financial companies in each business sector of China Merchants Group, and vigorously explored business opportunities for key SOEs and large-scale customers, comprehensively consolidating service capabilities for key customers.

## Chapter 4: Report of the Board of Directors

According to the statistics from Wind, in 2019, the Company ranked seventh and eighth in the industry in terms of the amount of A Share projects underwritten and the number of projects underwritten, respectively, and the number of projects underwritten was up by 1 position from last year. Of which, the Company ranked fourth in terms of the value of IPO underwritten, up by 1 position from last year. In respect of the STAR Market, the value of IPO underwritten amounted to RMB 2.865 billion (average calculation based on the number of lead underwriters), ranking seventh in the industry, and three projects were underwritten, ranking eighth in the industry. The number of refinancing projects underwritten ranked eighth in the industry. According to the statistics from the CSRC and the SSE, as at the end of 2019, the number of IPO projects pending approval was 23 (including approved projects to be offered, and excluding IPO on the STAR Market), ranking fourth in the industry. The number of projects under review by the STAR Market was 6 (including those projects approved to be offered by the STAR Market Listing Committee of SSE), ranking fourth in the industry.

In 2019, the Company completed a series of projects with market influence, including the STAR Market IPO of Espressif Systems (among the first batch of IPO projects listed on the STAR Market), the re-listing of Nanjing Tanker Corporation (the first re-listing project in the A share market), the IPO of Hualin Securities (the first brokerage IPO listing project in the Tibet Autonomous Region) and the public offering project of Topstar (first public offering project on ChiNext). In addition, the Company also completed large-scale financing projects such as the IPO of Bank of Suzhou, the IPO of Qingdao Rural Commercial Bank, the convertible bonds of China Merchants Expressway and the non-public offering of shares of Muyuan Foods. The Company was awarded various honors, including the title of “Excellent Member of the STAR Market” by the SSE, the “Best Local Investment Bank” of the 13th New Fortune award and the “2019 China IPO Investment Bank Junding Award” by the Securities Times.

Item	Amount and number of equity underwriting				Year-on-year change in underwriting amount
	2019		2018		
	Lead underwriting amount (RMB100 million)	Number of projects	Lead underwriting amount (RMB100 million)	Number of projects	
IPOs	141.96	12	78.76	8	80.24%
Refinancing	128.60	12	102.71	7	25.21%
<b>Total</b>	<b>270.57</b>	<b>24</b>	<b>181.46</b>	<b>15</b>	<b>49.11%</b>

Source: Statistics from Wind, using issue date as statistics caliber

Note: Refinancing excludes share issuance for asset acquisition

## Chapter 4: Report of the Board of Directors

### (2) Bond underwriting

In 2019, the Chinese government strengthened its countercyclical policy adjustments to maintain macroeconomic resilience. The liquidity of the bond market loosened moderately and the volatility of bond market yield increased. Interest rates gradually returned to the level at the beginning of the year. The overall scale of domestic bond financing grew steadily. The total bonds (excluding central bank bills and inter-bank deposit certificates) issued amounted to RMB 26.93 trillion, representing a year-on-year increase of 18.82%. Of which, the total credit bonds (excluding treasury bonds, local government bonds, central bank bills, inter-bank deposit certificates and policy bank bonds) issued amounted to RMB 14.58 trillion, representing a year-on-year increase of 28.25%. Sub-categories of bonds such as exchangeable bonds, corporate bonds and enterprise bonds maintained a relatively strong growth momentum.

During the Reporting Period, the Company continued to enhance the underwriting capabilities and constantly consolidated the market position of asset-backed securities and other advantageous products. The bond underwriting business continued to maintain strong market competitiveness. According to the statistics from Wind, in 2019, the amount of bonds underwritten was RMB 410.092 billion, ranking fifth in the industry. Of which, the amount of ABS underwritten was RMB 233.682 billion, ranking second in the industry with a market share of 13.03%. The total amount of credit ABS underwriting ranked first in the market for five consecutive years. The Company continued to consolidate the cooperative relationship with key customer groups such as financial and real estate companies, and provided financial bond underwriting, corporate bond underwriting and asset securitization services to major commercial banks and real estate enterprises. Meanwhile, on the basis of maintaining our strong capability in bond underwriting business, the Company continued to enhance business innovation, and actively respond to the Belt and Road Initiative proposed by the state, while promoting the “Internationalization” of RMB bonds and further accelerating the opening-up of the bond market.

In 2019, the Company successfully completed a number of representative bond projects, including the public issuance of “Belt and Road” corporate bonds of GLP China Holdings Limited to qualified investors in 2019, “Hecui 2019 Phase I Non-performing Asset-Backed Securities” (the first domestic non-performing asset securitization product that was invested by foreign investors), “Hangying 2019 Phase I Personal Residential Mortgage-Backed Securities” (the first credit ABS project of urban commercial bank in the domestic market invested by foreign investors through “Bond Connect”) and “Hexin 2019 Phase I Auto Loan ABS” (the first retail asset securitization project in the domestic market with the approval of “green certification”). The Company was awarded the title of 2019 “Excellent Corporate Bond Underwriter” by the SZSE.

## Chapter 4: Report of the Board of Directors

Item	Amount and number of bonds underwriting				Year-on-year change in underwriting amount
	2019		2018		
	Lead underwriting amount (RMB100 million)	Number of issuance	Lead underwriting amount (RMB100 million)	Number of issuance	
Enterprise bonds	20.00	2	19.00	2	5.26%
Corporate bonds	442.79	86	680.77	106	-34.96%
Financial bonds	1,007.97	59	1,288.48	47	-21.77%
Short-term commercial papers	44.85	14	51.58	16	-13.05%
Medium-term notes	88.07	27	74.90	15	17.58%
Private placement notes	87.22	27	89.18	24	-2.20%
Exchangeable bonds	45.50	3	28.57	1	59.26%
Asset-backed securities	2,336.82	400	2,328.80	323	0.34%
Others	27.70	253	70.76	175	-60.85%
<b>Total</b>	<b>4,100.92</b>	<b>871</b>	<b>4,632.05</b>	<b>709</b>	<b>-11.47%</b>

Sources: Statistics from Wind, using issue date as statistics caliber

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

### (3) Financial advisory

In 2019, despite the loosening of M&A regulatory policy, continuous improvement of M&A transaction approval process and further enrichment of M&A business payment methods, due to the increase in uncertainty in domestic and overseas economy, the M&A market weakened, and the size of cross-border M&A also declined significantly. According to the statistics from Wind, in 2019, the number of transactions announced by the Chinese M&A market was 10,163, with a transaction value of RMB 2.30 trillion, representing a year-on-year decrease of 17.32%. The number of transactions completed in the Chinese M&A market was 8,243, with a transaction value of RMB 1.68 trillion, representing a year-on-year decrease of 3.96%.

During the Reporting Period, the Company insisted on serving the real economy, closely focused on economic structural transformation and upgrade as well as the opportunities from SOE reform, while also coordinated with enterprises within China Merchants Group to promote the orderly implementation of projects. According to the statistics from Wind, the total M&A transaction amount as disclosed by the Company was RMB 187.827 billion, ranking second in the industry, up by 7 positions from last year. The number of M&A transactions as disclosed was 11, ranking ninth in the industry. In 2019, the landmark projects completed by the Company include the listing of A shares of the merger of Sinotrans Air Transportation Development Corporation Limited by Sinotrans Limited through share exchange, the listing of the core special steel assets of CITIC Group and the restructuring listing of the property management assets of China Merchants Group.

## Chapter 4: Report of the Board of Directors

### (4) Overseas investment banking

In respect of overseas investment banking, in 2019, the aggregate equity underwritten scale in the Hong Kong market amounted to HK\$452 billion, representing a year-on-year decrease of 17%. The size of IPOs underwritten amounted to HK\$312.9 billion, representing a year-on-year increase of 9%. The amount raised from G3 bonds in the Asian market (except Japan) amounted to USD338.1 billion, representing a year-on-year increase of 27%. According to the statistics from Bloomberg, in 2019, the Company underwrote 7 equity projects in the Hong Kong market and 1 equity project in the US market, of which financing size of IPOs sponsored in the Hong Kong market amounted to USD0.75 billion, ranking fourth among Chinese brokers. The Company successfully completed the sponsoring and underwriting of high-profile listing projects, including China Tobacco HK, China Feihe and Venus Medtech (Hangzhou). The Company completed a total of 8 bond underwriting projects with an underwriting amount of USD0.34 billion.

### 3. *Investment management*

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

#### (1) **Asset management**

In 2019, as affected by industry “channel reduction”, the asset management scale of securities companies declined. As at the end of 2019, the total principal amount of custodian funds of the industry amounted to RMB 12.29 trillion, representing a decrease of 35% as compared to RMB 18.76 trillion during the peak period. It is expected that the “channel reduction” and active management transformation will remain as the major development direction of the asset management industry, and active management capabilities will become the core competitiveness of asset management institutions.

During the Reporting Period, CMS Asset Management actively transformed towards active management. The scale and number of new product launched both achieved new highs in recent years, and the average monthly scale of funds under active management achieved historic high. The Company seized the opportunities arising from STAR Market and launched the first batch of IPO shares subscription product and strategically placing products on the STAR Market in the industry. Meanwhile, it actively promoted the transformation of massive collective asset management to mutual funds and completed a number of preliminary tasks such as organizational structure adjustment and personnel and system preparation. It fully enriched the unique product portfolio and the fixed-income and asset securitization businesses have scaled new heights. It enhanced the capacity of investment research and gradually strengthened asset allocation capability. In addition, the Company’s channel construction achieved breakthroughs, and multi-channel agency sales and institutional customization rapidly advanced.

## Chapter 4: Report of the Board of Directors

As at the end of 2019, the AUM of CMS Asset Management was RMB 687.207 billion, representing a year-on-year decrease of 3.68%, ranking fourth in industry in terms of scale. The AUM of active management was RMB 216.205 billion, representing a year-on-year increase of 23.81%. According to the statistics from the Asset Management Association of China, in the fourth quarter, the average monthly private AUM of active management of CMS Asset Management ranked fourth in the industry, up by 8 positions from 2018.

Category	AUM and revenue of securities asset management business of the Company			
	AUM (RMB 100 million)		Net revenue from asset management (RMB 100 million)	
	2019	2018	2019	2018
Collective asset management	1,325.86	1,317.75	7.35	8.27
Separately managed account	4,866.62	5,249.80	2.83	2.53
Specialized asset management	679.59	567.10	0.31	0.13
<b>Total</b>	<b>6,872.07</b>	<b>7,134.65</b>	<b>10.49</b>	<b>10.93</b>

Source: Internal statistics of the Company

### (2) Private equity funds

As at the end of 2019, the Asset Management Association of China registered 14,882 private equity and venture capital fund managers, managed 36,468 funds with AUM of RMB 9.74 trillion.

In 2019, China's private equity industry saw both opportunities and challenges. On the one hand, the fierce competition in the industry, coupled with the impact of the declining domestic economy and regulatory policies such as new asset management regulations, posed severe challenges to the development of the private equity industry. On the other hand, the opening of the STAR Market, launch of the NEEQ Select Tier, reform of the IPO registration system and loosening of refinancing also brought opportunities. According to the statistics from Zero2IPO Group, in 2019, the total size of funds raising in China's equity investment market was RMB 1.24 trillion, representing a year-on-year decrease of 6.6%. There were 8,234 investment cases made, totaling RMB 763.094 billion, representing a year-on-year decrease of 17.8% and 29.3%, respectively. There were approximately 2,949 successful exit cases, representing a year-on-year increase of 19%. Overall, the fundraising and investment markets encountered challenges, and the exit of market brought changes.



## Chapter 4: Report of the Board of Directors

During the Reporting Period, CMS Zhiyuan formulated its future development strategy based on the Company's new five-year development plan. The major content includes: strengthening the establishment of fundraising system and promoting the raising of funds with special features; vigorously exploring investment opportunities and strengthening project quality control; optimizing business process and improving the efficiency of operation and management; seizing market opportunities and realizing the multi-channel exit of projects; leverage upon the franchise between the various business platforms of China Merchants Group to achieve win-win cooperation. In 2019, CMS Zhiyuan initiated fundraising of 8 projects of which 4 had made substantial progress. Meanwhile, it fully utilize the advantages of securities firms in terms of wealth management, research and investment banking, so as to grasp investment opportunities in high-end manufacturing, biotechnology, consumption and other industries. CMS Zhiyuan exited a total of more than RMB 2 billion of projects in 2019, some of which achieved high investment returns.

In the overseas market, CMS International actively positioned in leading companies in the new economy in the past two years, including Tencent Music, SenseTime, Ksyun, JD Logistics and Grail, and achieved favorable growth in overall book value.

### (3) Fund management

#### ① Bosera Funds

The Company holds 49% of the equity of Bosera Funds. In 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 and seek innovation. It achieved stable growth in management scale and profit. The Company's strength and brand was continuously enhanced, achieving a balanced development of quality, efficiency and scale. As at the end of the Reporting Period, the AUM of Bosera Funds was RMB 1,066.8 billion (excluding the assets managed by subsidiaries), of which assets managed under mutual funds (excluding feeder funds) was RMB 621.7 billion. According to the statistics from Wind, as at the end of 2019, Bosera Funds ranked second in the industry in terms of AUM of non-monetary mutual funds.

#### ② China Merchants Fund

The Company holds 45% of the equity of China Merchants Fund. In 2019, China Merchants Fund had stable and favorable operation and development, and achieved advancement in its core business. The core position of the "public offering business" continuously consolidated, the "pension business" achieved remarkable results, and the "multi-asset allocation business" achieved initial results. The construction of "active investment, customer orientation, technologicalization and internationalization" was comprehensively promoted. Of which, "active investment" achieved favorable results; "customer orientation" was steadily advanced; the "technologicalization" plan was fully implemented; and the construction of "internationalization" achieved breakthroughs. As at the end of the Reporting Period, the AUM of China Merchants Fund was RMB 555.3 billion (excluding the assets managed by subsidiaries), of which assets managed under mutual funds (excluding feeder funds) was RMB 379 billion. According to the statistics from Wind, as at the end of 2019, China Merchants Fund ranked tenth in the industry in terms of AUM of non-monetary mutual funds.

### 4. *Investment and trading*

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

At the beginning of 2019, the Company established the financial market investment department and formulated proprietary investment strategies with asset allocation as the focus.

In 2019, the A Share market performed well. At the beginning of the year, under the stimulation of the comprehensive reduction of reserve requirement ratio and the easing of Sino-US trade fiction, the A Share market underwent rapid valuation recovery. Along with the introduction of a series of rules and regulations in the STAR Market, the pilot registration system was smoothly implemented, leading to a structural bull market in technology and consumption. On the other hand, the opening-up of the financial market accelerated, and the process of increasing overseas funds allocation to A Shares speeded up, bringing liquidity to the market. The bond market fluctuated within a narrow range. The ChinaBond Composite Total Return Index (Total Value) rose by 4.59%, which is at the average level of the past decade. The size of bond defaults reached a record high, resulting in a huge exposure to credit risks.

#### **(1) Equity investment**

During the Reporting Period, the Company's directional business increased investment strategies on the basis of controlling risks. Aiming to achieve absolute returns, the Company adhered to the philosophy of sound allocation and value investment, strengthened position management and actively participated in the placement of new shares on the STAR Market. Through developing diversified investment strategies and seizing structural opportunities, the Company's directional business achieved a significant year-on-year increase in investment income.

The Company actively engaged in market-neutral investment business by adopting quantifying and hedging approaches and leveraging on its abundant strategies, in order to gain more-than-expected return steadily with low-risk exposure. Meanwhile, the Company vigorously developed capital intermediary trading business. The current business mainly includes market-making for listed options and futures, market-making for funds and OTC derivatives trading. The Company continued to improve its competitiveness by optimizing its trading strategies and IT systems for its listed options and futures market-making business, as well as enlarging business scale and variety of underlyings. As at the end of 2019, the Company ranked first among all brokers for the quantities of listed options and futures market-making qualifications. The Company was the only broker that was rated as AA, the highest market-making rating, by the SSE in 2019. Besides business channels broadening, the Company actively innovated OTC derivatives business models.

## Chapter 4: Report of the Board of Directors

### (2) FICC

The Company's bond proprietary business embraced the "large and stable" investment philosophy. Against the backdrop of changing domestic and international macro situations, uncertain market trends and high bond default rates, the Company strengthened macro research, market research and risk screening, flexibly carried out range trading, actively seized investment opportunities by developing neutral strategies and steadily expanded investment scale. During the year, the bond investment yield outperformed the ChinaBond Composite Total Return Index (Total Value) and achieved good results. While further developing the existing business, the Company actively prepared for innovative business and promoted its rapid development. In 2019, the Company became one of the first batch of market-makers of treasury bond futures in the market, and obtained the qualification for foreign exchange business. The Company became a full license broker of FICC business. In 2019, the Company's commodity derivatives business continued to develop under its existing strategy, further diversified its business types, explored new business models and achieved good results. The revenue from commodity derivatives business increased significantly.

### (3) OTC products

In 2019, the Company successfully issued 129 beneficiary certificates products with an aggregate size of RMB 14.485 billion. While fulfilling the financing goal, it satisfactorily met the allocation needs of retail and corporate customers for low-risk assets.

## 5. Outlook for 2020

In 2020, the global economy still faces great uncertainty. China's economic development is facing increasing difficulties and challenges, especially the increasing downward economic pressure. The restrictions on foreign shareholding ratio of securities firms, fund management firms and futures firms will be removed and domestic institutions will face increased competition and challenges from international financial institutions. As affected by the "zero commission" in US securities trading, the competition landscape and growth model of China's securities industry will face new impact and challenges. Meanwhile, the securities industry still faces great historical opportunities. The capital market reform has been fully commenced and further promoted. The role of the securities industry in serving the real economy has become more prominent. The new Securities Law came into effect on 1 March 2020, further improving the fundamental system of the capital market. On the basis of the pilot registration system of the STAR Market, the securities issuance registration system is about to be rolled out. Reforms in respect of the NEEQ, refinancing and M&A are speeding up. Financial derivatives as well as new commodity futures and options are expected to be listed one after another. In addition, while the prevention and control work of the COVID-19 pandemic has achieved positive progress and is proceeding in a good way, it is still facing complex and severe challenges, setting higher requirements for the annual business development of the Company.

## Chapter 4: Report of the Board of Directors

2020 is the key year for the Company's new five-year transformation strategy. The Company will conscientiously formulate the Central Government's policies on prevention and control work of the COVID-19 pandemic, minimize the effect of the outbreak and satisfactorily fulfill various annual targets and tasks.

**Wealth management and institutional business:** On the basis of continuously expanding the traditional brokerage business, the Company will accelerate wealth management transformation and build a customer-oriented ecosystem. The Company will strengthen product capacity building, establish an abundant and sound product system. Taking customers as the focus, the Company will organize and select wealth management products with customer asset value maintenance and appreciation as the primary goal and measurement criteria. The Company will strengthen system building capability and extend further support to online product marketing and offline asset allocation. Institutional client business will continue to improve its comprehensive service capabilities and reinforce its leading position in the industry.

**Investment banking:** The Company will continue to seize the opportunities arising from the STAR Market and ChiNext registration system, proactively capture business opportunities in the NEEQ Select Tier, and increase the efforts in exploring high-quality IPO projects. The Company will enhance its revenue-generating ability, further bring into play the value of investment banks, enhance the service capabilities for key customers and professional services, and further optimize and improve business operation model of "investment banking + investment".

**Investment management:** CMS Asset Management will improve its three key capabilities on product design, product investment and channel sales. By firmly grasping the strategic opportunity of the transformation of massive collective asset management to mutual funds, it will gather and integrate its resource advantages on channel and customers, so as to do a good job in system improvement and mechanism construction in relation to mutual funds operations. CMS Zhiyuan will build up its special fund-raising channel and specialized investment capability by leveraging on its core advantage of "SOEs + transportation and logistics + investment banking", in order to expand funds management scale.

**Investment and trading:** With the goal of pursuing absolute returns, the Company will vigorously enhance investment and research capacity and improve investment returns. The Company will vigorously develop neutral strategies and customer demand-driven businesses, and continue to increase the scale of investment businesses with low risk and stable returns. The Company will vigorously strengthen its FICC business, actively explore foreign exchange, commodities and derivatives business and create a new profit model to increase multiple sources of income.

At the same time, the Company will continue to enhance the effort on the innovation and development of financial technology, integrate business and technology, actively identify business scenarios, and accelerate the promotion of key projects such as the three profiling (company profiling, customer profiling and product profiling), data governance and centralized operation.

## Chapter 4: Report of the Board of Directors

### (II) Analysis of financial statement

#### 1. Details of changes related to profit and cash flows

Unit: RMB'000

Item	Current period	Previous period	Year-on-year change
Total revenue and other income	25,659,101	18,069,548	42.00%
Total expenses	17,767,472	13,539,536	31.23%
Profit before income tax	8,773,637	5,447,485	61.06%
Profit of the year	7,313,283	4,446,261	64.48%
Profit of the year attributable to shareholders of the Company	7,282,381	4,424,986	64.57%
Net cash used in operating activities	-1,149,490	36,690,925	-103.13%
Net cash used in investing activities	-1,799,098	-18,268,028	–
Net cash generated from financing activities	4,760,169	-21,082,665	–
Net increase (decrease) in cash and cash equivalents	1,811,581	-2,659,768	–

In 2019, the Company recorded total revenue and other income of RMB 25.659 billion, profit before tax of RMB 8.774 billion and profit attributable to shareholders of the parent company of RMB 7.282 billion, representing a year-on-year increase of 42.00%, 61.06% and 64.57%, respectively. Weighted average return on net assets was 9.51%, representing a year-on-year increase of 3.93 percentage points.

#### 2. Income

Unit: RMB'000

Item	Current period		Previous period		Increase/Decrease	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Fee and commission income	8,858,493	34.52%	7,753,532	42.91%	1,104,961	14.25%
Interest income	8,288,799	32.30%	8,186,595	45.31%	102,204	1.25%
Net gain on investment	6,159,670	24.01%	2,120,062	11.73%	4,039,608	190.54%
Other income and gains	2,352,139	9.17%	9,359	0.05%	2,342,780	25,032.38%
<b>Total revenue and other income</b>	<b>25,659,101</b>	<b>100.00%</b>	<b>18,069,548</b>	<b>100.00%</b>	<b>7,589,553</b>	<b>42.00%</b>

## Chapter 4: Report of the Board of Directors

In 2019, the recognized revenue and other income amounted to RMB 25.659 billion, representing a year-on-year increase of RMB 7.590 billion, or 42.00%, among which:

Fee and commission income recorded a year-on-year increase of 14.25%, among which, the income from securities and futures brokerage business recorded a year-on-year increase of 25.45%, mainly attributable to the increase in average trading volume of A shares, partially offset by the decrease in commission rate. The income from underwriting and sponsorship business recorded a year-on-year increase of 22.56%, mainly attributable to the increase in revenue from IPO business.

Interest income recorded a slight year-on-year increase of 1.25%. Of which, mainly due to the increase in investment scale, interest income from debt instruments at fair value through other comprehensive income increased by 44.18% year-on-year, partially offset by the decrease in interest income due to the decline in daily scale of margin financing and securities lending and stock pledge repo business.

Net investment gains recorded a significant year-on-year increase of 190.54%, primarily due to the year-on-year increase in securities investment gains and private equity investment gains.

### 3. Expenses

Unit: RMB'000

Item	Current period		Previous period		Increase/Decrease	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Depreciation and amortization	530,908	2.99%	216,391	1.60%	314,517	145.35%
Staff costs	5,559,394	31.29%	3,850,480	28.44%	1,708,914	44.38%
Fee and commission expenses	1,422,798	8.01%	1,305,055	9.64%	117,743	9.02%
Interest expenses	6,393,610	35.98%	6,340,505	46.83%	53,105	0.84%
Tax and surcharges	94,364	0.53%	88,223	0.65%	6,141	6.96%
Other operating expenses	3,670,815	20.66%	1,614,634	11.93%	2,056,181	127.35%
Credit impairment losses	92,027	0.52%	121,037	0.89%	-29,010	-23.97%
Other impairment losses	3,556	0.02%	3,211	0.02%	345	10.74%
<b>Total expenses</b>	<b>17,767,472</b>	<b>100.00%</b>	<b>13,539,536</b>	<b>100.00%</b>	<b>4,227,936</b>	<b>31.23%</b>

In 2019, the total expenses of the Company amounted to RMB 17.767 billion, representing a year-on-year increase of 31.23%, of which:

Fee and commission expenses amounted to RMB 1.423 billion, representing a year-on-year increase of 9.02%, primarily due to the increase in fee and commission expenses of securities and futures brokerage business of RMB 0.244 billion along with the increase in income.

Interest expenses amounted to RMB 6.394 billion, representing a slight year-on-year increase of 0.84%, mainly due to the increase in debt financing scale.

Staff costs amounted to RMB 5.559 billion, representing a year-on-year increase of 44.38%, primarily due to the increase in performance-based remuneration as a result of the increase in income.

Other expenses mainly included depreciation and amortization, tax and surcharges, other operating expenses and impairment losses. Credit impairment losses for the year were mainly impairment losses from stock pledge repo.

## Chapter 4: Report of the Board of Directors

### 4. Segment revenues

#### 4.1 Analysis of segment revenues and other incomes

Unit: RMB'000

Business segment	Current period		Previous period		Increase/Decrease		Change
	Amount	Percentage	Amount	Percentage	Amount	Percentage	
Wealth management and institutional business	11,967,661	46.64%	11,353,355	62.83%	614,306	5.41%	-16.19%
Investment banking	1,879,777	7.33%	1,600,160	8.86%	279,617	17.47%	-1.53%
Investment management	1,873,773	7.30%	1,381,386	7.64%	492,387	35.64%	-0.34%
Investment and trading	7,358,834	28.68%	3,361,706	18.60%	3,997,128	118.90%	10.07%
Others	2,640,073	10.29%	434,498	2.40%	2,205,575	507.61%	7.88%

In 2019, the total revenue and other income of the Company amounted to RMB 25.659 billion, of which:

Revenue from the wealth management and institutional business segment recorded a year-on-year increase of 5.41%, mainly due to the year-on-year increase of 39.28% in average trading volume of A shares in 2019 and the year-on-year increase in fee and commission income, partially offset by the decrease in commission rates.

Revenue from the investment banking business segment recorded a year-on-year increase of 17.47%, mainly due to the increase in income from IPO business.

Revenue from the investment management business segment recorded a year-on-year increase of 35.64%, mainly due to the increase in income from private equity investment.

Revenue from the investment and trading business segment recorded a significant year-on-year increase of 118.90%, mainly due to the substantial increase in income from equity investment and fixed income investment.

Revenue from other business segments recorded a significant year-on-year increase of 507.61%, mainly due to the increase in revenue from the commodity business.

In terms of revenue composition, the proportion of operating income from the investment and trading business segment and other business segments increased by 10.07 and 7.88 percentage points, respectively, and the proportion of operating income from the wealth management and institutional business segment, investment banking business segment and investment management business segment decreased by 16.19, 1.53 and 0.34 percentage points, respectively.



## 4.2 Analysis of segment expenses

Unit: RMB'000

Business segment	Current period		Previous period		Increase/Decrease	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Wealth management and institutional business	8,620,568	48.52%	8,698,045	64.24%	-77,477	-0.89%
Investment banking	906,320	5.10%	1,195,330	8.83%	-289,010	-24.18%
Investment management	378,980	2.13%	482,112	3.56%	-103,132	-21.39%
Investment and trading	4,847,651	27.28%	2,756,567	20.36%	2,091,084	75.86%
Others	3,074,970	17.31%	469,039	3.46%	2,605,931	555.59%

In respect of the expenses of various business segments, expenses of the investment and trading business segment recorded a year-on-year increase of 75.86%, mainly attributable to the increase in interest expenses due to the expansion of investment scale and the increase in performance-based remuneration due to the increase in income. Expenses of other business segments increased by 555.59% year-on-year, mainly due to the increase in cost of the commodity business.

## Chapter 4: Report of the Board of Directors

### 5. Cash flows

Unit: RMB'000

Item	Current period	Previous period	Amount increased/decreased	Percentage increased/decreased
Net cash used in operating activities	-1,149,490	36,690,925	-37,840,415	-103.13%
Net cash used in investing activities	-1,799,098	-18,268,028	16,468,930	-
Net cash generated from financing activities	4,760,169	-21,082,665	25,842,834	-
Net increase (decrease) in cash and cash equivalents	1,811,581	-2,659,768	4,471,349	-

In 2019, the net increase in cash and cash equivalents of the Company was RMB 1.812 billion. Of which, the net cash used in operating activities recorded a deficit of RMB 1.149 billion. The net cash used in investing activities recorded a deficit of RMB 1.799 billion. The net cash generated from financing activities amounted to RMB 4.760 billion. The effect of foreign exchange rate changes in cash amounted to RMB 219 million.

- (1) Net cash used in operating activities recorded a deficit of RMB 1.149 billion, representing a decrease of RMB 37.840 billion as compared to 2018, primarily due to the increase in advances from financing customers of RMB 29.336 billion and the increase in financial assets at fair value through profit or loss of RMB 14.318 billion, partially offset by an increase of RMB 8.547 billion in financial assets sold under repurchase agreements.
- (2) Net cash used in investing activities recorded a deficit of RMB 1.799 billion, representing an increase of RMB 16.469 billion as compared to 2018, primarily due to the increase in the purchase of debt instruments at fair value through other comprehensive income of RMB 15.774 billion during the year.
- (3) Net cash generated from financing activities amounted to RMB 4.760 billion, representing an increase of RMB 25.843 billion as compared to 2018, primarily due to the year-on-year increase in net proceeds from the issuance and repayment of bonds and short-term debt instruments of RMB 19.529 billion, and the increase in net proceeds from short-term borrowings of RMB 6.678 billion.

## Chapter 4: Report of the Board of Directors

### 6. Overview of consolidated statement of financial position

Unit: RMB'000

Item	December 31, 2019		December 31, 2018		Increase/Decrease	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
<b>Non-current assets</b>						
Property and equipment	1,540,746	0.40%	1,628,792	0.53%	-88,046	-5.41%
Right-of-use assets	1,610,549	0.42%	-	-	1,610,549	-
Prepaid lease	-	-	431,685	0.14%	-431,685	-100%
Goodwill	9,671	0.00%	9,671	0.00%	-	-
Other intangible assets	15,855	0.00%	19,121	0.01%	-3,266	-17.08%
Investment in associates	8,833,586	2.31%	8,287,924	2.72%	545,662	6.58%
Equity instruments at fair value through other comprehensive income	7,057,809	1.85%	6,722,607	2.20%	335,202	4.99%
Debt instruments at amortised cost	1,424,662	0.37%	1,796,608	0.59%	-371,946	-20.70%
Financial assets held under resale agreements	2,170,301	0.57%	5,277,749	1.73%	-3,107,448	-58.88%
Financial assets at fair value through profit or loss	2,708,857	0.71%	2,202,967	0.72%	505,890	22.96%
Deferred tax assets	826,872	0.22%	868,510	0.28%	-41,638	-4.79%
Other non-current assets	817,565	0.21%	221,103	0.07%	596,462	269.77%
<b>Total non-current assets</b>	<b>27,016,473</b>	<b>7.08%</b>	<b>27,466,737</b>	<b>9.01%</b>	<b>-450,264</b>	<b>-1.64%</b>
<b>Current assets</b>						
Advances to customers	55,224,619	14.47%	42,976,430	14.09%	12,248,189	28.50%
Current tax assets	180,145	0.05%	34,668	0.01%	145,477	419.63%
Account and other receivables	3,213,572	0.84%	3,263,335	1.07%	-49,763	-1.52%
Debt instruments at fair value through other comprehensive income	45,734,307	11.98%	41,642,341	13.66%	4,091,966	9.83%
Debt instruments at amortised cost	469,974	0.12%	47,587	0.02%	422,387	887.61%
Financial assets held under resale agreements	33,509,524	8.78%	27,766,111	9.11%	5,743,413	20.68%
Financial assets at fair value through profit or loss	135,437,211	35.48%	97,921,779	32.11%	37,515,432	38.31%
Derivative financial assets	1,805,819	0.47%	1,150,232	0.38%	655,587	57.00%
Deposits with Exchanges and non-bank financial institutions	4,780,890	1.25%	1,431,420	0.47%	3,349,470	234.00%
Clearing settlement funds	12,471,616	3.27%	13,796,281	4.52%	-1,324,665	-9.60%
Cash and bank balances	61,927,739	16.22%	47,433,784	15.56%	14,493,955	30.56%
<b>Total current assets</b>	<b>354,755,416</b>	<b>92.92%</b>	<b>277,463,968</b>	<b>90.99%</b>	<b>77,291,448</b>	<b>27.86%</b>
<b>Total assets</b>	<b>381,771,889</b>	<b>100.00%</b>	<b>304,930,705</b>	<b>100.00%</b>	<b>76,841,184</b>	<b>25.20%</b>

## Chapter 4: Report of the Board of Directors

As at the end of 2019, the total assets of the Company was RMB 381.772 billion, increased by RMB 76.841 billion, or 25.20%, as compared with the end of 2018. The total current assets amounted to RMB 354.755 billion and total non-current assets accounted to RMB 27.016 billion. Financial assets as at the end of the period increased by RMB 43.155 billion as compared with the end of 2018, and the financial assets held under resale agreements and advances to customers as at the end of the period increased by RMB 14.884 billion as compared with the end of 2018.

The Company has maintained satisfactory assets quality and liquidity. Net current assets as at the end of 2019 amounted to RMB 113.168 billion, representing an increase of RMB 19.433 billion, or 20.73% over last year, which was primarily due to growth in scale of financial assets and advances to customers. As at the end of 2019, the Company's cash and bank balances and clearing settlement funds, financial assets, advances to customers, financial assets held under resale agreements and long-term equity investment accounted for 19%, 51%, 14%, 9% and 2% of the total assets, respectively. As compared with the end of last year, there were smaller changes to the Company's asset structure.

## Chapter 4: Report of the Board of Directors

Unit: RMB'000

Item	December 31, 2019		December 31, 2018		Increase/Decrease	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
<b>Current liabilities</b>						
Short-term borrowings	3,103,673	1.05%	1,581,861	0.71%	1,521,812	96.20%
Short-term debt instruments	33,098,616	11.16%	34,850,476	15.55%	-1,751,860	-5.03%
Placements from other financial institutions	7,013,199	2.36%	3,519,000	1.57%	3,494,199	99.30%
Accounts payable to brokerage clients	61,724,220	20.81%	48,911,748	21.82%	12,812,472	26.20%
Accrued staff costs	5,042,877	1.70%	3,654,135	1.63%	1,388,742	38.00%
Other payables and accrued charges	6,847,972	2.31%	3,524,201	1.57%	3,323,771	94.31%
Current tax liabilities	57,064	0.02%	133,968	0.06%	-76,904	-57.40%
Financial liabilities at fair value through profit or loss	7,918,509	2.67%	7,124,452	3.18%	794,057	11.15%
Derivative financial liabilities	2,183,222	0.74%	1,305,685	0.58%	877,537	67.21%
Financial assets sold under repurchase agreements	97,706,686	32.94%	61,267,557	27.33%	36,439,129	59.48%
Lease liabilities	267,627	0.09%	-	-	267,627	-
Long-term borrowings due within one year	1,144,880	0.39%	-	-	1,144,880	-
Bonds payable due within one year	15,478,614	5.22%	17,855,355	7.97%	-2,376,741	-13.31%
<b>Total current liabilities</b>	<b>241,587,159</b>	<b>81.44%</b>	<b>183,728,438</b>	<b>81.97%</b>	<b>57,858,721</b>	<b>31.49%</b>
<b>Net current assets</b>	<b>113,168,257</b>	<b>38.15%</b>	<b>93,735,530</b>	<b>41.82%</b>	<b>19,432,727</b>	<b>20.73%</b>
<b>Total assets less current liabilities</b>	<b>140,184,730</b>	<b>47.26%</b>	<b>121,202,267</b>	<b>54.07%</b>	<b>18,982,463</b>	<b>15.66%</b>
<b>Non-current liabilities</b>						
Accrued staff costs	525,040	0.18%	787,540	0.35%	-262,500	-33.33%
Deferred tax liabilities	485,282	0.16%	148,764	0.07%	336,518	226.21%
Financial liabilities at fair value through profit or loss	2,157,877	0.73%	2,404,123	1.07%	-246,246	-10.24%
Deferred income	122,537	0.04%	125,734	0.06%	-3,197	-2.54%
Lease liabilities	984,520	0.33%	-	-	984,520	-
Bonds payable	50,512,888	17.03%	35,563,737	15.87%	14,949,151	42.03%
Long-term borrowings	268,735	0.09%	1,380,015	0.62%	-1,111,280	-80.53%
<b>Total non-current liabilities</b>	<b>55,056,879</b>	<b>18.56%</b>	<b>40,409,913</b>	<b>18.03%</b>	<b>14,646,966</b>	<b>36.25%</b>
<b>Total liabilities</b>	<b>296,644,038</b>	<b>100.00%</b>	<b>224,138,351</b>	<b>100.00%</b>	<b>72,505,687</b>	<b>32.35%</b>

## Chapter 4: Report of the Board of Directors

As at the end of 2019, the total liabilities of the Company was RMB 296.644 billion, representing an increase of RMB 72.506 billion, or 32.35%, as compared with the end of 2018. The current liabilities amounted to RMB 241.587 billion and non-current liabilities amounted to RMB 55.057 billion. Accounts payable to brokerage clients increased by RMB 12.812 billion as compared with the end of 2018. The balance of financial assets sold under repurchase agreements as at the end of the period increased by RMB 36.439 billion; the balance of bonds payable as at the end of the period increased by RMB 12.572 billion; and the balance of placements from other financial institutions as at the end of the period increased by RMB 3.494 billion.

In 2019, excluding the accounts payable to brokerage clients, the total assets of the Company amounted to RMB 320.048 billion, increased by RMB 64.029 billion, or 25.01%, as compared with the end of 2018, and the total liabilities of the Company amounted to RMB 234.920 billion, increased by RMB 59.693 billion as compared with the end of 2018. The gearing ratio, after deducting accounts payable to brokerage clients, of the Company was 73.40%, representing a rise of 4.96 percentage points as compared with the end of 2018.

Unit: RMB'000

Item	December 31, 2019		December 31, 2018		Increase/Decrease	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
<b>Equity</b>						
Share capital	6,699,409	7.87%	6,699,409	8.29%	–	–
Other equity instruments	15,000,000	17.62%	15,000,000	18.57%	–	–
Capital reserve	27,533,939	32.34%	27,533,939	34.08%	–	–
Less: treasury shares	663,954	0.78%	–	–	663,954	–
Investment revaluation reserve — financial assets at fair value through other comprehensive income	542,629	0.64%	299,070	0.37%	243,559	81.44%
Foreign currency translation reserve	278,786	0.33%	172,076	0.21%	106,710	62.01%
General reserves	16,401,426	19.27%	13,864,963	17.16%	2,536,463	18.29%
Retained profits	19,256,086	22.62%	17,153,389	21.23%	2,102,697	12.26%
Equity attributable to shareholders of the Company	85,048,321	99.91%	80,722,846	99.91%	4,325,475	5.36%
Non-controlling interests	79,530	0.09%	69,508	0.09%	10,022	14.42%
<b>Total equity</b>	<b>85,127,851</b>	<b>100.00%</b>	<b>80,792,354</b>	<b>100.00%</b>	<b>4,335,497</b>	<b>5.37%</b>

As at the end of 2019, the equity attributable to shareholders of the parent company was RMB 85.048 billion, representing an increase of 5.36% as compared with the end of 2018. Net profit attributable to the parent company amounted to RMB 7.282 billion, partially offset by the dividends distributed to shareholders of RMB 1.769 billion and interest payable for perpetual subordinated bonds of RMB 802 million.

**(III) Analysis of investment****1. Analysis of total external equity investments**

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

**(1) Significant equity investments**

Investees	Initial investment (RMB0,000)	Shareholding as at the beginning of the period (%)	Shareholding as at the end of the period (%)	Closing balance (RMB0,000)	Gain or loss during the Reporting Period (RMB0,000)	Change in equity attributable to the owner during the Reporting Period (RMB0,000)	Accounting item	Source
Bosera Asset Management Co., Limited	369,319.04	49.00%	49.00%	511,899.64	44,731.56	774.24	Long-term equity investment	Acquisition
China Merchants Fund Management Co., Ltd.	85,084.45	45.00%	45.00%	262,248.69	36,118.03	426.54	Long-term equity investment	Promotion and acquisition
Total	454,403.49	-	-	774,148.33	80,849.59	1,200.78		

Note 1: The closing balance refers to the balance net of recognized provision for impairment as at the end of the Reporting Period.

Note 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.

Note 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: RMB 10,000

Project	As of the end of December 2019		January – December 2019	
	Initial investment cost/nominal amount	Fair value	Investment gains/interest income	Change in fair value
Financial assets held-for-trading	13,480,560.46	13,814,606.76	520,271.59	213,816.81
Other debt investments	4,416,972.07	4,573,430.69	179,866.28	-3,034.29
Other equity investments	688,253.00	705,780.93	45,184.47	33,520.26
Derivative financial assets	22,130,449.52	180,581.88	-113,815.29	-39,730.28
Derivative financial liabilities		218,322.24		
Financial liabilities held-for-trading	999,507.41	1,007,638.63	-23,246.45	-4,887.76
<b>Sub-total</b>	<b>-</b>	<b>-</b>	<b>608,260.60</b>	<b>199,684.74</b>

### (IV) Analysis of major subsidiaries and associated companies

#### 1. Analysis of subsidiaries

#### (1) China Merchants Securities Asset Management Co., Ltd. (a company incorporated in the People's Republic of China with limited liability)

CMS Asset Management is a wholly-owned subsidiary of the Company with a registered capital of RMB 1 billion. Its principal business is securities asset management.

Unit: RMB 10,000

Item	For/as of the end of 2019	For/as of the end of 2018
Registered capital	100,000	100,000
Total revenue and other income	119,597	123,315
Net profit	74,940	66,810
Total assets	458,849	398,127
Net assets	418,169	342,923



## Chapter 4: Report of the Board of Directors

### (2) China Merchants Securities International Company Limited (a company incorporated in the Hong Kong Special Administrative Region of the People's Republic of China with limited liability)

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

Unit: HK\$10,000

Item	For/as of the end of 2019	For/as of the end of 2018
Paid-up capital	410,363	410,363
Total revenue and other income	120,796	111,925
Net profit	21,626	8,941
Total assets	2,710,822	2,044,580
Net assets	578,325	557,128

### (3) China Merchants Futures Co., Limited (a company incorporated in the People's Republic of China with limited liability)

China Merchants Futures is a wholly-owned subsidiary of the Company with a registered capital of RMB 630 million. Its principal businesses include commodity futures brokerage, financial futures brokerage, futures investment consultation and asset management. As at the end of 2019, China Merchants Futures has 4 futures branches in Beijing, Guangzhou, Shanghai and Hangzhou and a wholly-owned risk management subsidiary.

Unit: RMB 10,000

Item	For/as of the end of 2019	For/as of the end of 2018
Registered capital	63,000	63,000
Total revenue and other income	268,935	50,789
Net profit	14,916	14,286
Total assets	813,958	526,566
Net assets	159,177	144,322

## Chapter 4: Report of the Board of Directors

### (4) China Merchants Zhiyuan Capital Investment Co., Ltd. (a company incorporated in the People's Republic of China with limited liability)

CMS Zhiyuan is a wholly-owned subsidiary of the Company with a registered capital of RMB 2.1 billion and a paid-up capital of RMB 1.8 billion. CMS Zhiyuan mainly engages in private equity investment funds and related consultancy and advisory services and other business as permitted by regulatory authorities.

Unit: RMB 10,000

Item	For/as of the end of 2019	For/as of the end of 2018
Registered capital	210,000	210,000
Total revenue and other income	64,834	5,821
Net profit attributable to the parent company	34,722	-10,048
Total assets	653,996	627,414
Net assets attributable to the parent company	254,475	219,753

### (5) China Merchants Securities Investment Co., Ltd. (a company incorporated in the People's Republic of China with limited liability)

CMS Investment is a wholly-owned subsidiary of the Company with a registered capital of RMB 3.1 billion and a paid-up capital of RMB 1.97 billion. It principally engages in alternative investment businesses such as financial products and equity other than those listed in the "List of Securities Investments for Proprietary Trading of Securities Companies".

Unit: RMB 10,000

Item	For/as of the end of 2019	For/as of the end of 2018
Registered capital	310,000	310,000
Total revenue and other income	6,001	309
Net profit	10,729	7,812
Total assets	223,382	134,358
Net assets	222,083	134,354

## 2. Analysis of associated companies

### (1) Bosera Asset Management Co., Limited

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

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

Unit: RMB 10,000

Item	For/as of the end of 2019	For/as of the end of 2018
Registered capital	25,000	25,000
Operating income	348,590	316,536
Operating profit	120,683	119,602
Net profit	91,289	90,345
Total assets	739,638	671,301
Net assets	482,168	419,299

### (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.

The following table sets forth the general financial condition of China Merchants Fund during the Reporting Period:

Unit: RMB 10,000

Item	For/as of the end of 2019	For/as of the end of 2018
Registered capital	131,000	131,000
Operating income	258,740	258,704
Operating profit	102,360	113,564
Net profit	80,262	89,391
Total assets	729,540	661,140
Net assets	538,431	487,221

## Chapter 4: Report of the Board of Directors

### (V) Structured entities controlled by the Company

As of December 31, 2019, the Group consolidated 12 structured entities, including mainly collective asset management schemes, investment funds and limited partnership. 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 December 31, 2019, the total assets of the consolidated structured entities amounted to RMB 6.989 billion.

### (VI) Financing

#### 1. Financing channels

The Company has established financing channels in respect of equity and creditor's rights, domestic and overseas, multi-market and multi-variety. The Company is an A+H listed company, which can supplement its capital strength through domestic and overseas rights issue and additional issuance. The Company can issue debt financing instruments domestically and overseas in accordance with relevant laws and regulations. The types of debt financing products include, but are not limited to, publicly or privately issued corporate bonds, perpetual subordinated bonds, subordinated bonds, short-term corporate bonds, financial bonds, short-term commercial paper, beneficiary certificates, margin trading rights as collateral financing, securities refinancing, interbank borrowing and repurchase. Smooth and diversified financing channels provide a solid guarantee for the Company's stable operation.

Major financing activities during the year: in 2019, the Company publicly issued 1 tranche of corporate bonds to qualified investors, raising a total of RMB 1.500 billion; privately issued 4 tranches of corporate bonds, raising a total of RMB 20.300 billion; issued 3 tranches of margin loan receivables asset-backed securities, raising a total of RMB 7.000 billion; issued 1 tranche of financial bonds, raising a total of RMB 5.000 billion; issued 19 tranches of commercial papers on rolling basis, raising a total of RMB 61.000 billion; issued 129 tranches of beneficiary certificates, raising a total of RMB 14.485 billion.

#### 2. Structure of liabilities

As of the end of 2019, the total liabilities of the Company amounted to RMB 296.644 billion. Excluding the transaction settlement funds from customers, the liabilities amounted to RMB 234.920 billion. Liabilities mainly included publicly or privately issued corporate bonds, subordinated bonds, financial bonds, commercial paper, beneficiary certificates, bank borrowings, interbank borrowing and repurchase. As of the end of 2019, the balance of bonds payable amounted to RMB 65.992 billion, accounting for 28.09% of the Company's own liabilities. Long-term borrowings amounted to RMB 1.414 billion, accounting for 0.60% of the Company's own liabilities. The balance of short-term commercial paper payable amounted to RMB 33.099 billion, accounting for 14.09% of the Company's own liabilities. The balance of financial assets sold under repurchase agreements amounted to RMB 97.707 billion, accounting for 41.59% of the Company's own liabilities. Short-term borrowings amounted to RMB 3.104 billion, accounting for 1.32% of the Company's own liabilities. Interbank borrowings amounted to RMB 7.013 billion, accounting for 2.99% of the Company's own liabilities. Currently, the Company has no debts overdue. The solvency of the Company is strong and the liquidity risk is controllable.

### 3. *Liquidity management*

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

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

### (VII) The innovative business and risk control profile during the Reporting Period

#### 1. *Business Innovation during the Reporting Period*

In 2019, the Company proactively launched a series of innovations in Fintech and business, products and services innovation in response to new needs arising from modernized economic system, various customer's demand, and new opportunities driven by science and technology revolution, and achieved rewarding results.

**Firstly, we grasp innovation opportunities to serve for the real economy.** We proactively promoted the STAR Market business and submitted 12 projects in 2019. We completed 3 STAR Market projects, namely Espressif Systems, Jiuri New Materials and bioPerfectus through share issuance. We launched new product lines for the STAR Market included IPO share subscription product and strategic placing products with characteristic of CMS Asset Management. We completed the first case of public issue of new shares on ChiNext Board – the project of public issue of stocks for Topstar and completed various innovative products for asset securitization, including, the first successful domestic issuance of asset-backed securities for the whole-account assets of credit card, and the first non-performing asset securitization products invested by foreign investors.

## Chapter 4: Report of the Board of Directors

**Secondly, we explore new businesses vigorously.** We were approved to be the first batch of treasury bond futures market makers by CFFEX, with a competitive electronic market-making trading system. We were the foremost industry player qualified for foreign exchange trading and foreign exchange settlement and sales on behalf of customers, thus marking a breakthrough on operating foreign exchange business in both domestic and international market. We persistently expanded market-making coverage towards more underlyings. By the end of 2019, we ranked first among securities firms within mainland China, in terms of quantities of market-making permissions for listed futures and options. We were the sole participant that achieved tier AA for funds market-making, which was the highest grade approved by the SSE. CMS International obtained the qualification as a member of London Stock Exchange to further provide more comprehensive financial services to customers.

**Thirdly, we empower the business with Fintech.** The Company engaged IBM as its consultant to further accelerate two major basic programmes comprising of process reform and data management, and was committed to constructing “customer- focused” procedural organization, laying a solid foundation for further transformational change and innovative development. The Company applied service model of business partnership (ITBP) by designating technical staff to business team, so as to deepen integration between technology and operation. The Company launched the Zhiyuan Yi Hu Tong App 7.0, with over 100 new optimized innovative functions, and improved the precision of asset management service; we also launched Geetek Institutional Transaction Service Platform to establish the industry-leading all-round solution for institutional businesses; the Company accelerated the construction of technology-based investment banking and fully implemented the intelligent investment bank platform, in order to facilitate the application of “entire business management, enterprise risk management, big data, AI”; we continued to promote the incubation of innovative projects on Fintech including wealth management, investment research, operation management, risk management and compliance control and AI, so as to lead the reform and development of the Company by the technological innovation.

### 2. Risk control of the innovative businesses

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

The Company has established an Innovative Development Committee which acts as the decision-making organ for promotion of innovative businesses and related important matters. The Company has established a Fintech Innovation Fund Committee which acts as the decision-making organ for the fintech innovation fund. It has also established a technological innovation office to coordinate technological innovation. The risk management department and legal and compliance department of the Company will participate in the early stages of an innovative business such as proposal, planning and review in order to identify risks, conduct stress tests and compliance examination to prevent legal risks and to ensure the feasibility and overall quality of such innovative business. They also guide the business departments to formulate and improve the policies and procedures under the internal control system. Major innovative businesses shall be subject to specific approval of the Risk Management Committee of the Company.

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

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

- ③ The Company has established an auditing and examining mechanism in accordance with the progress of innovative businesses in order to continuously improve the internal control and risk response of the innovative businesses.

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

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

In 2019, pursuant to the Approval for Establishment of 16 Branches by China Merchants Securities Co., Ltd. from CSRC Shenzhen Office (Shen Zheng Ju Xu Ke Zi [2018] No. 43) (《深圳證監局關於核准招商證券股份有限公司設立16家分支機構的批覆》(深證局許可字[2018] 43號)), nine new securities branches have officially commenced operation, while one has been under preparation but yet to open. The Company has a total of 258 securities branches in operation.

## III. Discussion and Analysis of Future Development of the Company

### (I) Industry landscape and trend

The securities industry has gone through a period of reshaping where supports are only offered to the superior, the inferior are eliminated and the shuffling of industry is accelerated, with leading brokers gaining more market share leveraging on their strong comprehensive capabilities, the Matthew effect of "the stronger one stays sturdy and the powerful one holds the highest authority" within the industry is significant. At the same time, with further opening up of the securities industry, more leading foreign financial institutes will speed up in entering the market, leading to intensified peer competition.

Looking forward, with the implementation of measures including implementation of new Securities Law, implementation of registration-based system and reform of the NEEQ systems, the proportion of direct financing in China will be raised gradually, further optimizing resources allocation function of capital market. At the same time, with the acceleration in two-way opening-up of capital market, the depth and width of the market will be gradually enhanced. In overall, the development of China's securities industry remains at an crucial period for strategic opportunities.

## Chapter 4: Report of the Board of Directors

### (II) Development strategies of the Company

#### 1. *Opportunities for the Company*

China's securities industry remains in the era of significant opportunities. Firstly, the domestic economy transits from a stage of rapid growth to a stage of high-quality development, with the continuous reform of the capital market, there are fertile soil for the securities industry to maintain a long-term, healthy and sustainable growth. Secondly, given the fast accumulation of residents' wealth, together with the growing demand for financial consumption, investment and wealth management services, domestic and overseas institutional investors will gradually become leading players in the market and generate more diversified business demands and more profitable models for the securities companies. Thirdly, as the reform of state-owned enterprise speed up and the implementation of national strategies including innovation-driven tactics underway, business development opportunities such as the M&A and restructuring, equity investment in high-tech industries and bonds financing will arise for the securities industry. Fourthly, with availability of more financial instruments, improvement and speeding up of the operating systems and trading mechanism and the two-way opening-up reaching a new level, there is a prosperous prospect for cross-market investment and trading without restriction in time and space.

#### 2. *Challenges faced by the Company*

Firstly, the rapid increase in customers' demand will drive for the transformation of the business model of securities companies into integrated and digitalized operation, which poses huge challenges to capabilities of the securities companies in organization and operation as well as comprehensive risk management capabilities. Secondly, new technologies including mobile internet, big data, cloud computing, blockchain and artificial intelligence expedites the reconstruction of the ecosystem for financial industry. Thirdly, there is an irresistible trend for the securities industry to remain under comprehensive and strict monitoring and control, while the business model and organization and operation models are in urgent need of upgrade and reform. Fourthly, the opening up of the securities industry is enhanced and the international financial institutions will leverage on global resources, mature customer services model and the flexible and rapid innovation capabilities, which impose direct impacts to the relatively traditional business management system and the customer services model of China's securities industry.



### 3. *Development strategies of the Company*

From 2019 to 2023, the Company will uphold its strategic vision of “being customer-oriented to become the best investment bank in China with international competitiveness” and comply with the overall requirements of “advocating quality first, prioritizing efficiency, maintaining moderate scale” so as to accomplish the goals of “aiming the top five Chinese brokers in terms of all competitiveness”, implementing the “reform strategies” and realizing high quality development and sustainable growth. In this regard, the Company will focus on its customers’ needs and carry out five core strategies of “leading by the value of investment banking business, establishing institutional customer business with special features and advantages, building up wealth management business with distinctive edges, expanding consolidated operating model with multi-channels and wide variety of products and strengthening the integration of cross-borders business” during the planning period, so as to provide one-stop integrated services to customers and persistently enhance our overall competitiveness. In the meantime, the Company will be more dedicated in maintaining the “five” core capabilities, namely risk management, technologies, talents, synergies and capital, in a bid to support the healthy growth of all business segments of the Company.

#### (III) **Business plans**

2020 marks the key to the Company’s new five-year strategy. The Company will adhere its strategic goal of “aiming the top five Chinese brokers in terms of all competitiveness” and further implement the five core strategies in order to maintain the favorable growth trend of operating income and net profit from each business segment, and consolidate and improve operating income, net profit and ROE ranking continuously, so as to “outperform the market and industry peers”. We aim to achieve a steady and rising comprehensive competitiveness as compared to 2019.

Firstly, we will continue to strengthen strategic leadership and promote quality and efficiency enhancement. We will focus on establishing our service business characteristics and core competitiveness, strive to achieve the leap-forward development of wealth management business and build a customer-oriented wealth management ecosystem; continue to improve the comprehensive service capabilities in our institutional client business and reinforce our industry leading position; and continue to improve our revenue-generating capabilities in terms of our enterprise client business and further leverage the value of investment bank. We will continue to expand the depth and coverage of our capital utilization businesses and improve our investment capabilities.

Secondly, we will further deepen key reforms and enhance sustainable development and competitiveness. We will further strengthen the “customer-oriented” core business philosophy, continuously deepen the implementation of the human resources mechanism of “staff can get in and out; cadre can go up and down; salary can be high and low”, further strengthen the construction of coordination mechanism and awareness, accelerate Fintech innovation, vigorously promote research transformation, and solidly promote data governance and process reconstruction projects.

Thirdly, we will further strengthen internal management and risk control to maintain the AA regulatory rating for securities firms in 2020. We will take risk management as an important support for the Company’s core competitiveness; ensure the overall management of compliance; strengthen supervision and inspection to mitigate problems in businesses and management in a timely manner; and safeguard work safety to ensure the stable, orderly and sustainable development of the Company businesses.

## Chapter 4: Report of the Board of Directors

### (IV) Potential risks

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

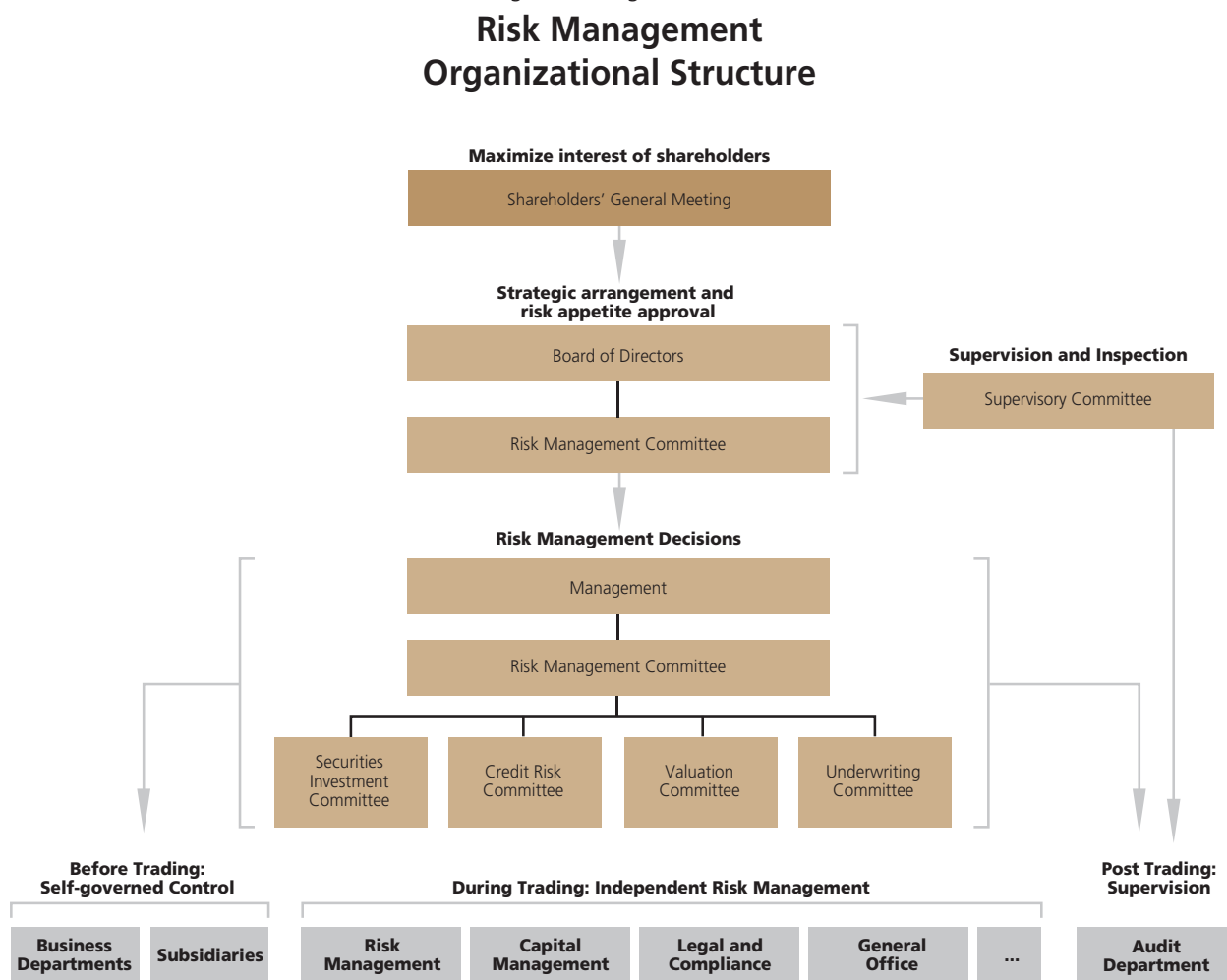
#### 1. Risk management

##### (1) Risk management structure

Since inception, the Company has been committed to establishing an innovative and insightful risk management system which can align with its operation strategies and cover its core business lines comprehensively. Sound corporate governance and effective risk management and internal control system have been put in place to cope with the risks in the 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 Enterprise Risk Management Standard of Securities Companies (《證券公司全面風險管理規範》) and taking into account our operational needs, the Company has taken the lead in establishing a five-level risk management structure, consisting of strategic arrangements of the Board, supervision and inspection of the Supervisory Committee, risk management decision of the senior management and the Risk Management Committee, risk control and supervision of relevant departments in charge of risk management and the direct management of other departments, branches and wholly-owned subsidiaries.

The chart below sets out our risk management organizational structure:



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

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

## Chapter 4: Report of the Board of Directors

- ③ The senior management is responsible for the overall risk management in the Company's business operations. They regularly review risk assessment reports, formulate risk management measures and establish risk limit indicators. The Risk Management Committee are set up under the senior management, which serves as the highest risk management decision-maker at the operation level. The Company has also appointed a Chief Risk Officer to oversee the formation of the overall risk management system, monitor, evaluate and report the overall risk level, and provide risk management advice for business decision-making of the Company. In addition, Securities Investment Committee, Credit Risk Committee, Valuation Committee and Underwriting Committee were set up under the Risk Management Committee, which are responsible for making collective decisions based on experts' suggestions on issues relating to securities investment, credit risk, securities evaluation and underwriting risks within their respective scopes of authorization. The risk management of subsidiaries is managed by the enterprise 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 a department to coordinate market, credit and operating risks management of the Company, the Risk Management Department is responsible for managing the market risks and credit risks, as well as assisting and guiding other business departments in managing operational risks of the Company. As a department in charge of the liquidity risk management of the Company, the Capital Management Department is responsible for managing liquidity risks and the formation of the liquidity risk management system. The Legal and Compliance Department is responsible for managing the compliance and legal risks of the Company and assisting the Chief Compliance Officer in reviewing, supervising and examining the compliance of both the business operations of the Company and the employees' practices and behaviours. The General Office, together with the Risk Management Department and other relevant departments, are responsible for managing the reputation risks of the Company. 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 are 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 is set up by departments and branches which conduct effective self-governed risk management; the second line of defense is set up by departments in charge of risk management issues which focus on implementing professional risk management measures; and the third line of defense is set up by the Audit Department which focuses on inspecting and assessing risks after they occur.

### (2) Risk management system

Led by the Enterprise Risk Management System of China Merchants Securities (《招商證券全面風險管理制度》), and the Working Rules for Risk Management Committee Meeting of the Board of Directors (《董事會風險管理委員會工作規則》), the Company has established a comprehensive risk management system which covers various risk exposures including market, credit, operational, liquidity and reputation risks and specifies the boundaries and general principles of each risk category.

### (3) Quantitative risk management indicator system

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

- ① **Coherent risk appetite and tolerance indicators:** Risk appetite framework establishes the fundamental attitude of the Board and the senior management towards the balance between risk and return based on the analysis of various risk exposures of the Company. Risk tolerance is a quantitative limit indicator that reflects the effectiveness of risk management. According to the risk appetite, the Company has set risk tolerance indicators for each specific business line based on its characteristics to specify the maximum tolerance of the risk management. After years of effort, the Company has developed clear risk appetite descriptions covering five major risk types, namely overall risk, market risk, credit risk, operational risk and liquidity risk, based on which a risk appetite indicator system and a risk tolerance indicator system were established. The Company sets its targets of risk appetite and risk tolerance at the beginning of each year and determines economic capital budget and business authorization accordingly. The Company monitors and reports risk appetite and risk tolerance on a monthly basis, and continuously reviews the risk management based on the results.
- ② **Scientific economic capital management model:** The Company took the lead to introduce an economic capital management model in the PRC securities industry in 2006, and kept on optimizing the methodologies on economic capital measurement and improving the economic capital management process. Our economic capital management covered market risk, credit risk and operational risk. The Company has developed an internal model to measure market risk and credit risk of the economic capital which is sufficiently sensitive to risk and practically sound. It measured operational risks according to the standards under the Basel Accords. The measurement of economic capital is generally used in risk monitoring, quantitative assessment and performance assessment.
- ③ **Business authorization management system with the core of risk limits:** Within the statutory business scope, the Company granted business authorization at different levels based on the risk rating of the business. The Company granted authorization prudently based on the risk management capability, implementation of business authorization and actual risk management results of each business department, so as to improve decision-making efficiency while keeping the risks under control. Unauthorized operations were strictly prohibited. Authorized persons at each level must exercise their power and conduct business activities only within the authorized scope.

## Chapter 4: Report of the Board of Directors

- ④ **Comprehensive stress testing mechanism:** The Company established the Administrative Measures for Stress Testing (《壓力測試管理辦法》). It specifies the division of duties among departments in stress test. It has also determined the methods and procedures of stress test. The Company conducts routine or ad hoc stress test on liquidity risk, credit risk and market risk, as well as net capital and other risk limit indicators, based on business and market development. With this approach, the Company can effectively evaluate changes in the operation and risk profiles under extreme circumstances.

### (4) Risk management culture

With “effective risk control” integrated into its corporate culture, the Company aimed at efficient risk control, strict compliance with minimum requirements and appropriate risk bearing for reasonable returns. The Company adhered to the dynamic balance between business and risk control by maintaining risk exposure within the approved limits. The “advanced internal control management system and risk management ability” are considered important elements in the strategic planning of the Company and are the essence of its core competitiveness. A comprehensive internal control system covering all stages in advance of, during and after an event is incorporated in our operation to ensure the effective performance of functions of management and services in order to maintain the healthy and sustainable development of the businesses of the Company, prevent any material risks and safeguard its reputation. Operational risk manual is updated annually in accordance with the operation of the Company to foster the active risk management awareness of the employees. The Risk Management Department constantly advocates risk management culture, and comprehends and promotes regulatory policies to all staff through internal journal, provides employees with systematic risk management trainings, as well as shares and enhances knowledge of risk management. 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 2019, the Company upgraded the risk data collection so as to provide comprehensive and reliable underlying risk data for risk management. Besides, the Company optimized each of the risk management system, and improved the efficiency and analytical abilities of risk management IT systems. The Company aligned with the risk appetite management system of China Merchants Group to refine the establishment and systematization of risk appetite indicator system of the Company, achieving the management goal of aligning with China Merchants Group while monitoring risk data and indicators of wholly-owned subsidiaries. The new smart monitor platform for credit risk information aimed to establish a risk monitoring and evaluation platform with dynamic monitoring and intelligent analysis based on the big data, so as to enhance the credit rating, risk identification and early-warning capacity of credit business. 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) **Profile**

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

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

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



### (3) Responsibilities of market risk management

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

### (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.

## Chapter 4: Report of the Board of Directors

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

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

### ② Stress test

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

### ③ Sensitivity analysis

The Company has conducted sensitivity analysis on certain risk factors, including 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 and risk tolerance after taking into account the investment features, risks and effects on overall risk exposures of different operations. The risk limit is adjusted based on the market environment, business development and risks of the Company.

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

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

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

### ***3. Credit risks and corresponding measures***

#### **(1) Profile**

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

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

#### **(2) Management of credit risk**

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

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

## Chapter 4: Report of the Board of Directors

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

① Credit risk limit

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

② Internal credit rating

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

③ Quantitative management of collaterals

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

④ Credit risk measurement model

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

### **(3) Responsibility for managing credit risk**

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

### **(4) Credit risk management on principal businesses**

In respect of financing businesses such as margin financing and securities lending, securities-backed lending, and stock pledge repo business, 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 bond 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 through a multi-faceted management mechanism and supporting facilities.

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

## 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 10,000

	December 31, 2019	December 31, 2018
<b>Issuers in Mainland China</b>		
<b>PRC sovereign bonds</b>	5,487,568	5,093,946
AAA	7,522,352	3,648,018
AA+	817,432	725,546
AA	252,896	122,226
AA-	-	-
Below AA-	899	1,554
A-1	30,722	55,336
Non-rated	57,026	2,320,709
<b>Sub-total</b>	<b>14,168,895</b>	<b>11,967,335</b>
<b>Overseas bonds</b>		
<b>PRC sovereign bonds</b>	267	974
A	95,175	10,291
B	459,871	95,656
C	-	-
D	-	-
Non-rated	7,440	19,785
<b>Sub-total</b>	<b>562,753</b>	<b>126,706</b>
<b>Total</b>	<b>14,731,648</b>	<b>12,094,041</b>

Note1: The above data is provided on a consolidated basis;

Note2: PRC sovereign bonds represent the rating of bonds issued by the government of PRC. AAA~AA- and below AA- rating represent 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 that 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~A3 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.

### 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 7 categories: internal fraud; external fraud; employment policy and safety of working environment, customers, products and business activities; damage of physical assets; interruption of business operation and shutdown of IT system; execution, settlement and process management.

#### (2) Operational risk management

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

- ① We have established comprehensive systems for operational risk mitigation and management in accordance with the New Basel Accord and our strategic development needs, and we effectively lead the operation of various businesses through measurement and allocation of operational risk based economic capital;
- ② We have established an integrated, scientific and hierarchical system on the basis of operational risk appetite, tolerance and management policy. We improved the operational risk governance structure in a dynamic way by conducting gap analysis on the basis of continuous tracking and assessment of the current management status;
- ③ We have utilized operational risk management tools in a scientific and refined way by using operational risk and self-assessment management tools, progressively establishing a structure categorizing procedures, operational risks and control measures, and applying quantitative and qualitative operational risk exposure assessment methods;
- ④ We have actively implemented risk identification and self-assessments throughout the Company. With procedure rationalization as the focus and with each department or branch 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 We 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, we 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 Based on the established operational risk system, we have further improved and deepened the system-level application of the three major management tools for operational risks, including the systematic application of the whole process of risk identification, assessment, control, monitoring and risk reporting, so as to effectively improve the efficiency and level of the Company's operational risk management;
- ⑧ We improved the standard measurements for risk capital. Measurement and verification procedures for operational risk-based economic capital which were applicable for the current risk tolerance level were established. Through controlling the total amount of operational risk-based economic capital, we ensured a reasonable balance between the scale of various business and their respective risk tolerance capability;
- ⑨ We paid great attention to the training and promotion of culture relating to operational risk management. We emphasized the importance of conducting risk identification and control before introducing innovative products and innovative businesses, 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 regulatory rating, blocked financing channels and difficulties in servicing concentrated mature debts.



### (2) Duties of liquidity risk management

The Operating Management of the Company is responsible for reviewing and making decisions on major liquidity risk management matters of the Company. A treasure operating mechanism for centralized management and control of liquidity risk has been established, and the Capital Management Department is responsible for developing the daily liquidity management of the Company. The Company, after thorough consideration of the status of liabilities, business development, market situation, etc., implements dynamic management of the use of fund of all business segments of the Company and sets up financing initiatives.

### (3) Management measures for liquidity risk

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

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

## Chapter 5: Major Events

### I. Proposals on Profit Distribution for Ordinary Shares or Conversion of Capital Reserve

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

While striving to achieve sustainable growth and development, the Company also attached great importance to provide reasonable, steady and constant returns to investors, and has implemented a continuous and stable profit distribution policy.

The Company may distribute its profits in the form of cash, shares or a combination of cash and shares, and may distribute its profit by way of cash dividend as priority. The specific distribution ratio will be determined by the Board according to the operating status of the Company and the relevant requirements of CSRC, subject to the approval at the shareholders' general meeting. Under the premises that both the profit and risk control indicators of the Company have met the regulatory requirements, and after taking into account the operation and long-term development needs of the Company, the Company has adopted profit distribution in the form of cash.

The profit distribution of the Company complies with the following requirements:

1. profits distributed by the Company in cash each year shall be no less than 10% of distributable profits realized in that year, and for any three consecutive years, profits accumulatively distributed by the Company in cash shall be no less than 30% of annual average distributable profits realized for such three years;
2. the Company may not distribute profits beyond the scope of accumulative distributable profits and shall ensure that, after the implementation of the profit distribution plan, all risk control indexes comply with the standard warning requirements set out in the Measures for the Risk Control Indexes of Securities Companies;
3. the Company shall in principle distribute profits once each year, but the Board may suggest the Company make the interim cash dividend distribution according to its profitability and funding requirements and on relevant conditions; and
4. where the Company maintains the consistency of share capital expansion with business development and performance growth on the premise of complying with the provisions concerning cash dividend distribution contained in (1) above and ensuring the reasonable scale of share capital of the Company, it may distribute dividends in shares or by other means.

During the Reporting Period, the Company formulated and implemented the 2018 annual profit distribution plan in accordance with the requirements on the policy, decision-making process and arrangement of dividend under the Plan on Shareholders Returns of China Merchants Securities Co., Ltd. (2018-2020) (《招商證券股份有限公司股東回報規劃(2018年-2020年)》) and the Articles of Association of China Merchants Securities Co., Ltd. (《招商證券股份有限公司章程》).

The proposal on profit distribution for 2018 is as follows:

Based on the total share capital of 6,699,409,329 shares, a cash dividend of RMB 2.64 (tax inclusive) will be distributed to every 10 shares. The actual total cash dividend distributed for the period amounted to RMB 1,768,644,062.86, representing 39.97% of the net profit attributable to the owners of the parent company for 2018 according to the consolidated financial statements.

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

The profit distribution policy adopted by the Company is in compliance with laws and regulations as well as stipulations of the Plan on Shareholders Returns of China Merchants Securities Co., Ltd. (2018-2020) (《招商證券股份有限公司股東回報規劃(2018年-2020年)》) and the Articles of Association. The dividend distribution standard and ratio were specified and clear, and the relevant decision-making process and arrangement are complete. The independent Directors of the Company have fully performed their responsibilities in the course of profit distribution and the legitimate rights and interests of minority shareholders were safeguarded.

The 2018 annual profit distribution plan of the Company was implemented on August 27, 2019.

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

The 2019 annual profit distribution plan of the Company is as follows:

Unit: Yuan Currency: RMB

Year	Bonus share for every 10 shares (share)	Dividend for every 10 shares (RMB) (tax inclusive)	Conversion into share capital for every 10 shares (share)	Cash dividends (tax inclusive)	Net profit attributable to holders of ordinary shares of the listed company for the year as stated in the consolidated financial statements	Percentage of net profit attributable to holders of ordinary shares of the listed company as stated in the consolidated financial statements (%)
2019	0	0	0	0	7,282,380,829.33	0
2018	0	2.64	0	1,768,644,062.86	4,424,985,940.97	39.97
2017	0	3.46	0	2,317,995,627.83	5,785,955,137.26	40.06

## Chapter 5: Major Events

### (III) The inclusion of shares repurchased through cash offer in cash dividend

Unit: Yuan Currency: RMB

Year of cash dividend	Amount of cash dividend	Percentage (%)
2019	663,895,568.36	9.12

According to the “Opinions on Supporting the Repurchase of Shares by Listed Companies” (《關於支持上市公司回購股份的意見》), where listed company repurchases its shares by means of offer or centralized auctions with the consideration in cash, it shall be deemed as cash dividend of the listed company and be counted in the calculation of relevant proportion of cash dividend. On May 20, 2019, the Company convened 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 and considered and approved the Resolution in respect of Repurchase of A Shares of the Company by Centralized Auctions. On December 26, 2019, the Company convened the twenty-eighth meeting of the sixth session of the Board and considered and approved the Resolution on the Advanced Completion of A Share Repurchase of the Company, agreeing to complete the repurchase of the Company’s A shares ahead of schedule, and the total amount of repurchase was RMB 663,895,568.36 (excluding transaction fee). In summary, the total amount repurchased by the Company through centralized auctions in 2019 shall be included in cash dividend of that year.

- (IV) Profits made during the Reporting Period and the parent company’s profits distributed to ordinary shareholders are positive. However, if the proposal on distribution of cash profit of ordinary shares is unavailable, the Company shall disclose in detail the causes thereof as well as purpose and utilization plan of the undistributed profit

Reason for profits made during the Reporting Period and the parent company’s profits distributed to ordinary shareholders being positive, but the proposal on distribution of cash profit of ordinary shares being unavailable	Purpose and utilization plan of the undistributed profit
<p>As the Company is currently promoting issues related to the rights issue, pursuant to Article 18 of the Administrative Measures for Securities Issuance and Underwriting of the CSRC, in the situation that the proposals on profit distribution or capitalization of common reserve have not been submitted for approval at the shareholders’ general meeting or have been approved but not yet executed, listed companies should issue securities after the execution of the aforementioned proposals. If the Company implements the rights issue after the 2019 annual general meeting and profit distribution, the Company’s capital and working capital will not be increased and replenished in time, which will directly affect the current profit and long-term development of the Company.</p> <p>Considering comprehensive factors such as the interests of shareholders and the development of the Company, the Company will not make profit distribution in 2019, nor will it capitalise its capital reserve.</p>	<p>The Company will distribute profits as soon as possible upon the completion of the rights issue in accordance with the requirements of relevant regulatory authorities and the provisions of the Articles of Association.</p>

## Chapter 5: Major Events

### (V) Tax reduction

#### 1. A Shareholders

Pursuant to the Notice on Issues Regarding the Implementation of Differentiated Individual Income Tax Policy for Dividends and Bonuses of Listed Company (Cai Shui [2012] No. 85) (《關於實施上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2012] 85號)) and the Notice on Issues Regarding Differentiated Individual Income Tax Policy for Dividends and Bonuses of Listed Company (Cai Shui [2015] No. 101) (《關於上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2015] 101號)) issued by the Ministry of Finance, the State Administration of Taxation and the CSRC, for the dividend and bonus received by individual investors from a listed company, from the date when the individual investors acquire the shares of the Company to the date of equity registration, if the term of shareholding is over one year, temporarily, the dividend and bonus are exempted from individual income taxes, and if the term of shareholding is within one year (inclusive), the listed company, temporarily, shall not withhold or pay any individual income taxes on behalf of the individual investors, and shall make corresponding adjustments in accordance with the above notification requirements when the individual investors transfer the shares.

For resident enterprise shareholders, income tax on their cash bonuses shall be paid by themselves.

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

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

## 2. H Shareholders

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

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

Pursuant to the Notice on Tax Policy Regarding Shanghai-Hong Kong Stock Connect Pilot Programs (Cai Shui [2014] No. 81) (《關於滬港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2014] 81號)) and the Notice on Tax Policy Regarding Shenzhen-Hong Kong Stock Connect Pilot Programs (Cai Shui [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016] 127號)) issued by the Ministry of Finance, the State Administration of Taxation and the CSRC, for dividend and bonus incomes obtained by mainland individual investors from investing in H Shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect, the individual income taxes thereof are withheld and paid by the H Share company at the rate of 20%; for dividend and bonus incomes obtained by mainland securities investment funds from investing in H Shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect, the individual income taxes are accrued and levied according to the same provision stated above; and for dividend and bonus incomes obtained by mainland corporate investors from investing in H Shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect, the income taxes thereof shall be reported and paid by the investing enterprise on its own instead of being withheld and paid by the H Share company, provided that where such dividend and bonus incomes are obtained by the mainland resident enterprise after holding relevant H Shares for 12 consecutive months, the enterprise income taxes thereof shall be exempted pursuant to law.

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

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

## Chapter 5: Major Events

### II. Performance of Undertakings

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

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



Background	Type	Party(ies)	Details	Effective time and validity period	Whether the undertakings have a performance deadline	Whether the undertakings have been strictly performed in a timely manner	Reason for not performed in a timely manner	Follow-up actions, in case of undertakings not performed in a timely manner
Undertaking related to re-financing	Lock-up of shares	CM Finance Investment	No transfer of A Shares subscribed in the non-public offering is allowed within 60 months from the date of completion of the non-public offering of A Shares in May 2014.	60 months	Yes	Yes	—	—
Undertaking related to re-financing	Prevention of competition	CM Finance Investment	Pursuant to the Non-competition Undertaking Letter in favour of the Company, CM Finance Investment has undertaken that it and other entities controlled by it will not engage in any business which competes with the businesses of the Company.	As long as CM Finance Investment is a controlling shareholder of the Company.	Yes	Yes	—	—
Undertaking related to re-financing	Others	CM Finance Investment, J i s h e n g 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	—	—

## 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 undertakings not performed in a timely manner
Undertaking 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.

### III. Company's Analysis and Explanation about the Reasons for and Impact of Changes in Accounting Policy and Accounting Estimates or Correction to Material Errors

Beginning from January 1, 2019 (the "Date of Initial Application"), the Group has adopted the amendments to the Accounting Standards for Business Enterprises No. 21 – Lease (the "New Lease Standards") announced by the Ministry of Finance in 2018. The New Lease Standards had impact on the opening balances of the Group's financial statements for 2019, and resulted in the recognition of lease liabilities in the amount of RMB 1,315,351,508.46 and right-of-use assets in the amount of RMB 1,234,653,727.83. The transition to the New Lease Standards resulted in a decrease in retained profits and other liabilities of RMB 72,487,323.19 and RMB 8,210,457.44, respectively.

For details of the above change in accounting policies, please refer to "Changes in Key Accounting Policies and Accounting Estimates" under "Chapter 11 Financial Report" of this report.

### IV. Appointment and Removal of Accounting Firms

Unit: 10,000 Currency: RMB

	Currently appointed
Name of domestic accounting firm	Deloitte Touche Tohmatsu Certified Public Accountants LLP
Remuneration	209.50
Term of appointment	2 years
Name of international accounting firm	Deloitte Touche Tohmatsu
Remuneration	108
Term of appointment	2 years

	Name	Remuneration
Accounting firm for internal control and auditing	Deloitte Touche Tohmatsu Certified Public Accountants LLP	35

During the year, there was no non-audit remuneration paid to the auditors.

In 2018, pursuant to the Administrative Measures for the Selection and Engagement of Accounting Firms by Financial Enterprises (trial) (Cai Jin [2010] No. 169) (《金融企業選聘會計師事務所招標管理辦法(試行)》(財金[2010] 169號)) issued by the Ministry of Finance, as ShineWing Certified Public Accountants LLP had been the Company's auditors for annual audit for more than five years, the Company's domestic and overseas auditors have been changed to Deloitte (including Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu, hereinafter referred to as "Deloitte"). In 2019, the Company reappointed Deloitte as the auditor for financial reporting and internal control and auditing for 2019.

## Chapter 5: Major Events

### V. Material Litigations or Arbitrations

The Company had no material litigations or arbitrations during the year. For litigations involved in an amount of RMB 50 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, June 18, July 31, August 14, August 16 and November 21, 2019, respectively.

### VI. Punishment and Remedial Measures on the Listed Company, its Directors, Supervisors, Senior Management, Controlling Shareholders, De Facto Controller and Acquirer

1. During the Reporting Period, CMS HK, a wholly-owned subsidiary of the Company, was subject to disciplinary action by the SFC. For details, please refer to the relevant announcements published by the Company on the Hong Kong Stock Exchange website on May 28 and May 31, 2019.
2. On July 23, 2019, the Suzhou branch of the People's Bank of China issued the "Administrative Penalty Decision" to the securities office on Suzhou Huachi Street of the Company and relevant individuals, considering that such office did not adopt the strengthened identification measure to a high-risk customer in accordance with regulations. Administrative penalties were taken against such office and the compliance officer of such office. The Company requested such office to rectify the relevant issues in a timely manner.
3. On September 11, 2019, the CSRC Beijing Office issued the "Decision on Ordering Corrections and Increasing Number of Compliance Inspections to the securities office on Beijing Chaowai of the Company" to the securities office on Beijing Chaowai of the Company, stating that such office had the following issues: 1) when opening an account for client's margin financing and securities trading, an employee made a mistake in linking the account to another client's shareholder account; and 2) during the agency sales of product, there was no trace of risk warning made by the office to a customer. The CSRC Beijing Office ordered the office to make corrections and increase the number of compliance inspections. Upon the receipt of such decision, the Company has improved related businesses as required, and will increase the number of compliance inspections as required.
4. On November 13, 2019, the Lanzhou branch of the People's Bank of China issued the "Administrative Penalty Decision" to the securities office on Lanzhou Qingyang Road of the Company, considering that such office did not fulfill its client identity identification obligations in accordance with regulations. Administrative penalties were taken against such office, the person in charge of such office and two other personnel directly responsible for such matter. The office has rectified the relevant issues as required.
5. On December 3, 2019, the Securities Association of China issued the "Decision on Self-regulatory Measures against China Merchants Securities Co., Ltd.". Due to issues such as inadequate allocation of risk control personnel as at December 1, 2017, the Securities Association of China imposed self-regulatory measures reminded by conversations to the Company. The Company has attached great importance to risk management and recruited and supplemented risk management personnel to effectively strengthen protection. Since August 2018, the staffing of the Company's risk management department has met the regulatory requirements.

6. On December 16, 2019, the CSRC issued the “Decision on the Issuance of Warning Letter to China Merchants Securities”. The Company was issued a warning letter by the CSRC for administrative supervision due to the inadequate implementation of new regulations for compliance management. The Company has attached great importance to such matter and formulated a rectification plan to actively implement rectification through the following measures: (1) required relevant departments and branches to employ compliance specialists in accordance with regulatory requirements; (2) rectified the compensation guarantee scheme for compliance managers; (3) amended the “Compliance Management System of China Merchants Securities Co., Ltd.” to clearly specify that the compliance director has the right to participate in various types of Company meetings; and (4) clarified the Company’s major decisions, new products and new businesses and Company rules and regulations, and the principles and methods of compliance review by the compliance director.

### **VII. Integrity of the Company and Its Controlling Shareholders and De Facto Controller during the Reporting Period**

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

## Chapter 5: Major Events

### VIII. Information about the Company's Share Incentive Plan, Employee Stock Ownership Plan or Other Employee Incentive Measures and Their Impacts

#### (I) Related share incentive events which were disclosed in the temporary announcements and with no progress or change in subsequent implementation

Summary of event	Reference
<p>The Company held the 17th meeting of the sixth session of the Board on March 12, 2019, and considered and approved the "Resolution in Relation to the Plan for Repurchasing A Shares of the Company by Centralized Bidding Transactions". Pursuant to relevant provisions, the Company intended to use all the A Shares repurchased for the employee stock ownership plan.</p> <p>On May 20, 2019, the above proposals 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.</p> <p>On October 15, 2019, the 25th meeting of the sixth session of the Board considered and approved the "Proposal for Employee Stock Ownership Plan (Draft) of China Merchants Securities Co., Ltd. and its Summary" for submission to the Company's shareholders meeting for consideration.</p> <p>On November 8, 2019, the Company implemented the first repurchase of A Shares through the SSE trading system by way of centralized bidding transaction. On December 26, 2019, the Company held the 28th meeting of the sixth session of the Board, and considered and approved the "Proposal on the Advanced Completion of A Share Repurchase of the Company" and agreed to submit the "Proposal on the Clarification of Price and Plan Size for the Repurchase of Shares of the Company's Employee Stock Ownership Plan" to the Company's shareholders meeting for consideration.</p> <p>On January 15, 2020, the Company's 2020 first extraordinary general meeting considered and approved the above proposal, and accordingly revised the "Proposal for Employee Stock Ownership Plan (Draft) of China Merchants Securities Co., Ltd." and its summary.</p> <p>On January 21, 2020, the Company held the first meeting of holders of employee stock ownership plan, and considered and approved the "Proposal on the Establishment of Employee Stock Ownership Plan Management Committee of the Company", the "Proposal on the Election of Members of the Employee Stock Ownership Plan Management Committee of the Company" and the "Proposal on Authorizing the Employee Stock Ownership Plan Management Committee of the Company to Deal with Matters in Relation to the Employee Stock Ownership Plan".</p> <p>In March 2020, the Company received the "Share Transfer Confirmation" issued by CSDC. On March 3, 2020, the Company has completed the share transfer procedures for the employee stock ownership plan. There are 40,020,780 A Shares under the employee stock ownership plan of the Company, accounting for 0.5974% of the Company's total share capital, with a total of 995 participants.</p>	<p>The relevant announcements published by the Company on the Hong Kong Stock Exchange website on March 12, March 13, April 11, May 20, October 15, November 8 and December 26, 2019, and January 14, January 15, January 22 and March 5, 2020.</p>

## IX. Connected Transactions

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

We entered into the Securities and Financial Products, Transactions and Services Framework Agreement and Administrative Procurement and Property Leasing Framework Agreement (the “Framework Agreements”) with China Merchants Group on May 21, 2019 for a term commencing from September 9, 2019 until December 31, 2021 and May 21, 2019 until December 31, 2021, respectively. Pursuant to the Framework Agreements, we and China Merchants Group and/or its associates agreed to conduct securities and financial transactions with each another, and provide securities and financial products and financial services as well as administrative procurement and property leasing services to each another, in their respective ordinary course of business based on normal commercial terms and market practices at prevailing market prices or rates.

### A. Securities and financial products and transactions

#### *Reasons for the transactions*

We conduct securities and financial transactions with China Merchants Group and/or its associates in our ordinary course of business from time to time. We select the most suitable securities and financial products provided by different suppliers (including China Merchants Group and/or its associates, which are our connected persons, and independent third parties) based on our internal evaluation system and procedures after taking into consideration various factors including the cost, market condition and our risk exposure, business needs and development requirements. The estimated annual caps of the total inflow and total outflow of the securities and financial products and transactions contemplated under the Framework Agreement for the three years ending December 31, 2021 are as follows:

	RMB million		
Securities and financial products and transactions	2019	2020	2021
Inflow	10,290	10,890	11,110
Outflow	8,440	10,840	14,940

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

## Chapter 5: Major Events

### *Historical figures*

The Group had securities and financial products transactions with China Merchants Group and/or its associates, with a total cash inflow of RMB 3,134 million and a total cash outflow of RMB 2,245 million. Such amounts did not exceed the caps for 2019.

	RMB million
<b>Securities and financial products and transactions</b>	<b>As at December 31, 2019</b>
Inflow	3,133.7148
Outflow	2,245.0640

### **B. Financial services**

#### *Reasons for the transactions*

In our ordinary course of business, we provide various financial services to our clients, which include China Merchants Group and its associates. Due to their business needs and our expertise and professional capabilities, we had been engaged by China Merchants Group and its associates to provide financial services including (but not limited to) underwriting, sponsoring, financial advisory and financial products agency sale services from time to time. The estimated annual caps of the financial services (insofar as an annual cap is required to be set for that service) to be provided under the Framework Agreement for the three years ending December 31, 2021 are as follows:

	RMB million		
<b>Financial services</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
Income generated by us	230.11	231.22	232.39



*Historical figures*

As at December 31, 2019, the Group provided securities and financial services to China Merchants Group and/or its associates and generated income of RMB 165.0345 million, which was below the annual cap of 2019. The figures are set out in the table below:

	As at December 31, 2019
Financial services	RMB million
Total income generated by us	165.0345
Underwriting and sponsoring services	35.1577
Financial and insurance products agency sale services	3.1980
Other investment banking services	101.7872
Leasing of trading seats	24.8916

Details of the above continuing connected transactions are set out in note 60 to the consolidated financial statements in this report and the circular of the Company dated July 25, 2019.

**C. Administrative procurement and property leasing***Reasons for the transactions*

We conduct administrative procurement and property leasing with China Merchants Group, our controlling shareholder, and its associates from time to time in our ordinary course of business. The estimated annual caps of the administrative procurement and property leasing contemplated under the Framework Agreement for the three years ending December 31, 2021 are as follows:

Transactions	RMB million		
	2019 (since the effective date of the agreement)	2020	2021
Administrative procurement	23	25	27
Property leasing	21	22	23

## Chapter 5: Major Events

### *Historical figures*

As at December 31, 2019, the administrative procurement and property leasing between the Group and China Merchants Group and its associates from time to time amounted to RMB 17.9022 million and RMB 19.1986 million, respectively, which was below the annual cap of 2019. The figures are set out in the table below:

	RMB million
<b>Transactions</b>	<b>As at December 31, 2019</b>
Administrative procurement	17.90
Property leasing	19.20

### *Confirmation of independent non-executive Directors*

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

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

### *Confirmation of independent auditor*

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

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

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

For details of other connected transactions subject to the listing rules for A Shares, please refer to the Announcement on the Contemplated Ordinary Connected Transactions of the Company for 2020 (《關於公司2020年度預計日常關聯交易的公告》) published by the Company on the SSE website, China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily.

## Chapter 5: Major Events

### X. 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 and its subsidiaries													
Total guarantees for subsidiaries during the Reporting Period													7.91
Balance of guarantees for subsidiaries as at the end of the Reporting Period (B)													45.32
Total guarantees (including guarantees for subsidiaries)													
Total guarantees (A+B)													45.32
Ratio of total guarantee to net assets of the Company (%)													5.33
Among which:													
Guarantees for shareholders, de facto controller and their related parties (C)													0
Debt guarantee provided directly or indirectly for companies with gearing ratio over 70% (D)													0
Amount of guarantees in excess of 50% of the net assets (E)													0
Total amount of the above three types of guarantees (C+D+E)													0
Outstanding guarantees subject to joint and several liabilities													—
Details of guarantees						<p>1. On January 20, 2014, the provision of net assets guarantee of up to RMB 500 million for CMS Asset Management was approved at the first extraordinary meeting of the fourth session of the Board in 2014. On September 27, 2016, the increase of net assets guarantee in favour of CMS Asset Management by no more than RMB 3 billion in stages and authorization for the management of the Company to perform in stages, or terminate, such net assets guarantee within the above limit based on the actual operating condition of CMS Asset Management were approved at the 42th meeting of the fifth session of the Board. The balance of net assets guarantee provided by the Company for CMS Asset Management as at the end of the Reporting Period amounted to RMB 3.5 billion.</p> <p>2. In September 2019, the second extraordinary meeting of the Company in 2019 considered and approved that the total amount of financing guarantees provided by CMS International for its wholly-owned subsidiaries shall not exceed HK\$6 billion or equivalent; the business covered by the non-financing guarantee shall be managed in accordance with the provisions of the Company. The term of validity of the mandate shall be from the date of approval at the shareholders' general meeting until the date of the next annual general meeting. As at the end of the Reporting Period, the agreed amount of guarantee provided by CMS International for its wholly-owned subsidiaries was approximately RMB 4.631 billion in total (with financing guarantees of approximately RMB 2.050 billion). At the end of the year, the balance of the guarantee utilized and traded was approximately RMB 1.032 billion in total.</p> <p>3. The provision of guarantee 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 CMS International, was approved by the board of directors of CMS International between October 2013 to April 2018.</p> <p>4. The provision of guarantees for China Merchants Futures (HK) and China Merchants Securities (UK) Limited, wholly-owned subsidiaries of CMS International, under the Master Clearing Agreement was approved by the board of directors of CMS International in April 2015.</p> <p>5. The provision of guarantees for China Merchants Securities Investment Management (HK) Co., Limited, a wholly-owned subsidiary of CMS International, under the TBMA/ISMA Global Master Repurchase Agreement was approved by the board of directors of CMS International between May 2018 to August 2019.</p> <p>6. The provision of guarantees in favour 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 2018.</p> <p>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 was approved by the board of directors of CMS International in January 2019.</p>							

### XI. Other Major Events

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

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

#### (II) Changes in Directors and senior management

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

#### (III) Significant events after the Balance Sheet Date

For details, please see “Events after the Balance Sheet Date” in the 2019 Audit Report of the Company.

### XII. Fulfillment of Social Responsibilities

#### (I) Poverty alleviation

##### 1. Targeted poverty alleviation

Poverty alleviation is one of the three critical missions established by the 19th National Congress of the Communist Party, and is also a great cause which the securities industry should take the initiative to implement. The Company 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 growth momentum and strengths, rather than give external relieves, to impoverished counties.

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 them 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 edges in financial services and social resources to help impoverished areas establish long-term poverty alleviation mechanism and model that are specific to the realities of each region, through major assistance measures in the development of industry, finance, consumption and education.

## Chapter 5: Major Events

Supporting measures: the Party Committee of the Company attaches 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 poverty alleviation work of the Company with the aim to guarantee the implementation of poverty alleviation.

### 2. *Summary of targeted poverty alleviation works of the year*

#### **(1) In respect of support to industry**

- (1) In 2019, the Company completed the IPO project of Hualin Securities, helping Hualin Securities to become the first IPO listed private securities firm in the Tibet Autonomous Region. Hualin Securities is one of the first batch of composite securities firms established in China, having paid approximately RMB 0.5 billion of tax in Tibet in recent years and also actively fulfilled its social responsibility and accomplished poverty alleviation in six poverty-stricken counties in the Tibet Autonomous Region. As the sole sponsor and principal underwriter for the issuance and listing of Hualin Securities, the Company upheld professional and rigorous attitude, together with our diligent commitment and quality services in the course of implementing this project, successfully escorting the issuance and listing of Hualin Securities and raising a total of RMB 977 million of proceeds, not only helping Hualin Securities to transform into a specialized composite securities firm in China, but also actively contributing to the economic and social development in Tibet.
- (2) The Company completed the non-public issuance of shares for Muyuan Foods Co., Ltd. in 2019 and raised proceeds of RMB 5 billion, and the proceeds raised was used in the expansion project for enhancing pig breeding capability and the repayment of loans and interest-bearing liabilities of financial institutions. By implementing this fundraising investment project, Muyuan Foods will continue to maintain its leading position in the pig breeding industry and further promote its principal business, so as to enhance the scale of assets and principal business, and improve its profitability and sustainable development capability, thereby continuously driving the economic growth in the Neixiang and related areas so to foster domestic employment.
- (3) CMS Zhiyuan, a wholly-owned subsidiary of the Company, invested RMB 0.6 billion in Muyuan Foods for joint collaboration in the construction of specialized pig farms. All the funding was invested in the four breeding subsidiaries of Muyuan Foods, effectively improving the standardization of the pig breeding process and the level of safety control and prevention, and significantly reinforcing the development of the domestic pig breeding industry and its complementary development while accelerating the rate of production resumption of the pig industry. The investment had provided effective funding to guarantee the pig breeding of Muyuan Foods, effectively combined poverty alleviation, livelihood improvement, supported private enterprises and business expansion to carry out poverty alleviation by industry.

### **(2) In respect of financial support**

- (1) The business unit of Muyuan Foods set up by the Company in Neixiang County continued to carry out financial backup works for enterprises at county level in various aspects, through on-site visits, business training and due diligence, to provide answers to questions raised by enterprises in Neixiang who wish to enter the capital market, thereby helping these enterprises to improve their standard in capital operation. In 2019, the Company recommended one company in Neixiang County to list successfully on the stock market, visited more than ten companies and identified three companies which satisfied the listing requirements, one of which having clearly indicated its plan to submit its listing application.
- (2) Under the leadership of the Party Committee of the Company, a research group formed by the Company's Youth League Committee, general office, investment bank department and research and development centre was established. To implement corporate social responsibility through practical actions, the research group went to Weining Autonomous County in Guizhou Province and Shitai County of Chizhou City in Anhui Province respectively in September and November 2019 to carry out on-site research in a bid to assist local government departments in studying and analyzing development plans, so as to help Weining County and Shitai County to alleviate poverty, thereby contributing our efforts for targeted poverty alleviation.

### **(3) In respect of welfare for poverty alleviation**

- (1) We launched the "Program for University Tuition Subsidies for Students in Poverty". To help students who had been admitted by universities in 2019 to complete their university studies, the Company organized its staff to donate RMB 90,000 to offer financial aids in the amount of RMB 3,000 to each of the 30 poor students from Shitai County whose files have been created.
- (2) We donated RMB 30,000 to the "Retired Soldiers Care Fund" of the Hubei Charity Federation, so as to launch the care and assistance campaign to assist retired soldiers with financial difficulties and people prioritized for receiving care.
- (3) In response to the call of the China Foundation for Poverty Alleviation, we actively organized a team to participate in the "2019 Beijing Great Walker Fundraising Trekking Event" and donated more than RMB 20,000 to the targeted poverty alleviation project for assisting the impoverished people in Xi County.

## Chapter 5: Major Events

### 3. Effect of targeted poverty alleviation

Unit: 10,000 Currency: RMB

Indicators	Amounts and details
<b>I. Total</b>	
Including: 1. Funds	60,011
2. Conversion of money from materials	–
3. Number of people under poverty alleviation with documentary cards (person)	–
<b>II. By category</b>	
1. Industrial development	
Including: 1.1 Project types	<input checked="" type="checkbox"/> Agriculture and forestry <input type="checkbox"/> Tourism <input type="checkbox"/> E-commerce <input type="checkbox"/> Asset income promotion <input type="checkbox"/> Technology <input checked="" type="checkbox"/> Others
1.2 Number of projects (project)	1
1.3 Investment	60,000
1.4 Number of people under poverty alleviation with documentary cards (person)	–
2. Education	
Including: 2.1 Subsidies to students in need	9
2.2 Number of poor students receiving subsidies (person)	30
2.3 Investment for improving educational resources in impoverished areas	–
3. Social poverty alleviation	
Including: 3.1 Contributions to east-west poverty alleviation collaboration	–
3.2 Contributions to fixed-point poverty alleviation	–
3.3 Charity funds for poverty alleviation	2
<b>III. Awards (details and levels)</b>	
The Company was awarded the Honorary Certificate for Active Participation and Donation for Poverty Alleviation issued by the Securities Association of China and China Foundation for Poverty Alleviation.	



### 4. *Subsequent plans on targeted poverty alleviation*

#### **(1) In respect of support to industry**

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

#### **(2) In respect of financial support**

We will continue to take “supporting local economic development with financial services, and helping 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 support**

- (1) Purchasing local agricultural products from impoverished counties in order to actively help eliminate poverty by consumption support;
- (2) Promoting local agricultural products from impoverished counties to employees and clients through media by the Company to drive consumption.

#### **(4) In respect of welfare support**

Based on the poverty alleviation needs of two targeted counties, namely Neixiang County in Henan Province and Shitai County in Anhui Province, we will deliver practical welfare support.

### **(II) Performance of social responsibilities**

Please refer to the 2019 Corporate Social Responsibility Report of China Merchants Securities Co., Ltd. (《招商證券股份有限公司2019年度社會責任報告》) and Environmental, Social and Governance Report published by the Company for the same period of this report on the SSE website and on the Hong Kong Stock Exchange website, respectively.

## Chapter 5: Major Events

### (III) Environmental protection

#### 1. Companies other than key pollutant discharging units

Please refer to the 2019 Corporate Social Responsibility Report of China Merchants Securities Co., Ltd. (《招商證券股份有限公司2019年度社會責任報告》) and Environmental, Social and Governance Report published by the Company for the same period of this report on the SSE website and on the Hong Kong Stock Exchange website, respectively.

## XIII. Other Disclosures

### (I) Sufficiency of public float of H Shares

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

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

As at the date of this report, none of the Directors or Supervisors had any interests in another business which has or may have direct or indirect conflict of interests with the business of the Company.

### (III) Directors' and Supervisors' service contracts

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

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

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

### (V) Permitted indemnity provision

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

### **(VI) Pre-emptive share option arrangement**

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

### **(VII) Board' responsibility statement of risk management, internal control and compliance management**

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

### **(VIII) Remunerations to Directors and Supervisors**

Details of remunerations to the Directors and Supervisors are set out in "Change in shareholdings and remunerations of existing and resigned/retired Directors, Supervisors and senior management during the Reporting Period" under "Chapter 7 Directors, Supervisors, Senior Management and Employees" of this report.

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

During the Reporting Period, the Company repurchased 40,020,780 A Shares, representing 0.5974% of the total share capital of the Company, by way of centralized bidding transaction through the SSE trading system. For details, please see "Changes in ordinary shares" under "Chapter 6 Changes in Ordinary Shares and Shareholders" of this report.

### **(X) Qualification of accounts**

According to the statistics of the internal data centre of the Company, as at December 31, 2019, there were 6,073 unqualified capital accounts, 6,199 unqualified securities accounts, 1,078,329 dormant capital accounts, 1,689,312 dormant securities accounts, 52 capital accounts under freezing order, 1,231 securities accounts under freezing order, 570 risk disposal capital accounts (including dormant accounts of companies to be disposed of), 2,761 risk disposal securities accounts (including dormant accounts of companies to be disposed of) and 69,797 capital accounts under the A share capital accounts and securities accounts of the Company.

## Chapter 5: Major Events

### (XI) Investment in compliance and risk control as well as information technology

In 2019, the Company invested RMB 343 million for compliance and risk control, accounted for 3.79% of the operating income of the Company (parent company) in 2018, and invested RMB 653 million for information technology, accounted for 7.21% of the operating income of the parent company in 2018.

### (XII) 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 has used the proceeds from the global offering as follows:

Approximately 25% for developing the brokerage and wealth management business of the Group. As of December 31, 2019, the accumulated actual usage was approximately RMB 2,257 million (as affected by exchange rate fluctuations, the accumulated actual usage was approximately RMB 20 million higher than the committed usage) (As of December 31, 2018: approximately RMB 2,257 million);

Approximately 25% for expanding the institutional client services and investment and trading business of the Group. As of December 31, 2019, the accumulated actual usage was approximately RMB 2,257 million (as affected by exchange rate fluctuations, the accumulated actual usage was approximately RMB 20 million higher than the committed usage) (As of December 31, 2018: approximately RMB 2,257 million);

Approximately 20.7% for contributing additional capital to CMS International to support its business. As of December 31, 2019, the accumulated actual usage was approximately RMB 1,855 million (as affected by exchange rate fluctuations, the accumulated actual usage was approximately RMB 2.5 million higher than the committed usage) (As of December 31, 2018: approximately RMB 1,855 million);

Approximately 24.3% for contributing capital to the Company's subsidiaries and associated companies, as well as establishing new subsidiaries. As of December 31, 2019, the accumulated actual usage was approximately RMB 2,174 million (As of December 31, 2018: approximately RMB 1,495 million); and

Approximately 5% for working capital and general corporate purposes. As of December 31, 2019, the accumulated actual usage was approximately RMB 460 million (as affected by exchange rate fluctuations, the accumulated actual usage was approximately RMB 13 million higher than the committed usage) (As of December 31, 2018: approximately RMB 460 million).

As of December 31, 2019, the balance in the special account for the proceeds was HK\$15,881,896.27 (As of December 31, 2018: approximately HK\$354 million) and RMB 94,823,920.31 (As of December 31, 2018: approximately RMB772 million). Upon translation of HK dollar into Renminbi at the central parity rate of HK dollar against Renminbi as of December 31, 2019, the sum of the above proceeds in HK dollar and Renminbi was RMB 109,050,605.34. The actual uses of the proceeds were in line with the commitment announced by the Company. The balance in the above account is the result of exchange rate changes in actual foreign exchange settlement in recent years and interests accrued during the deposit period. As of December 31, 2019, the principal of the proceeds from the global offering of the Company has been fully utilized.

# Chapter 6: Changes in Ordinary Shares and Shareholders

## I. Changes in Ordinary Share Capital

### (I) Table of changes in ordinary shares

#### 1. Table of changes in ordinary shares

Unit: share

	Before 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
Comprising: special account for buy-back	—	—	—	—	—	40,020,780	40,020,780	40,020,780	0.60
2. Domestic listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas listed foreign shares	980,401,180	14.63	—	—	—	—	—	980,401,180	14.63
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of ordinary shares	6,699,409,329	100.00	—	—	—	—	—	6,699,409,329	100.00

## Chapter 6: Changes in Ordinary Shares and Shareholders

### 2. *Changes in ordinary shares*

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

At the 17th meeting of the sixth session of the Board held on March 12, 2019, resolutions such as 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》) 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.

On November 8, 2019, the Company repurchased its A Shares for the first time through the SSE trading system by way of centralized bidding. On December 26, the Company held the 28th meeting of the sixth session of the Board, which considered and approved the “Proposal on the Advanced Completion of A Share Repurchase of the Company”. According to the intention for subscription of the Company’s employee stock ownership plan, and the mandate granted at the Company’s shareholders meeting and class shareholders meeting, given that the Company’s repurchase amount has reached the minimum amount for such repurchase, it was agreed to complete the Company’s A Share repurchase in advance. The total repurchase amount was RMB 663,895,568.36 (excluding transaction fees). 40,020,780 A Shares, representing 0.5974% of the Company’s total share capital, were repurchased. The actual implementation of the plan for repurchase of A Shares is the same as the original plan for such repurchase, and the Company has completed the repurchase in accordance with the disclosed plan.

For details, please refer to the relevant announcements published by the Company on the Hong Kong Stock Exchange website on March 12, May 20, November 8 and December 26, 2019.

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

At the 17th meeting of the sixth session of the Board held on March 12, 2019, resolutions such as 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.

On May 16, 2019, the SASAC issued the “Reply on Issues Concerning Rights Issues of China Merchants Securities Co., Ltd.” (Guo Zi Chan Quan [2019] No. 252) (《關於招商證券股份有限公司配股有關問題的批覆》(國資產權[2019] 252號)) and agreed in principle to the Company’s overall rights issue plan. On October 31, the Company received the “Reply on the Approval of the Rights Issue of Overseas Listed Foreign Shares of China Merchants Securities Co., Ltd.” (Zheng Jian Xu Ke [2019] No. 1946) (《關於核准招商證券股份有限公司境外上市外資股配股的批覆》(證監許可[2019] 1946號)) issued by the CSRC. The CSRC approved the placing of not more than 294,120,354 overseas listed foreign shares by the Company to overseas listed foreign shareholders. On November 4, the specific placement ratio and number of the Company’s 2019 rights issue plan were considered and approved at the 27th meeting of the sixth session of the Board, and accordingly the relevant content of the Company’s “Preliminary Plan for Public Offering of Rights Issue for 2019” was revised and updated.

For details, please refer to the relevant announcements published by the Company on the Hong Kong Stock Exchange website on March 12, May 17, May 20, October 31 and November 4, 2019.

## Chapter 6: Changes in Ordinary Shares and Shareholders

### (II) Changes in restricted shares

Unit: share

Name of shareholder	Number of restricted shares at the beginning of the year	Number of restricted shares released during the year	Increase in restricted shares during the year	Number of restricted shares at the end of the year	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
<b>Total</b>	<b>815,308,642</b>	<b>815,308,642</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

## Chapter 6: Changes in Ordinary Shares and Shareholders

### II. Issue and Listing of Securities

#### (I) Issuance of securities during the Reporting Period

Currency: RMB

Class of shares and their derivative securities	Trading code	Bond abbreviation	Date of completion of issuance	Offer price (or interest rate)	Issuance amount	Date of listing	Transaction amount permitted for listing	Trading place	Date of closing
<b>Convertible corporate bonds, bonds with warrants and corporate bonds</b>									
Corporate bonds	155208	19 China Merchants G1 (19招商G1)	March 8, 2019	3.59%	1.5 billion	March 20, 2019	1.5 billion	SSE	March 8, 2022
Privately issued corporate bonds	151113	19 China Merchants F1 (19招商F1)	January 17, 2019	3.38%	1.5 billion	January 30, 2019	1.5 billion	SSE	July 19, 2019
Privately issued corporate bonds	151114	19 China Merchants F2 (19招商F2)	January 17, 2019	3.48%	3.5 billion	January 30, 2019	3.5 billion	SSE	October 14, 2019
Privately issued corporate bonds	151412	19 China Merchants F3 (19招商F3)	April 10, 2019	3.85%	1.7 billion	April 16, 2019	1.7 billion	SSE	April 10, 2021
Privately issued corporate bonds	151413	19 China Merchants F4 (19招商F4)	April 10, 2019	4.00%	3.6 billion	April 16, 2019	3.6 billion	SSE	April 10, 2022
Privately issued corporate bonds	151495	19 China Merchants F5 (19招商F5)	April 25, 2019	4.08%	2.0 billion	May 8, 2019	2.0 billion	SSE	April 25, 2021
Privately issued corporate bonds	151496	19 China Merchants F6 (19招商F6)	April 25, 2019	4.28%	4.0 billion	May 8, 2019	4.0 billion	SSE	April 25, 2022
Privately issued corporate bonds	151600	19 China Merchants F8 (19招商F8)	May 29, 2019	3.78%	4.0 billion	June 5, 2019	4.0 billion	SSE	May 29, 2021
Commercial paper	071900002	19 China Merchants CP001 (19招商CP001)	January 10, 2019	2.98%	2.0 billion	January 11, 2019	2.0 billion	Interbank market	April 10, 2019
Commercial paper	071900014	19 China Merchants CP002 (19招商CP002)	March 6, 2019	2.79%	3.0 billion	March 7, 2019	3.0 billion	Interbank market	June 4, 2019
Commercial paper	071900017	19 China Merchants CP003 (19招商CP003)	March 15, 2019	2.87%	2.0 billion	March 18, 2019	2.0 billion	Interbank market	June 13, 2019



## Chapter 6: Changes in Ordinary Shares and Shareholders

Class of shares and their derivative securities	Trading code	Bond abbreviation	Date of completion of issuance	Offer price (or interest rate)	Issuance amount	Date of listing	Transaction amount permitted for listing	Trading place	Date of closing
Commercial paper	071900027	19 China Merchants CP004 (19招商CP004)	April 18, 2019	2.98%	2.0 billion	April 19, 2019	2.0 billion	Interbank market	July 17, 2019
Commercial paper	071900047	19 China Merchants CP005 (19招商CP005)	June 11, 2019	3.03%	2.0 billion	June 12, 2019	2.0 billion	Interbank market	August 20, 2019
Commercial paper	071900053	19 China Merchants CP006 (19招商CP006)	June 21, 2019	2.69%	3.0 billion	June 24, 2019	3.0 billion	Interbank market	September 19, 2019
Commercial paper	071900068	19 China Merchants CP007BC (19招商CP007BC)	July 15, 2019	2.69%	4.0 billion	July 16, 2019	4.0 billion	Interbank market	October 11, 2019
Commercial paper	071900072	19 China Merchants Securities CP008BC (19招商證券CP008BC)	July 22, 2019	2.72%	4.0 billion	July 23, 2019	4.0 billion	Interbank market	October 18, 2019
Commercial paper	071900073	19 China Merchants Securities CP009BC (19招商證券CP009BC)	August 5, 2019	2.74%	4.0 billion	August 6, 2019	4.0 billion	Interbank market	November 1, 2019
Commercial paper	071900078	19 China Merchants CP010BC (19招商CP010BC)	August 14, 2019	2.80%	4.0 billion	August 15, 2019	4.0 billion	Interbank market	November 12, 2019
Commercial paper	071900094	19 China Merchants Securities CP011BC (19招商證券CP011BC)	September 6, 2019	2.85%	4.0 billion	September 9, 2019	4.0 billion	Interbank market	December 5, 2019
Commercial paper	071900100	19 China Merchants CP012BC (19招商CP012BC)	September 12, 2019	2.75%	4.0 billion	September 16, 2019	4.0 billion	Interbank market	December 11, 2019

## Chapter 6: Changes in Ordinary Shares and Shareholders

Class of shares and their derivative securities	Trading code	Bond abbreviation	Date of completion of issuance	Offer price (or interest rate)	Issuance amount	Date of listing	Transaction amount permitted for listing	Trading place	Date of closing
Commercial paper	071900107	19 China Merchants CP013BC (19招商CP013BC)	September 24, 2019	2.85%	3.0 billion	September 25, 2019	3.0 billion	Interbank market	November 23, 2019
Commercial paper	071900115	19 China Merchants CP014BC (19招商CP014BC)	October 15, 2019	2.90%	4.0 billion	October 16, 2019	4.0 billion	Interbank market	January 8, 2020
Commercial paper	071900128	19 China Merchants CP015BC (19招商CP015BC)	October 22, 2019	3.02%	3.0 billion	October 23, 2019	3.0 billion	Interbank market	January 15, 2020
Commercial paper	071900144	19 China Merchants CP016BC (19招商CP016BC)	November 13, 2019	3.15%	3.0 billion	November 14, 2019	3.0 billion	Interbank market	February 11, 2020
Commercial paper	071900155	19 China Merchants CP017BC (19招商CP017BC)	November 25, 2019	3.10%	3.0 billion	November 26, 2019	3.0 billion	Interbank market	February 18, 2020
Commercial paper	071900166	19 China Merchants CP018BC (19招商CP018BC)	December 9, 2019	3.09%	4.0 billion	December 10, 2019	4.0 billion	Interbank market	March 6, 2020
Commercial paper	071900175	19 China Merchants CP019BC (19招商CP019BC)	December 16, 2019	3.05%	3.0 billion	December 17, 2019	3.0 billion	Interbank market	March 13, 2020
Financial bonds	091900024	19 China Merchants Securities Financial Bonds 01BC (19招商證券金融債01BC)	October 11, 2019	3.45%	5.0 billion	October 12, 2019	5.0 billion	Interbank market	October 11, 2022

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

## Chapter 6: Changes in Ordinary Shares and Shareholders

### 1. *Public issuance of corporate bonds to qualified investors*

In April 2018, the Company received the Approval on the Public Offering of Corporate Bonds by China Merchants Securities Co., Ltd. to Qualified Investors (Zheng Jian Xu Ke [2018] No. 612) (《關於核准招商證券股份有限公司向合格投資者公開發行公司債券的批覆》(證監許可[2018] 612號)) from the CSRC, pursuant to which the CSRC approved the Company's public offering of corporate bonds with total face value of no more than RMB 11.8 billion to qualified investors. During 2019, the Company publicly offered one tranche of corporate bonds to qualified investors based on this approval.

### 2. *Private issue of corporate bonds*

In February 2018, the Company received the No Objection Letter for the Offer for Sale of Corporate Bonds Privately Issued by China Merchants Securities Co., Ltd. (Shang Zheng Han [2018] No. 160) (《關於對招商證券股份有限公司非公開發行公司債券掛牌轉讓無異議的函》(上證函[2018] 160號)) from the SSE, pursuant to which the SSE has no objection to the offer for sale of corporate bonds privately issued by the Company to qualified investors in the amount of no more than RMB 40 billion on the SSE. During 2019, the Company issued one tranche of privately-offered corporate bonds based on this letter.

In March 2019, the Company received the No Objection Letter for the Offer for Sale of Corporate Bonds Privately Issued by China Merchants Securities Co., Ltd. (Shang Zheng Han [2019] No. 523) (《關於對招商證券股份有限公司非公開發行公司債券掛牌轉讓無異議的函》(上證函[2019] 523號)) from the SSE, pursuant to which the SSE has no objection to the offer for sale of corporate bonds privately issued by the Company to qualified investors in the amount of no more than RMB 45 billion on the SSE. During 2019, the Company issued three tranches of privately-offered corporate bonds based on this letter.

### 3. *Commercial papers*

In May 2018, the Company received the Notice of the PBOC on Approval of the Maximum Outstanding Balance of Commercial Papers of China Merchants Securities Co., Ltd. (《中國人民銀行關於核定招商證券股份有限公司短期融資券最高待償還餘額的通知》). In June 2019, the Company received the Notice of the Financial Market Department of the PBOC on the Maximum Outstanding Balance of Commercial Papers of China Merchants Securities Co., Ltd. (Yin Shi Chang [2019] No. 129) (《中國人民銀行金融市場司關於招商證券股份有限公司短期融資券最高待償還餘額有關事項的通知》(銀市場[2019] 129號)), pursuant to which the maximum outstanding balance of commercial papers of the Company amounted to RMB 31.6 billion. During 2019, the Company issued 19 tranches of commercial papers.

## Chapter 6: Changes in Ordinary Shares and Shareholders

### 4. Financial bonds

In June 2019, the Company received the Decision on Administrative Approval of the People's Bank of China (Yin Shi Chang Xu Zhun Yu Zi [2019] No. 101) (《中國人民銀行准予行政許可決定書》(銀市場許准予字[2019]第101號)) from the People's Bank of China, pursuant to which the People's Bank of China approved the issuance of financial bonds in the amount of no more than RMB 5 billion by the Company. During 2019, the Company issued one tranche of financial bonds based on this approval.

### (II) Total number of ordinary shares and changes in the shareholdings of the Company and changes in assets and liabilities structure of the Company

During the Reporting Period, there was no change in the total number of the Company's ordinary shares.

For details of the changes in the assets and liabilities structure of the Company, please refer to "Assets and liabilities analysis" under "Chapter 4 Report of the Board of Directors" of this report.

## III. Shareholders and De Facto Controller

### (I) Total number of shareholders

Number of holders of the ordinary shares as of the end of the Reporting Period	102,861
Number of holders of the ordinary shares as of the end of the month preceding the disclosure of the annual report	100,437

## Chapter 6: Changes in Ordinary Shares and Shareholders

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

Unit: share

Top ten shareholders							
Name of shareholder (in full)	Changes during the Reporting Period	Number of shares held at the end of the period	Percentage (%)	Number of restricted shares held	Pledged or locked-up		Nature of shareholders
					Status	Number	
China Merchants Finance Investment Holdings Co., Ltd. (深圳市招商投資控股有限公司)	—	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	6,760	980,045,320	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
Hong Kong Securities Clearing Company Limited	62,379,709	107,575,327	1.61	—	Nil	—	Overseas legal person
COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運(廣州)有限公司)	—	83,999,922	1.25	—	Nil	—	State-owned legal person
Central Huijin Asset Management Ltd. (中央匯金資產管理有限責任公司)	—	77,251,600	1.15	—	Nil	—	State-owned legal person

## Chapter 6: Changes in Ordinary Shares and Shareholders

Top ten holders of unrestricted shares			
Name of shareholder	Number of tradable unrestricted shares held	Class and number of shares	
		Class	Number
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	980,045,320	Overseas listed foreign shares	980,045,320
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
Hong Kong Securities Clearing Company Limited	107,575,327	RMB ordinary shares	107,575,327
COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運(廣州)有限公司)	83,999,922	RMB ordinary shares	83,999,922
Central Huijin Asset Management Ltd. (中央匯金資產管理有限責任公司)	77,251,600	RMB ordinary shares	77,251,600
Statement on the related relationships or concerted actions among the aforesaid shareholders	<p>Among the above top ten shareholders,</p> <ol style="list-style-type: none"> <li>1. CM Finance Investment and Jisheng Investment are all subsidiaries of China Merchants Group, the de facto controller of the Company;</li> <li>2. China Ocean Shipping and COSCO Shipping (Guangzhou) Co., Ltd. are all subsidiaries of China COSCO Shipping Corporation Limited.</li> </ol>		

- Note: 1. HKSCC Nominees Limited is the nominee holder for the shares held by the non-registered H Shareholders of the Company;
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 held in their ordinary securities accounts and credit securities accounts.

## Chapter 6: Changes in Ordinary Shares and Shareholders

### (III) Interests and short positions of the substantial shareholders and other persons in the shares and underlying shares

As at December 31, 2019, to the best knowledge of the Directors having made reasonable enquiries, the following persons (other than the Directors, Supervisors or 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:

No.	Name of de facto controller and substantial shareholders	Class of Shares	Nature of interest	Number of shares held (share)	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 <sup>6</sup> / short positions <sup>7</sup> / shares available for lending
1	China Merchants Group	A Shares	Interest held by controlled corporations <sup>1</sup>	2,886,027,221	43.08	50.46	Long position
		H Shares	Interest held by controlled corporations <sup>2</sup>	67,706,400	1.01	6.91	Long position
2	China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	A Shares	Beneficial owner and interest of corporation controlled by substantial shareholders <sup>3</sup>	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 <sup>4</sup>	509,426,550	7.60	8.91	Long position
		H Shares	Interest held by controlled corporations <sup>5</sup>	159,844,400	2.39	16.30	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	159,844,400	2.39	16.30	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

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 shares of the Company. China Merchants Finance Investment Holdings Co., Ltd. holds 100% of the equity interest in Shenzhen Jisheng Investment Development Co., Ltd., and is deemed to be interested in the same number of A Shares which Shenzhen Jisheng Investment Development Co., Ltd. (19.56%) is interested in under the SFO. Thus, China Merchants Finance Investment Holdings Co., Ltd. holds, directly and indirectly, an aggregate of 43.08% of the equity interest in the Company.
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%), 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, Guangzhou Sanding Oil Products Transport Co., Ltd. (廣州市三鼎油品運輸有限公司) (0.01%), and COSCO SHIPPING Financial Holdings Co., Limited (0.09%), a wholly-owned subsidiary of China Shipping (Group) Company, are interested in under the SFO.
5. China COSCO Shipping Corporation Limited is deemed to be interested in the same number of H Shares which COSCO SHIPPING Financial Holdings Co., Limited (2.39%), a wholly owned subsidiary of China Shipping (Group) Company (中國海運(集團)總公司), is interested in under the SFO.
6. A shareholder has a “long position” if it has an interest in shares, including interests through holding, selling or issuing financial instruments (including derivatives) under which such shareholder has the following obligations and liabilities: (i) it has a right to buy the underlying shares; (ii) it is under an obligation to buy the underlying shares; (iii) it has a right to receive money if the price of the underlying shares increases; or (iv) it has a right to avoid or reduce a loss if the price of the underlying shares increases; and
7. A shareholder has a “short position” if it borrows shares under a securities borrowing and lending agreement, or if it holds, sells or issues financial instruments (including derivatives) under which such shareholder has the following obligations and liabilities: (i) it has a right to require another person to buy the underlying shares; (ii) it is under an obligation to deliver the underlying shares; (iii) it has a right to receive money if the price of the underlying shares decreases; or (iv) it has a right to avoid or reduce a loss if the price of the underlying shares decreases.

Save as disclosed above, as at December 31, 2019, the Company was not aware of any other person (other than the Directors, Supervisors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.



### IV. Details of Controlling Shareholders and De Facto Controller

#### (I) Details of controlling shareholder

##### 1. About China Merchants Group Limited

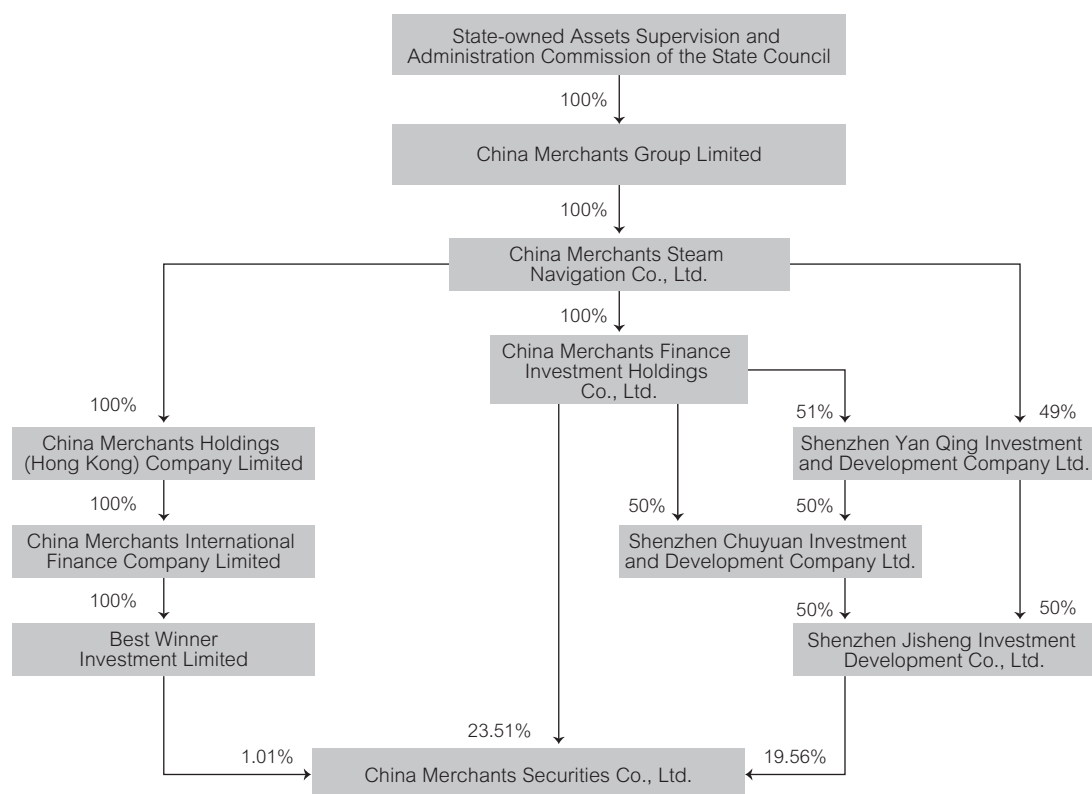
Name	China Merchants Group Limited
Person in charge or legal representative	LI Jianhong (李建紅)
Date of incorporation	October 14, 1986
Principal business	Sea and land transportation and agency of goods, leasing and agency of sea and land transportation tools and equipment, investment in and management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

## Chapter 6: Changes in Ordinary Shares and Shareholders

<p>Control and shareholdings in other domestic or overseas listed companies during the Reporting Period</p>	<p>Holding 81.92% interests in China Merchants Port Group Company Limited (招商局港口集團股份有限公司), 78.29% interests in Yingkou Port Liability Co., Ltd., 75.01% interests in Dalian Port (PDA) Company Limited, 74.35% interests in China Merchants Land Limited, 68.72% interests in China Merchants Expressway Network &amp; Technology Holdings Co., Ltd., 64.54% interests in China Merchants Shekou Industrial Zone Holdings Co., Ltd., 62.77% interests in China Merchants Port Holdings Company Limited, 56.34% interests in Sinotrans Limited, 54.28% interests in China Merchants Energy Shipping Co., Ltd., 51.16% interests in China Merchants Property Operation &amp; Service Co., Ltd., 29.97% interests in China Merchants Bank Co., Ltd., 29.94% interests in Anhui Expressway Company Limited, 27.59% interests in China Merchants China Direct Investments Limited, 27.02% interests in Nanjing Tanker Corporation, 26.77% interests in Shanghai International Port (Group) Co., Ltd., 24.56% interests in China International Marine Containers (Group) Co., Ltd., 24.88% interests in Sichuan Expressway Company Limited, 19.08% interests in Jinzhou Port Co., Ltd., 17.75% interests in Fujian Expressway Development Co., Ltd. (福建發展高速公路股份有限公司), 16.52% interests in Heilongjiang Transport Development Co., Ltd., 16.02% interests in Shangdong Hi-Speed Company Limited, 15.53% interests in Hubei Chutian Smart Communication Co., Ltd., 15.43% interests in Henan Zhongyuan Expressway Co., Ltd., 14.05% interests in Jilin Expressway Co., Ltd., 13.86% interests in Guangxi Wuzhou Communications Co., Ltd., 12.36% interests in China Greatwall Securities Co., Ltd., 11.69% interests in Jiangsu Expressway Company Limited, 7.04% interests in Modern Investment Co., Ltd. (現代投資股份有限公司), 6.03% interests in S.F. Holding Co., Ltd., 4.02% interests in Shenzhen Expressway Company Limited, 3.09% interests in Ningbo Zhoushan Port Co., Ltd. (寧波舟山港股份有限公司), 2.54% interests in Qingdao Port International Co., Ltd., 1.28% interests in Chang Jiang Shipping Group Phoenix Co., Ltd., 1.20% interests in Oriental Times Media Corporation, 0.53% interests in China Shipbuilding Industry Company Limited, 0.37% interests in Hunan Sunward Intelligent Machinery Co., Ltd., and 0.16% interests in CMMB Vision Holdings Limited.</p>
<p>Others</p>	<p>Nil</p>

## Chapter 6: Changes in Ordinary Shares and Shareholders

### 2. Diagram of the ownership and controlling relationship between the Company and its controlling shareholder



The controlling shareholder of the Company is China Merchants Group. China Merchants Group indirectly holds a total of 44.09% shares of the Company through its subsidiaries, namely China Merchants Finance Investment Holdings Co., Ltd., Shenzhen Jisheng Investment Development Co., Ltd. and Best Winner Investment Ltd..

## Chapter 6: Changes in Ordinary Shares and Shareholders

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

Unit: 10,000 Currency: RMB

Name of corporate shareholder	Person in charge or legal representative	General manager	Date of incorporation	Unified social credit identifier	Registered capital	Principal business or operation
Shenzhen Jisheng Investment Development Co., Ltd.	XU Xin (徐鑫)	HU Xiaodong (胡曉東)	December 11, 2001	91440300734146375H	60,000	Investment (projects are separately reported); domestic business, commodity supply and sales (excluding licensed, exclusive or franchised commodities); economic information consultancy (excluding restricted items).
Statement	Jisheng Investment is a subsidiary of China Merchants Group, the controlling shareholder of the Company.					

# Chapter 7: Directors, Supervisors, Senior Management and Employees

## I. Change in Shareholdings and Remunerations

### (I) Change in shareholdings and remunerations of existing and resigned/retired Directors, Supervisors and senior management during the Reporting Period.

Unit: share

Name	Position (Notes)	Gender	Age	Term commencement date	Term expiration date	No. of shares held at the beginning of the Year	No. of shares held at the end of the Year	Changes (+/-) in shareholdings during the Year	Reason for changes	Total remuneration from the Company during the Reporting Period (before tax) (RMB 10,000)	Remuneration from related parties
HUO Da (霍達)	Chairman of the Board Executive Director	Male	51	May 2017	May 2020	—	—	—	—	515.55	No
SU Min (蘇敏)	Non-executive Director	Female	51	June 2016	May 2020	—	—	—	—	—	Yes
SU Jian (栗健)	Non-executive Director	Male	47	June 2017	May 2020	—	—	—	—	—	Yes
XIONG Xianliang (熊賢良)	Non-executive Director	Male	52	December 2014	May 2020	—	—	—	—	—	Yes
XIONG Jiantao (熊劍濤)	Executive Director President Chief Information Officer	Male	51	May 2017 December 2018 July 2019	May 2020 November 2021 November 2021	—	—	—	—	514.79	No
PENG Lei (彭磊)	Non-executive Director	Female	47	August 2007	May 2020	—	—	—	—	—	Yes
GAO Hong (高宏)	Non-executive Director	Male	51	March 2020	May 2020	—	—	—	—	—	Yes
HUANG Jian (黃堅)	Non-executive Director	Male	50	August 2012	May 2020	—	—	—	—	—	Yes
WANG Daxiong (王大雄)	Non-executive Director	Male	59	September 2016	May 2020	—	—	—	—	—	Yes
WANG Wen (王文)	Non-executive Director	Male	50	July 2019	May 2020	—	—	—	—	—	Yes
XIANG Hua (向華)	Independent Non-executive Director	Male	48	July 2017	May 2020	—	—	—	—	20	Yes
XIAO Houfa (肖厚發)	Independent Non-executive Director	Male	52	July 2017	May 2020	—	—	—	—	20	Yes

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Position (Notes)	Gender	Age	Term commencement date	Term expiration date	No. of shares held at the beginning of the Year	No. of shares held at the end of the Year	Changes (+/-) in shareholdings during the Year	Reason for changes	Total remuneration from the Company during the Reporting Period (before tax) (RMB 10,000)	Remuneration from related parties
XIONG Wei (熊偉)	Independent Non-executive Director	Male	44	August 2017	May 2020	—	—	—	—	20	No
HU Honggao (胡鴻高)	Independent Non-executive Director	Male	65	July 2017	May 2020	—	—	—	—	20	No
WONG Ti (汪棧)	Independent Non-executive Director (Note 1)	Male	61	January 2018	May 2020	—	—	—	—	20	No
ZHOU Linda Lei (周語茵)	Chairman of the Supervisory Committee	Female	51	July 2014	May 2020	—	—	—	—	415.79	No
LI Xiaofei (李曉霽)	Shareholder Representative Supervisor	Male	49	July 2014	May 2020	—	—	—	—	—	Yes
WANG Zhangwei (王章為)	Shareholder Representative Supervisor	Male	47	June 2017	May 2020	—	—	—	—	—	Yes
MA Yunchun (馬蘊春)	Shareholder Representative Supervisor	Male	51	June 2017	May 2020	—	—	—	—	—	Yes
FANG Xiaobing (房小兵)	Shareholder Representative Supervisor	Male	49	July 2011	May 2020	—	—	—	—	—	No
ZHANG Zehong (張澤宏)	Shareholder Representative Supervisor	Male	47	July 2011	May 2020	—	—	—	—	—	Yes
YI Hongyan (尹虹艷)	Employee Representative Supervisor	Female	48	August 2007	May 2020	—	—	—	—	173.84	No
HE Min (何敏)	Employee Representative Supervisor	Female	44	July 2009	May 2020	—	—	—	—	130.08	No
XIONG Zhigang (熊志綱)	Employee Representative Supervisor	Male	42	May 2017	May 2020	—	—	—	—	158.17	No
DENG Xiaoli (鄧曉力)	Vice President	Female	52	November 2005	November 2021	—	—	—	—	375.52	No
LI Zongjun (李宗軍)	Vice President	Male	54	July 2015	November 2021	—	—	—	—	375.20	No

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Position (Notes)	Gender	Age	Term commencement date	Term expiration date	No. of shares held at the beginning of the Year	No. of shares held at the end of the Year	Changes (+/-) in shareholdings during the Year	Reason for changes	Total remuneration from the Company during the Reporting Period (before tax) (RMB 10,000)	Remuneration from related parties
WU Huirong (吳慧峰)	Secretary to the Board Vice President	Male	45	December 2014 November 2018	May 2020 November 2021	—	—	—	—	375.28	No
ZHAO Bin (趙斌)	Vice President	Male	50	November 2018	November 2021	—	—	—	—	375.45	No
HU Yu (胡宇)	Chief Risk Officer Chief Compliance Officer	Male	55	December 2018 December 2018	November 2021 November 2021	—	—	—	—	321.35	No
WU Guangyan (吳光焰)	Vice President	Male	50	February 2019	November 2021	—	—	—	—	344.61	No
XIE Jijun (謝繼軍)	Vice President	Male	46	March 2019	November 2021	—	—	—	—	325.69	No
CHEN Zhigang (陳志剛)	Non-executive Director (Resigned)	Male	47	June 2017	May 2019	—	—	—	—	—	Yes
Total	/	/	/	/	/				/	4,501.32	/

- Notes: 1. In June 2019, our Board of Directors received a written resignation report from an independent director, Mr. WONG Ti. Due to his other work arrangements, Mr. WONG Ti applied to resign from his positions as an independent non-executive director of the sixth session of the Board and a member of each of the Audit Committee and the Remuneration and Appraisal Committee of the Board. According to the relevant regulations, including among others, the Guidelines for Introducing Independent Directors to the Board of Directors of Listed Companies (《關於在上市公司建立獨立董事制度的指導意見》) and the Articles of Association of China Merchants Securities Co., Ltd., Mr. WONG will continue to perform his duties until a new independent non-executive director is appointed by the Company.
2. No share incentive scheme was implemented during the Reporting Period.
3. Payment of 40% of the annual performance-based bonus payable to the Directors, chairman of the Supervisory Committee and senior management who worked full time for the Company shall be deferred for a term of 3 years. The deferred payment of remuneration shall be divided equally.
4. The total remuneration before tax of Directors, chairman of the Supervisory Committee and senior management who worked full time for the Company has not been confirmed yet. Further information will be disclosed upon confirmation.
5. The Directors, chairman of the Supervisory Committee and senior management who worked full time for the Company did not receive any non-cash remuneration.

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
HUO Da (霍達)	<p>Mr. HUO has served as our Chairman of the Board and a director of CMS International since May 2017 and January 2019, respectively. Mr. HUO has extensive experience in various fields including economic and financial research, development and management of multi-layer capital market as well as monitoring and analysis of capital market statistics. Specifically, he was a part-time member of the 17th Public Offering Review Committee of the CSRC from September 2017 to January 2019. Mr. HUO was director of the Market Supervision Department of the CSRC from March 2015 to April 2017, and successively served as the director of the Research Center of the CSRC, head of Beijing Institute of Securities and Futures and head of China Institute of Finance and Capital Markets concurrently. Mr. HUO acted as director of the Corporate Bonds Supervision Department of the CSRC from February 2014 to March 2015; deputy director of the Market Supervision Department of the CSRC from December 2010 to February 2014; deputy inspector of the Market Supervision Department of the CSRC from November 2009 to December 2010; and member of the Party committee and assistant to the head of the Shenzhen office of the CSRC from December 2007 to November 2009; Mr. HUO worked at the CSRC from April 1997 to December 2007 as principal staff member, deputy division head and division head in succession.</p> <p>Mr. HUO obtained a bachelor's degree in engineering from Huazhong University of Science and Technology, a master's degree in economics from Huazhong University of Science and Technology and a doctoral degree in economics from Chinese Academy of Fiscal Sciences (formerly known as the Research Institute for Fiscal Science of the Ministry of Finance) in July 1989, April 1994 and January 2008, respectively.</p>



## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
SU Min (蘇敏)	<p>Ms. SU has served as our non-executive Director since June 2016. Ms. SU has experience in managing finance-related and listed companies as well as financial management. Specifically, she has been a standing vice chairman of the Execution Committee of China Merchants Financial Services Business Unit since June 2018; general manager of China Merchants Finance Investment Holdings Co., Ltd. since December 2017; director of China Merchants Finance Holdings since December 2015; director of Bosera Fund from September 2018; non-executive director of China Merchants Bank (listed on the SSE, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code 3968) since September 2014; general manager of China Merchants Finance Holdings Co., Ltd. from September 2015 to February 2019; supervisor of China Merchants Capital Co., Ltd. from January 2016 to August 2018; director of China Merchants Innovation Investment Management Co., Ltd. from November 2015 to August 2018; chairman of the board of China Shipping Leasing Co., Ltd from August 2013 to August 2015; non-executive director of COSCO SHIPPING Development Co., Ltd. (listed on the SSE, stock code: 601866; listed on the Hong Kong Stock Exchange, stock code: 2866) from June 2013 to December 2015; executive director of COSCO SHIPPING Energy Transportation Co., Ltd. (listed on the SSE, stock code: 600026; listed on the Hong Kong Stock Exchange, stock code: 1138) from May 2013 to August 2015; chairman of the board of China Shipping Finance Co., Ltd. from May 2011 to July 2015; chief accountant of China Shipping (Group) Company from March 2011 to August 2015; director of Huishang Bank Corporation Limited (listed on the Hong Kong Stock Exchange, stock code: 3698) from December 2009 to May 2011; director of Anhui Province Wenergy Company Limited (listed on the SZSE, stock code: 000543) from April 2008 to September 2011; and chief accountant and deputy general manager of Anhui Province Energy Group Co., Ltd. from May 2007 to April 2011 and from November 2010 to April 2011, respectively.</p> <p>Ms. SU obtained a bachelor's degree in finance from Shanghai University of Finance and Economics in July 1990, and a master's degree in business administration from the University of Science and Technology of China in December 2002. She was granted the qualifications of Certified Public Accountant, Certified Public Valuer and senior accountant in June 1998, June 1999 and June 2008, respectively.</p>

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
SU Jian (粟健)	<p>Mr. SU has served as our non-executive Director since June 2017. Mr. SU has experience in financial affairs and relevant management. Specifically, he has been head of the finance department (property rights department) of China Merchants Group since July 2017; non-executive director of Sinotrans Limited (listed on the SSE, stock code: 601598; listed on the Hong Kong Stock Exchange, stock code: 0598) since June 2019; director of China Merchants Port Group Co., Ltd. (listed on the SZSE, stock code: 001872) since December 2018; director of China Merchants Expressway Network &amp; Technology Holdings Co., Ltd. (listed on the SZSE, stock code: 001965) since January 2018; executive director of China Merchants Port Holdings Company Limited (listed on the Hong Kong Stock Exchange, stock code: 0144) since October 2017; director of China Merchants Energy Shipping Co., Ltd. (listed on the SSE, stock code: 601872) from August 2017 to January 2019. He served as deputy head (as the person in charge at the grade of head) of the finance department (property rights department) of China Merchants Group from January 2017 to July 2017. Mr. SU served as deputy general manager of China Merchants Industry Holdings Co., Ltd. from May 2016 to January 2017; deputy head of the human resources department of China Merchants Group Limited from February 2014 to May 2016; senior manager, assistant to the head and then deputy head of the finance department of China Merchants Group Limited from September 2009 to February 2014; senior manager of the finance department of China Merchants Shekou Industrial Zone Company Limited from August 2008 to August 2009; head and senior manager of the finance department of China Merchants Group from August 2002 to August 2008; and clerk, head and then financial manager of China Merchants International Travel Service Co. Ltd. from July 1993 to August 2002.</p> <p>Mr. SU obtained a bachelor's degree in economics from Shanghai University of Finance and Economics in 1993. Mr. SU obtained the qualifications as a non-practising member of the Chinese Institute of Certified Public Accountants and an Intermediate Accountant in 2000 and 2002, respectively.</p>
XIONG Xianliang (熊賢良)	<p>Mr. XIONG has served as our non-executive Director since December 2014. Mr. XIONG has experience in strategic management and research. Specifically, he has been director of the research and development center of China Merchants Group and dean of China Merchants Technology and Innovation Research and Development Institute (招商局科技創新發展研究院) since August 2018; head of the strategic development department of China Merchants Group since March 2015. Mr. XIONG was head of the security and supervision department of China Merchants Group from February 2017 to October 2018; head of information management department and research department from March 2015 to September 2017; non-executive director of Sinotrans Limited (listed on the SSE, stock code: 601598; listed on the Hong Kong Stock Exchange, stock code: 0598) since June 2019; executive director of China Merchants Port Holdings Company Limited (listed on the Hong Kong Stock Exchange, stock code: 0144) since June 2018; general manager (head) of the strategic research department of China Merchants Group from October 2011 to February 2015; and non-executive director of China Merchants Bank (listed on the SSE, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from July 2012 to June 2014. Mr. XIONG worked at the Research Office of the State Council from December 2004 to October 2011; at the general group of the steering committee office of the Western Region Development of the State Council (國務院西部開發領導小組辦公室綜合組) from July 2003 to December 2003; at the Chongqing Development and Planning Commission from December 2000 to December 2004; and at the Development Research Center of the State Council from March 1994 to December 2000.</p> <p>Mr. XIONG obtained a master's degree and a doctoral degree in global economics from Nankai University in June 1991 and December 1993, respectively. Mr. XIONG was granted the title of Researcher by the Development Research Center of the State Council in September 2000.</p>

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
<p>XIONG Jiantao (熊劍濤)</p>	<p>Mr. XIONG has served as our executive Director since May 2017 and our President since December 2018; and served as our Chief Information Officer since July 2019, and as the director of CMS International since September 2015. Mr. XIONG has experience in operation of securities companies and IT-based management. Specifically, he was our Chief Operating Officer from May 2017 to December 2018; our Vice President from December 2005 to December 2018; chairman of the board of directors of CMS Asset Management from March 2015 to March 2019; chairman of the board of directors of China Merchants Futures from March 2008 to March 2019. Mr. XIONG was director of Bosera Funds from November 2014 to November 2017; and successively acted as manager of our computer department, general manager of our computer center, general manager of our IT center and our technical director from June 1995 to December 2005 (during such period he had been temporarily seconded by the CSRC to be a member of the administrative take-over group of China Southern Securities). Mr. XIONG was deputy manager of the information center in China Merchants Bank (listed on the SSE, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) from April 1993 to June 1995; and staff member of Shenzhen Shanxing Electronics Co., Ltd. (深圳山星電子有限公司) from May 1992 to April 1993.</p> <p>Mr. XIONG obtained a bachelor's degree in engineering majoring in telecommunications engineering from Nanjing University of Posts and Telecommunications (formerly Nanjing Institute of Posts and Telecommunications), a master's degree in engineering majoring in automatic instrumentation and installation from Huazhong University of Science and Technology and a degree for executive master of business management ("EMBA") from Fudan University in July 1989, June 1992 and June 2014, respectively.</p>
<p>PENG Lei (彭磊)</p>	<p>Ms. PENG has served as our non-executive Director since August 2007. Ms. PENG has relevant management and working experience via serving at management and administrative positions of various securities and finance-related companies. Specifically, she has been director of China Merchants Ping An Asset Management Co. since December 2018; director of China Merchants Commerce Leasing Co., Ltd. (招商局通商融資租賃有限公司) since August 2018; a standing member of the Execution Committee of China Merchants Financial Services Business Unit since June 2018; director of China Great Wall Securities Co., Ltd. (listed on the SZSE, stock code: 002939) since June 2011; deputy general manager of China Merchants Finance Holdings Co., Ltd. from April 2016 to February 2019; director of Morgan Stanley Huaxin Fund Management Co., Ltd. from March 2015 to August 2019. She was director of Bosera Funds from November 2017 to September 2018. Ms. PENG successively served as deputy general manager of the general management department, general manager of the audit department, general manager of the China business department, general manager of the securities department and assistant to the general manager of China Merchants Finance Holdings Co., Ltd. from October 2003 to April 2016. Ms. PENG was executive director of Union Asset Management Company from May 2002 to October 2003.</p> <p>Ms. PENG obtained a bachelor's degree in economics majoring in business management from Southwestern University of Finance and Economics and a master's degree in economics majoring in finance from Peking University in July 1994 and July 2010, respectively.</p>

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
GAO Hong (高宏)	<p>Mr. GAO has served as our non-executive Director since March 2020. He has relevant working experience in financial, insurance and technology enterprises. Specifically, Mr. GAO has served as the standing member of the Executive Committee of China Merchants Financial Business Unit* (招商局金融事業群/平台) since February 2019, the general manager of China Merchants Financial Technology Co., Ltd.* (招商局金融科技有限公司) since November 2017, and the vice general manager (chief technology officer) of China Merchants Life Insurance Company Limited since February 2017. He served as the chief technology officer of China Merchants Finance Holdings Co., Ltd.* (招商局金融集團有限公司) from February 2017 to February 2019. He successively served as the general manager of the information technology centre, an assistant to general manager, and the general manager of innovation and development department of Funde Sino Life Insurance Co., Ltd.* (富德生命人壽股份有限公司) from June 2010 to January 2017 and served as the assistant to general manager of Funde Insurance Holding Co., Ltd.* (富德保險控股股份有限公司) from July 2015 to January 2017; he successively acted as vice general manager (in charge of work) of the information management department and the assistant to general manager of the group shared service centre of China Insurance (Holdings) Company Limited from March 2005 to June 2010; he served as the general manager of the computer department in the headquarter of Taiping Life Insurance Co., Ltd. from August 2001 to March 2005; and he successively served as an engineer and the business officer of the computer department, an engineer of actuary and information department, the officer and assistant to general manager of software development office under life insurance, and assistant to general manager of the Jilin Branch of China Ping An Insurance Company* (中國平安保險公司), from November 1993 to August 2001; he served as an engineer of China Electronics Software Development Co.* (中電軟件技術開發公司) from August 1992 to November 1993 and as assistant engineer of the first engineering division of Nanjing No. 724 Research Institute* (南京724研究所) from August 1989 to August 1992.</p> <p>Mr. GAO obtained a bachelor's degree of science in computer software from the Department of Computer Science from Nanjing University in July 1989.</p>

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
<p>HUANG Jian (黃堅)</p>	<p>Mr. HUANG has served as our non-executive Director since August 2012. Mr. HUANG has finance-related management experience via serving in financial departments and at administrative positions of various companies. Specifically, he has been general manager of the capital operation department of China COSCO Shipping Corporation Limited since September 2016; director of Shanghai Rural Commercial Bank Co., Ltd. since June 2018; director of COSCO SHIPPING Captive Insurance Co., Ltd. since August 2017; director of Lanhai Medical Investment Co., Ltd. (listed on the SSE, stock code: 600896) since May 2017; non-executive director of COSCO SHIPPING Development Co., Ltd. (listed on the SSE, stock code: 601866; listed on the Hong Kong Stock Exchange, stock code: 2866) since June 2016; director of COSCO SHIPPING Technology Co., Ltd. (listed on the SZSE, stock code: 002401) from December 2017 to March 2019. Mr. HUANG served as deputy general manager (person-in-charge) of the capital operation department of China COSCO Shipping Corporation Limited from February to August 2016; deputy general manager of the finance department of COSCO from February 2012 to February 2016; chief financial officer and general manager of the finance department of COSCO Americas Inc. from November 2006 to February 2012; and vice president and general manager of the finance department of COSCO Logistics (Americas), Inc. (中遠物流(美洲)有限公司) (formerly known as Intermodal Bridge Services Inc. (中遠美國內陸運輸公司)) from September 2004 to November 2006. Mr. HUANG worked at COSCO from July 1996 to September 2004, and the last position he held was head of the capital management department of finance and capital division. Mr. HUANG was staff member at the finance department of Shenzhen Ocean Shipping Co., Ltd. from July 1993 to July 1996.</p> <p>Mr. HUANG obtained a bachelor's degree in economics majoring in auditing from Capital University of Economics and Business (formerly known as Beijing Institute of Finance and Trade) and a master's degree in business management from Beijing Institute of Technology in July 1992 and March 2002, respectively. Mr. HUANG obtained the qualifications of accountant and senior accountant from the Ministry of Finance in May 1997 and December 2015, respectively.</p>

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
<p>WANG Daxiong (王大雄)</p>	<p>Mr. WANG has served as our non-executive Director since September 2016. Mr. WANG has experience in management of financial companies and listed companies. Specifically, he has been chairman of the board of directors of COSCO SHIPPING Captive Insurance Co., Ltd. since October 2017; chief executive officer and executive director of COSCO SHIPPING Development Co., Ltd. (listed on the SSE, stock code: 601866; listed on the Hong Kong Stock Exchange, stock code: 2866) since May 2016 and the chairman of it since July 2019; chairman of the board of directors of COSCO SHIPPING Financial Co., Limited since March 2014; non-executive director of China Merchants Bank Co., Ltd. (listed on the SSE, stock code: 600036; listed on the Hong Kong Stock Exchange, stock code: 3968) since November 2016; and vice chairman of the board of the directors of New China COSCO Financial Holdings Limited (新華遠海金融控股有限公司) since March 2017. Mr. WANG acted as director of CIB Fund Management Co., Ltd. from April 2016 to June 2017; executive director of COSCO SHIPPING Energy Transportation Co., Ltd. (listed on the SSE, stock code: 600026; listed on the Hong Kong Stock Exchange, stock code: 1138) from August 1997 to March 2014; non-executive director of COSCO SHIPPING Development Co., Ltd. (listed on the SSE, stock code: 601866; listed on the Hong Kong Stock Exchange, stock code: 2866) from June 2004 to June 2014; vice chairman and chairman of the board of directors of Lanhai Medical Investment Co., Ltd. (listed on the SSE, stock code: 600896) from June 1998 to July 2001 and from July 2001 to April 2014, respectively; and non-executive director of China Merchants Bank from April 1998 to March 2014. Mr. WANG also has working experience relating to financial management via serving as chief accountant, vice president and deputy general manager of China Shipping (Group) Company from January 1998 to March 2014; head of the finance department and chief accountant of Guangzhou Maritime Transport (Group) Co., Ltd. from January 1996 to January 1998; division head and office chief of the Finance Office of the Guangzhou Maritime Bureau (廣州海運局財務處) from March 1991 to January 1996; deputy head and head of the Finance Division of the Second Cargo of Guangzhou Maritime Bureau (廣州海運局二貨公司) from March 1988 to March 1991; and deputy division head of the Finance Department of the Guangzhou Maritime Bureau (廣州海運局財務部) from December 1987 to March 1988.</p> <p>Mr. WANG obtained a bachelor's degree majoring in finance and economics from Shanghai Maritime University and an EMBA degree from Shanghai University of Finance and Economics in July 1983 and January 2012, respectively. Mr. WANG also obtained the qualification of senior accountant from Ministry of Transport in November 1995.</p>

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
<p>WANG Wen (王文)</p>	<p>Mr. WANG has served as our non-executive Director since July 2019. He has relevant working experience in financial and insurance enterprises. Specifically, Mr. WANG has served as the vice president of PICC Life Insurance Company Limited (中國人民人壽保險股份有限公司) since July 2017; director of China-US Insurance Advisory CO., LTD. (中美國際保險銷售服務有限責任公司) since May 2017; sales director of PICC Life Insurance Company Limited from July 2015 to January 2017; leader of the preparatory group, deputy manager (job leader) and general manager of the Beijing Branch of PICC Life Insurance Company Limited since April 2005 to January 2017; assistant to general manager and deputy general manager of the Beijing Branch of China Pacific Life Insurance Co., LTD. (中國太平洋人壽保險股份有限公司) from January 2001 to April 2005; assistant to manager and deputy manager of life insurance department, deputy manager of domestic business department and manager of car insurance department of the Beijing Branch of China Pacific Insurance Co., Ltd. from August 1995 to January 2001.</p> <p>Mr. WANG obtained a bachelor's and master's degree majoring in law from Peking University in July 1991 and July 2005, respectively.</p>
<p>XIANG Hua (向華)</p>	<p>Mr. XIANG has served as our independent non-executive Director since July 2017. Mr. XIANG has experience in foreign exchange practices and capital market management. Specifically, he has been chief executive officer of Turui Investment Management Co., Ltd. (圖瑞投資管理有限公司) since January 2018, and he was chief executive officer and chief operating officer of Deepwater Capital Limited from October 2014 to November 2017; general manager of SAFE Investment Company Limited from July 2009 to February 2014; and head of the Central Foreign Exchange Business Center of the State Administration of Foreign Exchange from March 2004 to July 2009. Mr. XIANG successively acted as officer and deputy head of the Balance of Payments Department and General Affairs Department of the State Administration of Foreign Exchange from August 1994 to March 2004.</p> <p>Mr. XIANG obtained a bachelor's degree in economics from Beijing Normal University and a master's degree in economics from Renmin University of China in 1994 and 2001, respectively.</p>



## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
<p>XIAO Houfa (肖厚發)</p>	<p>Mr. XIAO has served as our independent non-executive Director since July 2017. Mr. XIAO has experience in the practices and management of accounting firms. Specifically, he has been principal partner of HuaPu TianJian Certified Public Accountants LLP (currently known as RSM China (容誠會計師事務所(特殊普通合夥)) since January 2014. Mr. XIAO served as chief accountant of HuaPu TianJian Certified Public Accountants (Beijing) Co., Ltd. (華普天健會計師事務所北京有限公司) from December 2008 to December 2013; chief accountant of Anhui HuaPu Certified Public Accountants (安徽華普會計師事務所) from September 1999 to December 2008; founder and deputy chief accountant of Anhui HuaPu Certified Public Accountants (安徽華普會計師事務所) from January 1999 to August 1999; and staff member in Anhui Certified Public Accountants (安徽會計師事務所) from July 1988 to December 1998.</p> <p>Mr. XIAO obtained a bachelor's degree in accounting from Shanghai University of Finance and Economics in July 1988. Mr. XIAO has received the title of senior accountant and is a certified public accountant.</p>
<p>XIONG Wei (熊偉)</p>	<p>Mr. XIONG has served as our independent non-executive Director since August 2017. Mr. XIONG has experience in conducting researches on economics and finance via teaching at Princeton University since July 2000 where he has become professor of economics in July 2007 and Trumbull-Adams Professor of Finance in July 2014; director of Shenzhen Finance Institute, CUHK(SZ) since January 2016; academic dean of the School of Economics and Management at The Chinese University of Hong Kong, Shenzhen since June 2015 and academic advisor at Hong Kong Institute for Monetary Research since July 2012.</p> <p>Mr. XIONG obtained a bachelor's degree in physics from the University of Science and Technology of China, a master's degree in physics from Columbia University in the United States and a doctoral degree in finance from Duke University in the United States in July 1993, May 1995 and May 2001, respectively.</p>
<p>HU Honggao (胡鴻高)</p>	<p>Mr. HU has served as our independent non-executive Director since July 2017. Mr. HU has experience in conducting researches on and practising law. Specifically, Mr. HU has been professor of law and doctoral advisor at Fudan University since January 2008, while concurrently serving as independent director of Shanghai Huaxin Stock Co., Ltd (上海華鑫股份有限公司) (listed on the SSE, stock code: 600621) since May 2017; independent director of Shanghai Amarsoft Information &amp; Technology Co., Ltd. (上海安碩信息技術股份有限公司) (listed on the SZSE, stock code: 300380) since March 2017; independent director of Perfect Group CORP., LTD (倍加潔集團股份有限公司) (listed on the SSE, stock code: 603059) since June 2016; independent director of Shanghai Tofflon Science and Technology Co., Ltd. (上海東富龍科技股份有限公司) (listed on the SZSE, stock code: 300171) since March 2014. Mr. HU was vice dean, professor of law and doctoral advisor of Fudan Law School at Fudan University from January 2001 to December 2007; head, professor of law and doctoral advisor of faculty of law at Fudan University from December 1996 to December 2000.</p> <p>Mr. HU obtained a bachelor's degree in law from Peking University in 1983.</p>



## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
WONG Ti (汪棣)	<p>Mr. WONG has served as our independent non-executive Director since January 2018. He has extensive experience in the operation and management of an accounting firm. Specifically, Mr. WONG has been independent director of China International Fund Management Co., Ltd. since April 2019; independent non-executive director of 51 Credit Card Inc. (listed on the Hong Kong Stock Exchange, stock code: 2051) since July 2018; independent director of Fosun United Health Insurance Co., Ltd. (復星聯合健康保險股份有限公司) since July 2017, the independent director of AsiaPacific Property &amp; Casualty Insurance Co., Ltd. since April 2016 and supervisor of Vivasolis Biotechnology Co., Ltd. (中國台灣旭昶生物科技股份有限公司) since August 2016. Mr. WONG was also a partner of PricewaterhouseCoopers (PwC) China from 1998 to 2015, manager of Coopers &amp; Lybrand China (中信永道會計師事務所) from 1990 to 1998, and auditor of Coopers &amp; Lybrand Los Angeles (中信永道會計師事務所) from 1987 to 1990.</p> <p>Mr. WONG obtained a bachelor's degree in accounting from the Department of Business Administration of National Taiwan University in 1982 and a Master of Business Administration (MBA) degree from University of California, Los Angeles in 1986. Mr. WONG obtained a qualification as a certified public accountant in China in October 2002.</p>
ZHOU Linda Lei (周語菡)	<p>Ms. ZHOU has served as our Chairman of the Supervisory Committee since July 2014. Ms. ZHOU was executive director of China Merchants China Direct Investments Limited (listed on the Hong Kong Stock Exchange, stock code: 0133) from March 2008 to September 2014 and from March 2002 to September 2005; managing director of China Merchants China Investment Management Limited from February 2008 to May 2014 and from February 2002 to July 2005; and independent director of China Merchants Fund from September 2007 to November 2013. Ms. ZHOU served as independent director of Jiangxi Selon Industrial Co., Ltd. (listed on the SZSE, stock code: 002748) from May 2008 to May 2014; and supervisor of Industrial Bank Co., Ltd. (listed on the SSE, stock code: 601166) from April 2008 to October 2013.</p> <p>Ms. ZHOU obtained a bachelor's degree in economics majoring in finance and accounting from Renmin University of China and a master's degree in business administration from Sonoma State University of the California State University in July 1989 and January 1993, respectively.</p>

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
<p>LI Xiaofei (李曉霏)</p>	<p>Mr. LI has served as our Supervisor since July 2014. Mr. Li has been a standing member of the Execution Committee of China Merchants Financial Services Business Unit since June 2018; supervisor of China Greatwall Securities Co., Ltd. (listed on the SZSE, stock code: 002939) since July 2015 and deputy general manager of China Merchants Finance Holdings Co., Ltd. from November 2017 to February 2019. He was an assistant to the general manager of China Merchants Finance Holdings Co., Ltd. from November 2014 to November 2017; general manager of the human resources department of China Merchants Finance Holdings Co., Ltd. from May 2010 to September 2016; senior manager of the human resources department of China Merchants Group from October 2006 to May 2010; and manager of the administration and human resources department and secretary to the board of directors of Grand Auto Park Company Limited (深圳市平方汽車園區有限公司) from October 2003 to October 2006. Mr. LI joined Shenzhen Nanyou (Holdings) Ltd. since July 1993, and has held such positions as secretary (chief at section level) of the general manager office, deputy manager of the planning and development department and deputy manager of the leasing department.</p> <p>Mr. LI obtained a master's degree in economics majoring in labour economics from Renmin University of China in January 2004.</p>
<p>WANG Zhangwei (王章為)</p>	<p>Mr. WANG has served as our Supervisor since June 2017. Mr. WANG has been the chief auditor (首席稽核官) of the Execution Committee of China Merchants Financial Services Business Unit since April 2019; director of Shenzhen Yan Qing Investment and Development Co. Ltd., Shenzhen Chu Yuan Investment and Development Co., Ltd. and Shenzhen Jisheng Investment Development Co., Ltd. since November 2014; and supervisor of China Merchants Finance Investment Holdings Co. Ltd. since September 2011. He was assistant to the general manager of China Merchants Finance Holdings Co., Ltd. from May 2016 to April 2019; general manager of Shenzhen Yan Qing Investment and Development Company Ltd. from November 2014 to August 2018; general manager of Shenzhen Chuyuan Investment and Development Company Ltd. from November 2014 to July 2018; general manager of Shenzhen Jisheng Investment Development Co., Ltd. from November 2014 to July 2018. Mr. WANG was general manager of the finance department of China Merchants Finance Holdings Co., Ltd. from June 2014 to May 2016; general manager of finance department of China Merchants Finance Holdings Co., Ltd. from June 2008 to June 2014; senior manager of the audit department of China Merchants Group Limited from August 2002 to June 2008; manager of the finance department of China Merchants Technology Holdings Co., Ltd. from May 2001 to August 2002; and manager of the audit department of China Merchants Shekou Holdings Co., Ltd. from April 2000 to May 2001.</p> <p>Mr. WANG obtained a bachelor's degree from Dongbei University of Finance and Economics and an MBA degree from University of South Australia in July 1995 and April 2008, respectively. He is a certified public accountant in the PRC and an international certified internal auditor.</p>

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
<p>MA Yunchun (馬蘊春)</p>	<p>Mr. MA has served as our Supervisor since June 2017. Mr. MA has been director and general manager of Hebei Port Group Investment Management Co., Ltd. (河北港口集團投資管理有限公司) (currently known as Hebei Port Group Investment (Tianjin) Management Co., Ltd. (河北港口集團投資(天津)管理有限公司)), and chairman of the board of directors and general manager of Hebei Port Group Shanghai Investment Management Company (河北港口集團上海投資公司) since January 2016. Mr. MA served as manager of First Company of Qinhuangdao Port Co., Ltd. (秦皇島港口有限公司一公司) from June 2008 to January 2016; manager of First Company of Qinhuangdao Port Co., Ltd. (秦皇島港口有限公司一公司) from March 2008 to June 2014; manager of Logistics Company of Qinhuangdao Port Co., Ltd. (秦皇島港口有限公司物流公司) from September 2003 to March 2008; deputy manager of Sixth Company of Qinhuangdao Port Co., Ltd. (秦皇島港口有限公司六公司) from April 2003 to September 2003; head of the lading team of Sixth Company of Qinhuangdao Port Co., Ltd. (秦皇島港口有限公司六公司) from April 2001 to April 2003; vice head of the lading team of Sixth Company of Qinhuangdao Port Co., Ltd. (秦皇島港口有限公司六公司) from May 1998 to April 2001; and cadre of the electromechanical division of Sixth Company of Qinhuangdao Port Co., Ltd. (秦皇島港口有限公司六公司) from April 1994 to May 1998. Mr. MA worked in Shanhaiguan Bridge Works from July 1989 to September 1991.</p> <p>Mr. MA obtained a bachelor's degree and a master's degree in welding from Tianjin University in July 1989 and April 1994, respectively.</p>
<p>FANG Xiaobing (房小兵)</p>	<p>Mr. FANG has served as our Supervisor since July 2011. Mr. FANG has been the standing member of the Party committee and deputy general manager of China Reform Holdings Corporation Ltd. (中國國新控股有限責任公司) since December 2019; general manager of the financial management department of China Communications Construction Company Ltd. (listed on the SSE, stock code: 601800; listed on the Hong Kong Stock Exchange, stock code: 1800) since August 2014 to February 2020; supervisor of Jiang Tai Insurance Brokers Co., Ltd. since October 2015; director of CCCC Finance Company Limited (中交財務有限公司) since March 2016; director of CCCC Fund Management (Beijing) Co., Ltd. since August 2016; supervisor of Yellow River Property &amp; Casualty Insurance Co., Ltd. since August 2017; a director of CCCC Financial Leasing Co., Ltd. since May 2018. Mr. FANG once held the following positions at China Communication Construction Company Limited: executive general manager and chief financial officer of the overseas business department from July 2013 to August 2014; and chief accountant of the overseas business department from December 2011 to July 2013. Mr. FANG served as general manager of the financial funding department of China Communications Construction Group (Limited) from April 2011 to June 2012. Mr. FANG worked at China Harbor Construction (Group) Company (中國港灣建設(集團)總公司) between November 1994 and September 2005, and the highest position he held was deputy general manager of the finance department.</p> <p>Mr. FANG obtained a bachelor's degree in engineering majoring in finance from Changsha University of Science &amp; Technology (formerly known as Changsha College of Transportation), a master's degree in business administration from Fordham University in the U.S. and a doctoral degree in administration from Beijing Jiaotong University in June 1993, February 2006 and June 2016, respectively. Mr. FANG was granted the title of Official Senior Accountant in December 2015 by China Communications Construction Company Limited.</p>

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
<p>ZHANG Zehong (張澤宏)</p>	<p>Mr. ZHANG has served as our Supervisor since July 2011. Mr. ZHANG has been vice president of Shenzhen Huaqiang Holdings Limited since August 2014; director of Shenzhen Huaqiang Industry Co., Ltd. (listed on the SZSE, stock code: 000062) since June 2012; he has been director of Shenzhen Huaqiang Electronic Commerce Co., Ltd. and holds concurrently the positions of director, general manager and supervisor in various subsidiaries of Huaqiang Holdings, including Shenzhen Huaqiang Group Finance Company Limited, Shenzhen Huaqiang Asset Management Group Co., Ltd., Shenzhen Qianhai Huaqiang Financial Holdings Co., Ltd., Kunyi Hengxin Venture Capital Co., Ltd., Shenzhen Huaqiang Supply Chain Management Company Limited and Fantawild Holdings Inc. since April 2013. Mr. ZHANG served as general manager of Huaqiang Industry from June 2012 to August 2014; vice president of Huaqiang Holdings from November 2011 to June 2012; and concurrently assistant to the president of Huaqiang Holdings from January 2007 to November 2011; managing director of Shenzhen Huaqiang Dingxin Investment Co., Ltd. from December 2008 to June 2012; and head of the auditing department, finance department, and settlement center of Huaqiang Holdings from October 2003 to October 2008.</p> <p>Mr. ZHANG obtained a bachelor's degree in economics majoring in accounting from Xi'an Shiyou University (formerly known as Xi'an Shiyou College) and a master's degree in economics majoring in accounting from Shaanxi Institute of Finance and Economics (now merged into Xi'an Jiaotong University) in June 1994 and July 1997, respectively. Mr. ZHANG was granted the title of Intermediate Accountant by the Ministry of Finance in May 1999.</p>
<p>YIN Hongyan (尹虹艷)</p>	<p>Ms. YIN has served as our employee representative Supervisor since August 2007. Ms. YIN has been general manager of our Human Resources Department since August 2018. She was general manager of our Department of Retail Brokerage and Department of Operations and Administration from August 2017 to August 2018. Ms. YIN served as deputy general manager and then general manager of our Department of Operations and Administration from April 2009 to August 2017; manager of our Shenzhen Fumin Road securities branch from April 2007 to April 2009; assistant to the general manager of our Private Customer Service Department from January 2006 to April 2007; deputy manager of our Shenzhen Fumin Road securities branch from January 2005 to January 2006; and assistant to manager and head of the customer service department of our Shenzhen Zhenhua Road securities branch from July 2000 to February 2005.</p> <p>Ms. YIN obtained a doctoral degree in law majoring in sociology from Nankai University in June 2006.</p>

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
HE Min (何敏)	<p>Ms. HE has served as our employee representative Supervisor since July 2009. Ms. HE has been general manager of our Finance Department since February 2019; director of CMS Asset Management since July 2019; director of China Merchants Futures and CMS Zhiyuan since May 2019 and chairman of the supervisory committee of Bosera Funds since April 2019. Ms. HE served as deputy general manager of our Finance Department from April 2009 to February 2019, and assistant to the general manager of our Finance Department from April 2006 to April 2009. Ms. HE started her service at our Finance Department from July 1999.</p> <p>Ms. HE obtained a bachelor's degree in economics majoring in accounting and a master's degree in management majoring in accounting, both from Zhongnan University of Economics and Law (formerly Zhongnan University of Finance and Economics), in July 1996 and June 1999, respectively. Ms. HE was granted the qualification of Certified Public Accountant in October 1999 by the Chinese Institute of Certified Public Accountants.</p>
XIONG Zhigang (熊志鋼)	<p>Mr. XIONG has served as our employee representative Supervisor since May 2017. He has served as director and general manager of CMS Asset Management since December 2019. He was supervisor of CMS Asset Management from May 2019 to December 2019, general manager of our Audit Department from December 2017 to December 2019 and supervisor of CMS Investment from December 2017 to December 2019. Mr. XIONG was chief compliance officer, chief risk officer and secretary to the board of directors of China Merchants Securities Asset Management Co., Ltd. from May 2015 to December 2017. He worked for the preparatory panel of China Merchants Securities Asset Management Co., Ltd. from October 2014 to April 2015. Mr. XIONG served as officer and deputy head of the CSRC Shenzhen Office from September 2003 to August 2014; and financial manager of the financial management department of Huawei Technologies Co., Ltd. from July 2000 to August 2003.</p> <p>Mr. XIONG obtained a bachelor's degree in economics majoring in auditing from Nankai University and a master's degree in finance from Peking University in June 2000 and July 2007, respectively. Mr. XIONG was granted the qualifications of Certified Public Accountant by the Chinese Institute of Certified Public Accounts, Internal Auditor by the China Institute of Internal Audit, International Internal Auditor (IIA) by the Institute of Internal Auditors as well as the title of Intermediate Accountant by the Ministry of Finance of the PRC in December 2004, November 2001, November 2001 and May 2004, respectively.</p>

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
<p>DENG Xiaoli (鄧曉力)</p>	<p>Ms. DENG has served as our Vice President since November 2005. She has been chairman of the board of directors of CMS Asset Management since March 2019; and chairman of the board of directors of CMS Zhiyuan since January 2019. She also served as our Chief Risk Officer from August 2014 to December 2018; and has been director of China Merchants Fund since November 2006; vice chairman of the board of directors of China Merchants Fund since November 2013. She was a director of CMS International from January 2006 to January 2019; secretary to the Board from August 2014 to December 2014; and deputy general manager and then general manager of our Risk Management Department from March 2002 to March 2006 (during such period she had been seconded by the CSRC to be a member of the administrative take-over group of China Southern Securities). Ms. DENG was senior analyst in the risk management department of Citigroup Inc. from August 1998 to October 2001; and senior risk analyst of Providian Financial Corporation from June 1997 to August 1998.</p> <p>Ms. DENG obtained a bachelor's degree in science majoring in management science from Shandong University, a master's degree and a doctoral degree in economics from the State University of New York in July 1989, December 1993 and December 1996, respectively. Ms. DENG was granted the title of Senior Economist (Finance) in December 2013.</p>
<p>LI Zongjun (李宗軍)</p>	<p>Mr. LI has served as our Vice President since July 2015. Mr. LI has been chairman of the board of directors of China Merchants Futures since March 2019, director of E-Capital Transfer Co., Ltd. since January 2019. He served as chairman of the board of directors of CMS Zhiyuan from January 2015 to January 2019; assistant to the President from December 2014 to July 2015; deputy general manager of China Merchants Food Supply Chain Management Co., Ltd.* (招商局食品供應鏈管理有限公司) from January 2014 to September 2014; deputy general manager of China Merchants Capital Investments Co., Ltd. from April 2013 to January 2014; deputy general manager of the corporate planning department of China Merchants Group from February 2006 to April 2013; assistant to general manager of China Merchants Holdings (International) Company Limited from March 2003 to February 2005; deputy manager of the overseas listing department of COSCO's asset management center from September 1997 to April 1999; and assistant to the general manager of COSCO Finance Co., Ltd. (formerly COSCO Group Finance Co., Ltd.) and general manager of its Beijing securities department from March 1994 to October 1997.</p> <p>Mr. LI obtained a bachelor's degree in economics and a master's degree in economics, both from Nankai University, in July 1987 and April 1990, respectively. Mr. LI was granted the qualification of senior economist by the Ministry of Transport in October 1998.</p>

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
<p>WU Huifeng (吳慧峰)</p>	<p>Mr. WU has served as our Vice President since November 2018 and our Secretary to the Board since December 2014. Mr. WU served as assistant to the President from May 2014 to March 2015; co-general manager of the Board office from June 2014 to June 2015; our Supervisor from July 2007 to May 2014; and our Director from May 2004 to July 2007. Mr. WU held the following positions in China Merchants Finance Holdings Co., Ltd.: deputy general manager from September 2013 to May 2014; assistant to the general manager from July 2008 to September 2013; general manager of the human resources department from June 2008 to May 2010; and general manager of the finance and audit department from June 1999 to June 2008. Mr. WU served as deputy manager of the finance department of Shanghai Nanshan Real Estate Development Co., Ltd. (上海南山房地產開發有限公司) (formerly Shanghai Chengnan Real Estate Development Company (上海誠南房地產開發公司)) from August 1998 to June 1999; and employee and head of the settlement center of China Nanshan Development (Group) Co., Ltd. from June 1996 to August 1998.</p> <p>Mr. WU obtained a bachelor's degree in economics majoring in accounting from the Shanghai University of Finance and Economics and a master's degree in economics majoring in finance from Peking University in June 1996 and January 2012, respectively. Mr. WU was granted the qualification of accountant in May 1998 by the Ministry of Finance of the PRC.</p>
<p>ZHAO Bin (趙斌)</p>	<p>Mr. ZHAO has served as our Vice President since November 2018. He has been working as executive director of CMS Investment since January 2019; chief compliance officer of CMS Asset Management since January 2018 and chairman of the supervisory committee of China Merchants Fund since September 2017. He served as our Chief Compliance Officer from January 2016 to December 2018; director of CMS Asset Management from July 2015 to May 2019; a director of China Merchants Futures from July 2008 to May 2019. Mr. ZHAO served as general manager of our Department of Retail Brokerage from April 2008 to January 2016, and during such period, he also served as general manager of our Channel Management Department from April 2013 to January 2014. Mr. ZHAO was our employee representative Supervisor from July 2007 to May 2011; general manager of our Private Customer Service Department from January 2006 to April 2009; manager of our Shenzhen Nanshan Nanyou Road securities branch from August 2001 to January 2006; deputy manager (person-in-charge) of our Shenzhen Longgang securities branch from August 1999 to August 2001; and assistant to the general manager of our Brokerage Business Department from January 1999 to August 1999. Mr. ZHAO had held the following positions in the securities department of China Merchants Bank: assistant to the manager and manager of Haikou branch from March 1996 to December 1998; head of Futian branch from May 1995 to March 1996; and staff member of the securities department from July 1992 to May 1995.</p> <p>Mr. ZHAO obtained a bachelor's degree in economics majoring in international finance from Shenzhen University and a master's degree in science majoring in project management from the University of Greenwich in June 1992 and December 2010, respectively.</p>



## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
HU Yu (胡宇)	<p>Mr. HU has been the compliance officer and chief risk officer since December 2018. From August to November 2018, he was the deputy head of capital operation department of China Merchants Group. He served as the member of CPC Committee and the secretary of Disciplinary Committee of Guangdong Bureau of the China Securities Regulatory Commission from November 2016 to July 2018. From February 2015 to October 2016, he was the member of CPC Committee and the secretary of Disciplinary Committee of Hainan Bureau of the China Securities Regulatory Commission. He served as the deputy principal staff member of Department of Policy and Regulations, the principal staff member of Department of Intermediary Supervision, the deputy officer and director of Office of the Party Committee as well as the director of No.1 Inspection Office of Shenzhen Bureau of the China Securities Regulatory Commission from July 1996 to January 2015. He has taught at the foreign language teaching and research office of Jiangxi Medical College from July 1989 to August 1994. From September 1981 to August 1985, he was a teacher in Xishan Middle School (西山中學).</p> <p>Mr. HU obtained a Bachelor of Arts degree from Jiangxi Normal University (江西師範大學) and a Master's degree in Finance from Graduate School of People's Bank of China in July 1989 and July 1996, respectively.</p>
WU Guangyan (吳光焰)	<p>Mr. WU has served as our Vice President since February 2019. He has been the chairman of the board of directors of CMS International since December 2018; general manager of our Department of International Business since November 2018. He served as assistant to the President from July 2018 to February 2019; general manager of CMS Asset Management from April 2015 to August 2019; and general manager of our Assets Management Department from January 2014 to April 2015. He also served as general manager of our Private Customer Service Department from April 2009 to January 2014; deputy general manager (person-in-charge) of our Operations and Administration Department from January 2008 to April 2009; person-in-charge for the operation department for credit card business department of the headquarter of Ping An Bank from April 2007 to January 2008; the general manager of Technology Department of the Shenzhen branch of China Guangfa Bank from August 2002 to April 2007; technology manager of information technology center of the head office of China Merchants Bank from June 1995 to April 2002 and engineer of Radio Electronics Research Institute in Wuhan City from June 1988 to September 1992.</p> <p>Mr. WU obtained a bachelor's degree in automatic control majoring in testing technology and instrument (自動控制系檢測技術及儀器專業學士學位) and a master's degree majoring in pattern recognition and intelligent control (模式識別與智能控制專業碩士學位) from Huazhong University of Science and Technology in June 1988 and June 1995, respectively.</p>



## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Major working experience
XIE Jijun (謝繼軍)	<p>Mr. XIE has served as our Vice President since March 2019 and has been general manager of the head office of Investment bank since April 2008. He served as managing director of the head office of our Investment bank from April 2008 to February 2019; executive director (person-in-charge) of the head office of our Investment bank from June 2007 to April 2008; and successively acted as team head, deputy general manager and executive director of the head office of our Investment bank from June 2000 to June 2007; senior manager and assistant to general manager of department of investment bank of China Southern Securities Limited from October 1996 to June 2000 and held the position of officer of the corporate management department of Shenzhen Navigation Group Co., Ltd. from July 1994 to October 1996.</p> <p>Mr. XIE obtained a bachelor's degree in Naval Architecture and Ocean Engineering majoring in thermal engineering from South China University of Technology in July 1994, a master's degree in economics majoring in international economics and trade from Nankai University and Flinders University in Australia (澳大利亞弗林德斯大學) in October 2004 and an EMBA degree from China Europe International Business School in September 2011. Mr. XIE was among the first batch of candidates registered as sponsor representatives in China in 2004.</p>
CHEN Zhigang (陳志剛)	<p>Mr. CHEN has served as our non-executive Director from June 2017 to May 2019. Mr. CHEN has working experience in various financial and insurance enterprises. Specifically, he has been chairman of the supervisory committee, secretary to discipline inspection commission office and member of the party committee of PICC Pension Company Limited since August 2018; executive director and legal representative of PICC Health Pension Management (Guangzhou) Co., Ltd (人保健康養老管理(廣州)有限公司) since August 2018; secretary to the board of directors of PICC Life Insurance Company Limited from February 2018 to August 2018; executive director of PICC Life Insurance Company Limited from January 2018 to August 2018; vice president of PICC Life Insurance Company Limited from January 2017 to August 2018; and vice president of PICC Health Insurance Company Limited from April 2011 to January 2017. Mr. CHEN served as assistant to the president of PICC Health Insurance Company Limited from September 2009 to April 2011; and successively held position in the People's Bank of China, the Financial Committee of the CPC Central Committee (中央金融工委) and the China Banking Regulatory Commission from July 1993 to August 2009, including the position of deputy director (deputy at the bureau level) of the training center of the China Banking Regulatory Commission.</p> <p>Mr. CHEN obtained a bachelor's degree in economics from Hangzhou University (now known as Zhejiang University), a master's degree in economics from the Chinese Academy of Social Sciences and a doctoral degree from Renmin University of China in July 1993, July 1999 and July 2005, respectively. He was granted the qualification of senior economist in November 2003.</p>

## Chapter 7: Directors, Supervisors, Senior Management and Employees

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

#### (I) Positions in shareholders

Name	Name of shareholder	Position	Date of Appointment	Date of Termination
SU Min (蘇敏)	China Merchants Finance Investment Holdings Co., Ltd.	General manager	December 2017	to date
WANG Wen (王文)	PICC Life Insurance Company Limited	Vice president	July 2017	to date
WANG Zhangwei (王章為)	China Merchants Finance Investment Holdings Co., Ltd.	Supervisor	September 2011	to date
	Shenzhen Jisheng Investment Development Co., Ltd.	Director	November 2014	to date
FANG Xiaobing (房小兵)	China Communications Construction Company Ltd.	General manager of the financial management department	August 2014	February 2020
Statement of positions in shareholders' company		Nil		

#### (II) Positions in other companies

Name	Name of company	Position	Date of Appointment	Date of Termination
HUO Da (霍達)	CMS International	Director	January 2019	to date
	17th Public Offering Review Committee of the CSRC	Part-time committee member	September 2017	January 2019
SU Min (蘇敏)	China Merchants Financial Services Business Unit	Standing vice officer of the Execution Committee	June 2018	to date
	Bosera Funds	Director	September 2018	to date
	China Merchants Finance Holdings Co., Ltd.	Director	December 2015	to date
	China Merchants Bank	Director	September 2014	to date
	China Merchants Finance Holdings Co., Ltd.	General manager	September 2015	February 2019

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Name of company	Position	Date of Appointment	Date of Termination
SU Jian (粟健)	China Merchants Group	Head of the finance department (property rights department)	July 2017	to date
	Sinotrans Limited	Non-executive Director	June 2019	to date
	China Merchants Port Group Co., Ltd.	Director	December 2018	to date
	China Merchants Port Holdings Company Limited	Executive Director	October 2017	to date
	China Merchants Expressway Network & Technology Holdings Co., Ltd.	Director	January 2018	to date
	China Merchants Energy Shipping Co., Ltd.	Director	August 2017	January 2019
XIONG Xianliang (熊賢良)	China Merchants Group	Director of development research center	August 2018	to date
	China Merchants Technology and Innovation Development Institute (招商局科技創新發展研究院)	Dean	August 2018	to date
	China Merchants Group	Head of strategic development department	March 2015	to date
	Sinotrans Limited	Non-executive Director	June 2019	to date
	China Merchants Port Holdings Company Limited	Executive Director	June 2018	to date
XIONG Jiantao (熊劍濤)	CMS International	Director	September 2015	to date
	CMS Asset Management	Chairman of the board of directors	March 2015	March 2019
	China Merchants Futures	Chairman of the board of directors	March 2008	March 2019

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Name of company	Position	Date of Appointment	Date of Termination
PENG Lei (彭磊)	China Merchants Group	Standing member of the Execution Committee of China Merchants Financial Services Business Unit	June 2018	to date
	China Merchants Ping An Asset Management Co.	Director	December 2018	to date
	China Merchants Commerce Leasing Co., Ltd	Director	August 2018	to date
	China Great Wall Securities Co., Ltd.	Director	June 2011	to date
	China Merchants Finance Holdings Co., Ltd.	Deputy general manager	April 2016	February 2019
	Morgan Stanley Huaxin Fund Management Co., Ltd.	Director	March 2015	August 2019
GAO Hong (高宏)	Execution Committee of China Merchants Financial Services Business Unit	Standing member of the Execution Committee	February 2019	to date
	China Merchants Financial Technology Co., Ltd. (招商局金融科技有限公司)	General manager	November 2017	to date
	China Merchants Life Insurance Company Limited	Deputy general manager (Chief Technology Officer (CTO))	February 2017	to date
	China Merchants Finance Holdings Co., Ltd.	Chief Technology Officer (CTO)	February 2017	February 2019
HUANG Jian (黄坚)	Shanghai Rural Commercial Bank Co., Ltd.	Director	June 2018	to date
	China COSCO Shipping Corporation Limited	General manager of capital operation department	September 2016	to date
	COSCO SHIPPING Captive Insurance Co., Ltd.	Director	August 2017	to date
	Lanhai Medical Investment Co., Ltd.	Director	May 2017	to date
	COSCO SHIPPING Development Co., Ltd.	Non-executive director	June 2016	to date
	COSCO SHIPPING Technology Co., Ltd.	Director	December 2017	March 2019

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Name of company	Position	Date of Appointment	Date of Termination
WANG Daxiong (王大雄)	COSCO SHIPPING Captive Insurance Co., Ltd.	Chairman of the board of directors	October 2017	to date
	COSCO SHIPPING Financial Co., Limited	Chairman of the board of directors	March 2014	to date
	COSCO SHIPPING Development Co., Ltd.	Chairman of the board of directors	July 2019	to date
	COSCO SHIPPING Development Co., Ltd.	Executive director	June 2016	to date
	COSCO SHIPPING Development Co., Ltd.	Chief executive officer	May 2016	to date
	China Merchants Bank	Non-executive director	November 2016	to date
	New China COSCO Financial Holdings Limited	Vice chairman of the board of directors	March 2017	to date
WANG Wen (王文)	China-US Insurance Advisory CO., LTD.	Chairman of the board of directors	May 2017	to date
XIANG Hua (向華)	Turui Investment Management Co., Ltd. (圖瑞投資管理有限公司)	Chief executive officer	January 2018	to date
XIAO Houfa (肖厚發)	RSM China (容誠會計師事務所(特殊普通合伙))	Principal partner	January 2014	to date
XIONG Wei (熊偉)	Princeton University	Professor of Economics	July 2007	to date
	Princeton University	Trumbull-Adams Professor of Finance	July 2014	to date
	Shenzhen Finance Institute, CUHK (SZ)	Director	January 2016	to date
	Chinese University of Hong Kong, Shenzhen	Academic Dean of the School of Economics and Management	June 2015	to date
	Hong Kong Institute for Monetary Research	Academic adviser	July 2012	to date

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Name of company	Position	Date of Appointment	Date of Termination
HU Honggao (胡鴻高)	Fudan University	Professor of law, doctoral advisor	January 2008	to date
	Shanghai China Fortune Co., Ltd.	Independent director	May 2017	to date
	Shanghai Tofflon Science and Technology Co., Ltd.	Independent director	March 2014	to date
	Shanghai Amarsoft Information & Technology Co., Ltd.	Independent director	March 2017	to date
	Perfect Group Corp., Ltd	Independent director	June 2016	to date
WONG Ti (汪棣)	China International Fund Management Co., Ltd.	Independent director	April 2019	to date
	51 Credit Card Inc.	Independent non-executive director	July 2018	to date
	Fosun United Health Insurance Co., Ltd. (復星聯合健康保險股份有限公司)	Independent director	July 2017	to date
	Asia-Pacific Property & Casualty Insurance Co., Ltd.	Independent director	April 2016	to date
	Vivasolis Biotechnology Co., Ltd. (中國台灣旭昶生物科技股份有限公 司)	Supervisor	August 2016	to date
LI Xiaofei (李曉霏)	China Merchants Group	Standing member of the Execution Committee of China Merchants Financial Services Business Unit	June 2018	to date
	China Great Wall Securities Co., Ltd.	Supervisor	July 2015	to date
	China Merchants Finance Holdings Co., Ltd.	Deputy general manager	November 2017	February 2019
WANG Zhangwei (王章為)	China Merchants Group	Chief auditor of Financial Services Business Unit	April 2019	to date
	Shenzhen Yan Qing Investment and Development Company Ltd.	Director	November 2014	to date
	Shenzhen Chuyuan Investment and Development Company Ltd.	Director	November 2014	to date
	China Merchants Finance Holdings Co., Ltd.	Assistant to the general manager	May 2016	April 2019
MA Yunchun (馬蘊春)	Hebei Port Group Investment (Tianjin) Management Co., Ltd. (河北港口集團投資(天津)管理 有限公司)	Director, general manager	January 2016	to date
	Hebei Port Group Shanghai Investment Management Company	Chairman of the board of directors, general manager	January 2016	to date

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Name of company	Position	Date of Appointment	Date of Termination
FANG Xiaobing (房小兵)	China Reform Holdings Corporation Ltd.	Member of standing committee of communist party, deputy general manager	December 2019	to date
	CCCC Financial Leasing Co., Ltd.	Director	May 2018	to date
	Yellow River Property & Casualty Insurance Co., Ltd.	Supervisor	August 2017	to date
	CCCC Fund Management Co., Ltd.	Director	August 2016	to date
	CCCC Finance Company Ltd.	Director	March 2016	to date
	Jiang Tai Insurance Brokers Co., Ltd.	Supervisor	October 2015	to date
ZHANG Zehong (張澤宏)	Shenzhen Huaqiang Holdings Limited	Vice president	August 2014	to date
	Shenzhen Huaqiang Industry Co., Ltd.	Director	June 2012	to date
	Shenzhen Huaqiang Electronic Commerce Co., Ltd.	Director	July 2015	to date
	Shenzhen Huaqiang Group Finance Limited (深圳華強集團財務有限公司)	Director	May 2012	to date
	Shenzhen Huaqiang Asset Management Group Co., Ltd.	General manager, director	June 2018	to date
	Shenzhen Qianhai Huaqiang Finance Holding Limited (深圳前海華強金融控股有限公司)	General manager, director	September 2017	to date
	Kunyi Hengxin Entrepreneurship Investment Limited Company (昆毅恒信創業投資有限公司)	Director	May 2017	to date
	Shenzhen Huaqiang Supply Chain Management Co., Ltd.	Director	June 1994	to date
	Fantawild Holdings Inc	Supervisor	April 2016	to date
HE Min (何敏)	China Merchants Securities Asset Management Co., Ltd.	Director	July 2019	to date
	China Merchants Futures Co., Ltd.	Director	May 2019	to date
	China Merchants Zhiyuan Capital Investment Co., Ltd.	Director	May 2019	to date
	Bosera Asset Management Co., Limited	Chairman of the supervisory committee	April 2019	to date

## Chapter 7: Directors, Supervisors, Senior Management and Employees

Name	Name of company	Position	Date of Appointment	Date of Termination
XIONG Zhigang (熊志鋼)	CMS Asset Management	Director, general manager	December 2019	to date
	CMS Asset Management	Supervisor	May 2019	December 2019
	CMS Investment	Supervisor	December 2017	December 2019
DENG Xiaoli (鄧曉力)	CMS Zhiyuan	Chairman of the board of directors	January 2019	to date
	CMS Asset Management	Chairman of the board of directors	March 2019	to date
	China Merchants Fund	Vice chairman of the board of directors	November 2013	to date
	China Merchants Fund	Director	November 2006	to date
	CMS International	Director	January 2006	January 2019
LI Zongjun (李宗軍)	China Merchants Futures	Chairman of the board of directors	March 2019	to date
	E-Capital Transfer Co., Ltd	Director	January 2019	to date
	CMS Zhiyuan	Chairman of the board of directors	January 2015	January 2019
ZHAO Bin (趙斌)	CMS Investment	Executive director	January 2019	to date
	China Merchants Fund	Chairman of the supervisory committee	September 2017	to date
	CMS Asset Management	Chief compliance officer	January 2018	to date
	China Merchants Futures	Director	July 2008	May 2019
	CMS Asset Management	Director	July 2015	May 2019
WU Guangyan (吳光焰)	China Merchants Securities International Company Limited	Chairman of the board of directors	December 2018	to date
CHEN Zhigang (陳志剛)	PICC Pension Company Limited	Chairman of the supervisory committee, Secretary of the discipline committee and member of the Party committee	August 2018	to date
	PICC Health Pension Management (Guangzhou) Co., Ltd. (人保健康養老管理(廣州)有限公司)	Executive director, legal representative	August 2018	to date
Statement of positions in other companies	Nil			



### III. Remuneration of Directors, Supervisors and Senior Management

<p>Decision-making procedures of remuneration of Directors, Supervisors and senior management</p>	<p>Non-executive directors and external supervisors of the Company shall not collect remuneration from the Company, and independent non-executive directors shall receive the allowance of independent directors according to the resolutions of the Company's shareholders' general meeting. The Remuneration and Appraisal Committee considers and reviews the remuneration policy, standard and proposal for the Directors, chairman of the Supervisory Committee and senior management who worked full time for the Company, and makes recommendations to the Board on the formulation of official and transparent procedures for determining the remuneration policy. Remuneration of the Directors, chairman of the Supervisory Committee and senior management who worked full time for the Company shall be considered and determined by the Remuneration and Appraisal Committee under the Board.</p>
<p>Basis for determination of remuneration of Directors, Supervisors and senior management</p>	<p>Remuneration of the Directors, chairman of the Supervisory Committee and senior management who worked full time for the Company shall be determined by the Remuneration and Appraisal Committee under the Board with reference to the principal duties of relevant managerial positions, the results of performance assessment as well as the remuneration level in the market, according to the Company's pilot scheme of Management Methods of the Remuneration of Senior management.</p>
<p>Remuneration paid to Directors, Supervisors and senior management</p>	<p>Please refer to "I. Change in Shareholdings and Remunerations" of this chapter.</p>
<p>Aggregate remuneration payable to Directors, Supervisors and senior management as of the end of the Reporting Period</p>	<p>Remunerations before tax received by Directors, Supervisors and senior management from the Company during the Reporting Period totaled RMB 45.0132 million, of which a total of RMB 35.2344 million was for senior executives/executive Directors, a total of RMB 8.7788 million was for Supervisors, and a total of RMB 1 million was for independent non-executive Directors. Please refer to "I. Change in Shareholdings and Remunerations" of this chapter.</p>

## Chapter 7: Directors, Supervisors, Senior Management and Employees

### IV. 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
GAO Hong (高宏)	Non-executive Director	Appointed	March 9, 2020	Elected at the shareholders' meeting

From the beginning of the year to the date of this report, there was no change in the Supervisors of the Company. For details of changes in Directors and senior management of the Company, please refer to the relevant announcements published by the Company on the Hong Kong Stock Exchange website on February 15, March 13, June 3, June 10, June 28, July 12 and July 22, 2019 and January 15 and March 9, 2020.

### V. Major Changes in Respect of Directors and Supervisors

For details of the changes in appointment of Directors and Supervisors of the Company from 2019 to the date of this report, please see "II. Positions of Incumbent Directors, Supervisors and Senior Management and Those Resigned during the Reporting Period" in this chapter.

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

### VI. Compositions of Special Committees under the Board

The Board of the Company has currently set up five special committees, namely the Strategy Committee, the Risk Management Committee, the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee. The composition of each of the committee is as follows:

- (1) Strategy Committee comprises of 7 members (temporarily short of one member): HUO Da, XIONG Xianliang, XIONG Jiantao, WANG Daxiong, CHEN Zhigang (resigned in June 2019), WANG Wen (succeeded in July 2019), XIANG Hua, of which, HUO Da acts as the convener.
- (2) Risk Management Committee comprises of 7 members: SU Min, SU Jian, XIONG Jiantao, PENG Lei, WANG Daxiong, CHEN Zhigang (resigned in June 2019), WANG Wen (succeeded in July 2019), XIANG Hua, of which, SU Min acts as the convener.
- (3) Audit Committee comprises of 5 members: XIAO Houfa, SU Jian, HUANG Jian, HU Honggao, WONG Ti (resigned in June 2019, and continued to perform his duties before a new independent director took office), of which, XIAO Houfa acts as the convener.
- (4) Remuneration and Appraisal Committee comprises of 5 members: XIANG Hua, SU Min, PENG Lei, XIONG Wei, WONG Ti (resigned in June 2019, and continued to perform his duties before a new independent director took office), of which, XIANG Hua acts as the convener.
- (5) Nomination Committee comprises of 5 members (temporarily short of one member): XIONG Wei, PENG Lei, XIAO Houfa, HU Honggao, of which, XIONG Wei acts as the convener.

The Company will fill the vacancies of members of the above special committees as soon as possible.

### VII. Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and Its Associated Corporations of the Directors, Supervisors and Chief Executives

As at December 31, 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 7: Directors, Supervisors, Senior Management and Employees

### VIII. Employees of the Parent Company and Major Subsidiaries

#### (I) Employees

Number of employees of the Company	8,021
Number of employees of major subsidiaries	704
Total number of employees	8,725
Number of resigned and retired employees with expenses borne by the parent company and major subsidiaries	54
<b>Classification by business function</b>	
<b>Business function</b>	<b>Number</b>
Management and administration	328
Securities and futures brokerage	6,387
Investment banking	665
Investment management	186
Investment and trading	173
Research	193
Legal and compliance, risk management and internal audit	157
IT	366
Finance and accounting	149
Others	121
<b>Total</b>	<b>8,725</b>
<b>Classification by education background</b>	
<b>Education background</b>	<b>Number (person)</b>
Doctor	79
Master	2,715
Bachelor	4,398
Below bachelor's degree	1,533
<b>Total</b>	<b>8,725</b>

### (II) Remuneration policy

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 Chairman and the President mainly according to the achievement of key performance indicators of each department, strategic tasks, and objectives in terms of innovation and synergy as well as the market rate.

### (III) Training

According to the reformative strategies and “Five major” core strategies, the Company closely aligned with the requirements of business development, planned and implemented classified and specific training programs in three aspects, including profession, management and general training programs, covering all employees in order to support their growth and enhance the core competitiveness of the Company.

1. Profession training was conducted for all employees to raise their profession in securities and innovation and reformation capability through 35 sessions of internal themed training covering major investment banking, financial technology, procedure reformation, wealth management, innovative businesses, technology, marketing and basic skills. In addition, an overseas training program to Cambridge University has been launched to focus on developing international vision and core competencies of key talents.
2. In respect of management training, new and current management members of the senior management were provided with three special training sessions, covering financial leadership, finance front-line business, reform promotion, digital transformation and economic thinking and other knowledge and skills that the management need to tackle and to comprehend under the new era. The reserved talents were provided with training camp in order to help improve their management awareness and nurture their management capability.
3. General training was mainly provided for basic level employees to improve their professionalism through various forms of online and offline training programs covering diversified subjects including corporate culture, compliance and risk control, rules and systems, business procedures and vocational skills through 25 sessions of trainings.

## Chapter 7: Directors, Supervisors, Senior Management and Employees

### (IV) Outsourced services

Hours of outsourced services	663,884.23 hours
Total remuneration paid for outsourced services	RMB 40.8567 million

### IX. Others

As of December 31, 2019, the Company entered into the securities agency contracts with 1,810 agents.

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

# Chapter 8: Corporate Governance Report

## I. Overview of Corporate Governance

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

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

During the Reporting Period, the Company held, within the year, 5 shareholders' general meetings to consider 41 resolutions (double counting for same matters in class shareholders' meeting and non-class shareholders' meeting), among which, one A share class meeting was held to consider 8 resolutions and one H share class meeting was held to consider 8 resolutions; 13 Board meetings to consider 56 resolutions and review 7 reports; 18 meetings of committees under the Board to consider 42 resolutions and review 13 reports; as well as nine meetings of the Supervisory Committee to consider 19 resolutions and review four reports.

### (I) Shareholders and shareholders' general meetings

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

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

## Chapter 8: Corporate Governance Report

### (II) Directors and the Board

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

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

#### 1. Composition of the Board

The Company have a board of directors accountable to the shareholders' general meeting. According to the Articles of Association, the Board consists of 15 directors. During the Reporting Period, as one director resigned in 2018, the Board consists of 14 directors, two of whom are executive Directors, seven of whom are non-executive Directors and five of whom are independent non-executive Directors. As at the date of this report, the Board of the Company consists of 15 directors, two of whom are executive Directors, eight of whom are non-executive Directors and five of whom are independent non-executive Directors. The Company attaches great importance to Board diversity. The Board of the Company consists of two female members. In terms of academic qualifications, there are eight members with a master's degree and three members with a doctorate degree. In terms of professions, the executive Directors have long been engaged in the securities industry and have extensive management experience and professional capabilities. The non-executive Directors have held important positions in companies in the financial, transportation, insurance and other industries. The independent non-executive Directors have extensive experience in finance, economics, auditing, law and other fields, thus can provide professional advice to the Company in respect of different fields. The Directors are elected at shareholders' general meetings and served for a term of three years. Directors are eligible for re-elections upon expiry of their terms of office. Independent non-executive Directors shall not hold office for more than six consecutive years. Please see "I. Change in Shareholdings and Remunerations" in "Chapter 7 Directors, Supervisors, Senior Management and Employees" of this report for the composition of the Board and the biographies of the Directors of the Company.



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

### **2. Duties and responsibilities of the Board**

The Board is the decision-making body of the Company and shall be accountable to the shareholders' general meeting. According to the Articles of Association, the Board shall exercise the following major functions and powers: to convene shareholders' general meetings and to report to shareholders' general meetings; to implement the resolutions of the shareholders' general meetings; to determine business operation plans and investment plans of the Company; to formulate annual preliminary and final financial budgets of the Company; to formulate the profit distribution plans and plans for recovery of losses of the Company; to formulate proposals of the Company regarding increase or reduction of the registered capital, issuance of bonds or other securities and listing; to formulate plans for any substantial acquisition by the Company, repurchase of shares or merger, division, dissolution and change of form of the Company; to determine the repurchase of the Company's share in accordance with the circumstances stated in Article 31(III),(V) and (VI) of the Articles of Association; to decide on matters relating to the Company's external investments, acquisitions or disposal of assets, mortgage of assets, external guarantees, entrusted wealth management and connected/related party transactions as authorized by the shareholders' general meetings; to decide on the establishment of the Company's internal management structure; to appoint or dismiss the Company's general manager and secretary to the Board; based on the nominations of general manager, to appoint or dismiss deputy general manager, chief finance officer, chief compliance officer and other senior management and to determine their remuneration, rewards and penalties; to formulate the basic management policies of the Company, including the basic compliance management system; to formulate proposals for any amendments to the Articles of Association; to manage the disclosure of information of the Company; to propose to shareholders' general meetings the adjustment of the size and composition of the Board; to propose to the shareholders' general meetings the appointment or change of the accounting firm acting as the auditors of the Company; to listen to the work report of the general manager of the Company and examine on the general manager's work; to review compliance reports regularly submitted by the Company in accordance with regulatory requirements and evaluate the effectiveness of compliance management of the Company; to ensure the independence of the chief compliance officer, guarantee the independent communication between the chief compliance officer and the Board and safeguard the smooth reporting between the chief compliance officer and the regulatory authority; other duties and powers granted by the laws, administrative rules, departmental regulations and the Articles of Association.

## Chapter 8: Corporate Governance Report

### (III) Supervisors and the Supervisory Committee

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

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

### (IV) Senior management

The Company strictly complies with the Articles of Association in relation to the appointment and replacement of senior management. The senior management of the Company shall be appointed based on the procedures in compliance with the Company Law and Articles of Association. The general manager of the Company shall be accountable to the board. The Strategy Execution Committee, the Risk Management Committee, the IT Management Committee, the Innovative Development Committee, the Product Committee, Investment Banking Synergy Committee and the Secrecy Committee that are set up under the Operating Management of the Company to enhance the professionalism, compliance and scientificity of the decision-making ability of the management.

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

### **(V) Chairman and general manager**

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

### **(VI) Liability insurances for Directors, Supervisors and senior management of the Company**

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

### **(VII) Party Committee**

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

## Chapter 8: Corporate Governance Report

### (VIII) Information disclosure and transparency

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

### (IX) Stakeholders

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

## II. Shareholders' General Meetings

Meeting	Date of meeting	Inquiry of index of designated website for the publication of poll results	Date of Announcement on Resolutions
First 2019 Extraordinary General Meeting, first 2019 A shareholders class meeting and first 2019 H shareholders class meeting	May 20, 2019	SSE website	Passed
2018 Annual General Meeting	June 28, 2019	SSE website	Passed
Second 2019 Extraordinary General Meeting	September 9, 2019	SSE website	Passed

### III. Duty Performance of Directors

#### (I) Attendance of Directors at Board meetings and shareholders' general meetings

Name of Director	Whether an independent Director	Attendance of Board meetings						Attendance of shareholders' general meeting
		Number of Board meetings requiring attendance	Attendance in person (times)	Attendance through correspondence (times)	Attendance by proxy (times)	Absence (times)	Whether not attending in person for two consecutive meetings	Attendance of shareholders' general meeting (times)
HUO Da (霍達)	No	13	12	7	1	0	No	5
SU Min (蘇敏)	No	13	13	10	0	0	No	5
SU Jian (粟健)	No	13	11	11	2	0	No	4
XIONG Xianliang (熊賢良)	No	13	13	12	0	0	No	5
XIONG Jiantao (熊劍濤)	No	13	13	7	0	0	No	4
PENG Lei (彭磊)	No	13	13	11	0	0	No	5
HUANG Jian (黃堅)	No	13	12	12	1	0	No	4
WANG Daxiong (王大雄)	No	13	13	11	0	0	No	2
WANG Wen (王文)	No	7	7	7	0	0	No	1
XIANG Hua (向華)	Yes	13	13	9	0	0	No	5
XIAO Houfa (肖厚發)	Yes	13	13	10	0	0	No	5
XIONG Wei (熊偉)	Yes	13	13	13	0	0	No	5
HU Honggao (胡鴻高)	Yes	13	13	11	0	0	No	4
WONG Ti (汪棣)	Yes	13	13	10	0	0	No	2
CHEN Zhigang (陳志剛) (resigned)	No	5	5	5	0	0	No	3

Number of Board meetings convened in the year	13
Of which: number of onsite meetings	0
Number of meetings convened by way of correspondence	7
Number of meetings convened onsite and by way of correspondence	6

## Chapter 8: Corporate Governance Report

### (II) Convening of Board meetings

No.	Meeting	Date of Meeting	Resolutions	Voting results	Date of announcement on resolutions
1	16th meeting of the sixth session of the Board	February 15, 2019	Resolutions regarding changes in accounting policies of the Company; appointment of senior management of the Company; entering into the securities and financial products, transactions and services framework agreement by the Company and China Merchants Group Limited for the first half of 2019	Passed	February 15, 2019
2	17th meeting of the sixth session of the Board	March 12, 2019	Resolution in respect of repurchase of A shares of the Company by centralized auctions; proposing to the General Meeting of the Company to authorize the Board to handle all matters relating to repurchase of A shares; fulfillment of conditions for rights issue; rights issue of the Company for 2019; proposal of publicly issuing securities by rights issue of the Company for 2019; feasibility report on use of fund raised from the rights issue of the Company in 2019; reminder of the risk of dilution of immediate returns by rights issue to existing shareholders, remedial measures and the relevant parties' undertaking; proposing to the General Meeting of the Company to authorize the Board to handle all matters relating to rights issue; amendment on Articles of Association; use of proceeds from last share issuance; change of the use of some proceeds from H shares; amendment on Related Party Transactions Decision Making Rules of the Company; determination of the date of shareholders' meeting	Passed	March 12, 2019
3	18th meeting of the sixth session of the Board	March 28, 2019	Resolutions regarding the working report of the Board for 2018; work report of the Audit Committee under the Board for 2018; 2018 operational report of the Company; 2018 annual report; 2018 final financial report; 2019 financial budget report; profit distribution of the Company for 2018; compliance report of the Company for 2018; amendment on "Comprehensive Risk Management System of China Merchants Securities Co., Ltd."; internal control assessment report of the Company for 2018; audit report on internal control of the Company for 2018; social responsibilities report of the Company for 2018; report on the deposit and usage of proceeds from issuance of H Shares in 2018; budget for proprietary investment of the Company for 2019; budget for charity donations of the Company in 2019; appointment of auditing firm of the Company for 2019; general mandates for further issuances of A Shares and H Shares of the Company; convention of 2018 annual general meeting	Passed	March 28, 2019

## Chapter 8: Corporate Governance Report

No.	Meeting	Date of Meeting	Resolutions	Voting results	Date of announcement on resolutions
4	19th meeting of the sixth session of the Board	April 25, 2019	First quarterly report of the Company for 2019	Passed	April 25, 2019
5	20th meeting of the sixth session of the Board	May 20, 2019	Resolutions in respect of entering into the securities and financial products, transactions and services framework agreement as well as the administrative procurement and property leasing framework agreement by the Company and China Merchants Group Limited	Passed	May 21, 2019
6	21st meeting of the sixth session of the Board	June 03, 2019	Resolutions regarding changes in director	Passed	June 03, 2019
7	22nd meeting of the sixth session of the Board	July 22, 2019	Resolutions regarding formulation of "Administrative Measures on Anti-money Laundering and Terrorist Financing Risk Control" of the Company; appointment of chief information officer of the Company; convention of second extraordinary general meeting of the Company for 2019	Passed	July 22, 2019
8	23rd meeting of the sixth session of the Board	August 20, 2019	Resolutions regarding provision of guarantee by China Merchants Securities International Company Limited in favour of its wholly-owned subsidiaries; by-election for members of special committees under the sixth session of the Board	Passed	August 21, 2019
9	24th meeting of the sixth session of the Board	August 28, 2019	Resolutions regarding 2019 interim operational report of the Company; 2019 interim report of the Company; report on the deposit and usage of proceeds from issuance of H Shares in half year of 2019	Passed	August 28, 2019
10	25th meeting of the sixth session of the Board	October 15, 2019	Resolution regarding the consideration of Employee Stock Ownership Scheme of China Merchants Securities Co., Ltd. (Draft) and its summary; the proposing to the General Meeting of the Company to authorize the Board to handle all matters relating to the Employee Stock Ownership Scheme of the Company; the nomination of Mr. GAO Hong (高宏) as director candidates; determination of the date of shareholders' meeting; budget for charity donations of the Company for 2019	Passed	October 15, 2019
11	26th meeting of the sixth session of the Board	October 29, 2019	Third quarterly report of the Company for 2019	Passed	October 29, 2019
12	27th meeting of the sixth session of the Board	November 04, 2019	Resolution regarding the determination of specific placement ratio and quantity of Rights issue of the Company for 2019; amendment on proposal of publicly issuing securities by rights issue of the Company for 2019	Passed	November 05, 2019
13	28th meeting of the sixth session of the Board	December 24, 2019	Resolution regarding early completion of repurchasing A share of the Company; determination of the price of purchasing repurchased Shares under and the expected scale of the Employee Stock Ownership Scheme of the Company	Passed	December 26, 2019

## Chapter 8: Corporate Governance Report

### (III) Duty performance of independent Directors

For details of the duty performance of independent Directors of the Company, please see the Annual Duty Report of Independent Directors of China Merchants Securities Co., Ltd. for 2019 (《招商證券股份有限公司獨立董事2019年度述職報告》) published on the SSE website for the same period of this report.

### (IV) Implementation of resolutions passed at shareholders' general meetings by the Board

1. On May 20, 2019, the Resolution in respect of Repurchase of A shares of the Company by Centralized Auctions was considered and approved in the first 2019 Extraordinary General Meeting, first 2019 A shareholders class meeting and first 2019 H shareholders class meeting of the Company. The Company completed the repurchase by centralized auctions during November 8, 2019 to December 19, 2019. A total of 40,020,780 A shares was repurchased, accounting for 0.5974% of the total share capital of the Company.
2. On May 20, 2019, the Resolution in respect of Right Issue for 2019 was considered and approved in the first 2019 Extraordinary General Meeting, first 2019 A shareholders class meeting and first 2019 H shareholders class meeting of the Company. The rights issue of the Company has been approved by the SASAC and the rights issue of H shares has been approved by the International Department of CSRC. The rights issue of A shares has been accepted by the CSRC, which also provided two feedbacks, and the Company have also responded to the feedbacks. For details, please see the relevant announcements of the Company dated May 18, 2019, August 31, 2019, November 8, 2019 and February 18, 2020. The Company will continue to facilitate the rights issues and undertake its obligation of disclosure in the future.
3. On June 28, 2019, the Resolution regarding the Profit Distribution of the Company for 2018 was considered and approved in the 2018 annual general meeting of the Company. The profit distribution plan was completed during the Reporting Period.
4. On June 28, 2019, the Resolution regarding the Budget for Proprietary Investment the Company for 2019 was considered and approved in the 2018 annual general meeting of the Company. Pursuant to which, during the Reporting Period, the total proprietary amount of equity securities and derivatives of the Company did not exceed (real time) 100% of its net capital. The total proprietary amount of non-equity securities and derivatives did not exceed (real time) 500% of its net capital. The Company's relevant operational indicators were all kept within the scope of authorization by the shareholders' general meeting during the Reporting Period.
5. On June 28, 2019, the Resolution regarding Contemplated Ordinary Related Party Transactions of the Company for 2019 was considered and approved in the 2018 annual general meeting of the Company. On September 9, 2019, the Resolution in respect of entering into the securities and financial products, transactions and services framework agreement by the Company and China Merchants Group Limited was considered and approved in the second 2019 Extraordinary General Meeting of the Company. For details of the actual implementation of the ordinary related party transactions of the Company for 2019 (in accordance with A shares standard), please refer to the "Actual amount for previous year" in the Announcement on the Contemplated Ordinary Related Party Transactions of the Company for 2020 issued by the Company at the same time with this report. Please see "Connected Transactions" in "Chapter 5 Major Events" of 2019 Annual Results Announcement issued by the Company at the same time with this report on Hong Kong Stock Exchange website for connected transactions under H share standard between the Company, China Merchants Group and its associates.



6. On June 28, 2019, the Resolution regarding appointment of Auditing Firm of the Company for 2019 was considered and approved in 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.
7. On September 9, 2019, the Resolution regarding Provision of Guarantee by China Merchants Securities International Company Limited in favour of its wholly-owned subsidiaries was considered and approved in the second 2019 Extraordinary General Meeting of the Company. Please see “Guarantees” in “Chapter 5 Major Events” of this report and announcement of the Company on the Hong Kong Stock Exchange website dated December 19, 2019 for the guarantee by CMS International in favour of its subsidiaries during the Reporting Period.

### **1. Directors’ training**

The Company places high emphasis on the continuous training of the Directors, persistently improves internal workflow and builds up multi-layers information communication system so as to provide information security for the duty performance of the Directors, and to ensure that the Directors have proper understanding of the operation and business of the Company, as well as the duties and responsibilities as conferred by the CSRC, the SSE, the Hong Kong Stock Exchange, the Articles of Association and relevant laws and regulations. During the Reporting Period, through the “Correspondences to the Directors and Supervisors” (《董監事通訊》) and the “Weekly Strategic Reports” (《戰略資訊周報》), the Directors actively participated regular trainings organized by regulatory authority and self-regulatory organizations and the business studies arranged by the Company to keep abreast of the latest policies and regulations, industry dynamics and the operation of the Company, update their expertise and skills and further enhance their performance of obligations.

## Chapter 8: Corporate Governance Report

During the Reporting Period, the specific time, means and content of training attended by the Directors of the Company are as follows:

Name	Position	Time, means and content of training
HUO Da (霍達)	Chairman of the Board, Executive Director	He had participated a training on the development of semiconductor industry under a series of scientific topic training in September 2019; attended a training on biomedical technology and the development of biomedical industry under a series of scientific topic training and the tenth session of 2019 training workshop for Chairman and General Manager of listed companies in December 2019; read Weekly Strategic Report and the Monthly Correspondences to the Directors and Supervisors
SU Min (蘇敏)	Non-executive director	She had joined a salon training regarding industrial and financial innovation organised by China Merchants Group in October 2019; attended seminars regarding global economic and financial outlook, new trend in Chinese economic and financial sector and new positioning of Hong Kong organised by the Bank of China in December 2019; joined "2019 Special Training on Leadership" organised by the China Merchants Group in December 2019; read Weekly Strategic Report and the Monthly Correspondences to the Directors and Supervisors
SU Jian (粟健)	Non-executive director	He had attended the fourth Executive Management Training of Tsinghua University from September 2019 to November 2019; joined "2019 Special Training on Leadership" organised by the China Merchants Group in December 2019; read Weekly Strategic Report and the Monthly Correspondences to the Directors and Supervisors
XIONG Xianliang (熊賢良)	Non-executive director	He had joined a salon training regarding industrial and financial innovation organised by China Merchants Group in October 2019; participated the seventh Special Training Course of 2019 for Directors and Supervisors of Listed Companies within the Territory held by the Beijing Bureau of Chinese Securities Regulatory Commission in November 2019; read Weekly Strategic Report and the Monthly Correspondences to the Directors and Supervisors
XIONG Jiantao (熊劍濤)	Executive Director, President, chief information officer	He had attended the tenth session of training workshop for Chairman and General Manager of listed companies in December 2019; read Weekly Strategic Report and the Monthly Correspondences to the Directors and Supervisors
PENG Lei (彭磊)	Non-executive director	She had participated a senior training course regarding disposal of distressed assets, market analysis, diversified business model and interpretation of relevant policies in August 2019; attended a senior training course regarding all asset management systems in China in November 2019; read Weekly Strategic Report and the Monthly Correspondences to the Directors and Supervisors

## Chapter 8: Corporate Governance Report

Name	Position	Time, means and content of training
HUANG Jian (黃堅)	Non-executive director	He had read Weekly Strategic Report and the Monthly Correspondences to the Directors and Supervisors
WANG Daxiong (王大雄)	Non-executive director	He had attended the online specialized thematic courses of facilitating high-quality development of state-owned enterprise held by China E-learning Academy for Leadership in December 2019; read Weekly Strategic Report and the Monthly Correspondences to the Directors and Supervisors
WANG Wen (王文)	Non-executive director	He attended the third training course for new directors, supervisors and senior management of insurance institutions in 2018 organized by the China Banking and Insurance Regulatory Commission from February to March 2019; joined a training course for 2019 regarding “economic reform and innovation of China in new era” for director-general-level cadre of the Central and State Government in April 2019; participated a senior management training regarding “Management Policies and Practices for Insurance Assets and Liabilities” organized by the Insurance Asset Management Association of China in August 2019; attended the training course for 2019 regarding the unification of investment segment and insurance segment organized by the People’s Insurance Company (Group) of China in November 2019; joined training regarding management of assets and liabilities organised by PICC Life, special training on IFRS17 and online specialized thematic courses of facilitating high-quality development of state-owned enterprise held by China E-learning Academy for Leadership in December 2019; read Weekly Strategic Report and the Monthly Correspondences to the Directors and Supervisors
XIANG Hua (向華)	Independent non-executive director	He had participated the Goldman Asia Pacific Conference on global macroeconomic environment in January 2019; read Weekly Strategic Report and the Monthly Correspondences to the Directors and Supervisors
XIAO Houfa (肖厚發)	Independent non-executive director	He participated a seminar regarding audit quality of accounting firm held by the Ministry of Finance in August 2019; attended training workshop regarding internal governance and cultural development of accountants as well as distance course on integrity education organised by the Chinese Institute of Certified Public Accountants in September 2019; joined 2019 audit training for accounting firms with the qualifications for securities organised by the Chinese Institute of Certified Public Accountants and the Accounting Department of the CSRC in December 2019; participated the seventh session of Tsinghua PBCSF course for scientific entrepreneur organised by the PBC School of Finance, Tsinghua University in December 2019; read Weekly Strategic Report and the Monthly Correspondences to the Directors and Supervisors

## Chapter 8: Corporate Governance Report

Name	Position	Time, means and content of training
XIONG Wei (熊偉)	Independent non-executive director	He participated a forum regarding digital privacy organised by Luohan Academy of Alibaba in March 2019; attended the forum regarding digital economy organised by Luohan Academy of Alibaba in June 2019; joined Fintech Forum held by the Bank for International Settlements in September 2019; read Weekly Strategic Report and the Monthly Correspondences to the Directors and Supervisors
HU Honggao (胡鴻高)	Independent non-executive director	He attended the 2019 fourth follow-up training seminar for independent directors of listed companies organised by SSE in October 2019; read Weekly Strategic Report and the Monthly Correspondences to the Directors and Supervisors
WONG Ti (汪棣)	Independent non-executive director	He had read Weekly Strategic Report and the Monthly Correspondences to the Directors and Supervisors

### 2. Term of office of non-executive Directors

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

### 3. Diversity policy

#### (1) Purpose

This policy aims to set out the approach to achieve diversity on the Board of the Company.

### (2) Statements

- ① The Board should have a balance of skills, experience and diversity of perspectives appropriate to the requirements of the business of the Company. It should ensure that changes to its composition can be managed without undue disruption. It should include a balanced composition of executive and non-executive Directors (including INEDs) so that there is a strong independent element on the Board, which can effectively exercise independent judgment. Non-executive Directors should be of sufficient caliber and number for their views to carry weight.
- ② When determining the composition of the Board, the Company will consider board diversity in terms of, among other things, gender, age, cultural and educational background, races, expertise, skills, know-how and length of services. All Board appointments will be based on merits, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

### (3) Measurable objectives

Selection of candidates for Board membership will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, races, expertise, skills, knowhow and length of services. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Board's composition (including gender, races, age, length of service) will be disclosed in the Corporate Governance Report annually (Please see "Composition of the Board" of this chapter).

### (4) Monitoring and reporting

The Nomination Committee will disclose the composition of the Board in terms of diversity annually in the Corporate Governance Report of the Company and monitor the implementation of this policy.

### (5) Review of this policy

The Nomination Committee will review this policy, as appropriate, to ensure the effectiveness of this policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

### (6) Disclosure of this policy

- ① This Policy will be published on the Company's website for public information.
- ② A summary of this Policy together with the measurable objectives set for implementing this Policy, and the progress made towards achieving those objectives will be disclosed in the annual Corporate Governance Report.

## Chapter 8: Corporate Governance Report

### 4. *Nomination policy*

The Nomination Committee shall study the conditions, selection procedures and term of office of the directors and senior management of the Company in accordance with applicable laws and regulations, the Hong Kong Listing Rules and the Articles of Association as well as the actual circumstances of the Company, and submit its decisions to the board of directors for approval.

Directors and senior management shall be elected through the following procedures:

- (1) the Nomination Committee shall study the needs of the Company for directors and senior management and record the same into written documents;
- (2) the Nomination Committee may identify to a wide extent the candidates of directors and senior management within the Company, its subsidiaries and the talent market;
- (3) the Nomination Committee shall collect the information about the candidates in respect of profession, education, job title, detailed work experience and part-time jobs and record the same into written documents;
- (4) the Nomination Committee shall obtain consent from the candidates on the nomination before they are proposed as candidates of directors or senior management;
- (5) the Nomination Committee shall convene a meeting to examine the qualifications of candidates in accordance with the job requirements of directors and senior management;
- (6) the Nomination Committee shall provide relevant materials of the candidates of director and senior management for appointment before such appointment and shall submit its recommendation of the removal of directors and senior management in accordance with the procedures of shareholders' meetings and the meetings of the board of directors;
- (7) the Nomination Committee shall carry out subsequent work based on the decisions and feedbacks of the board of directors.

### **IV. Significant Opinions and Recommendations Proposed by the Special Committees under the Board in Performing Their Duties during the Reporting Period, Details Should be Disclosed If There Were Disagreements**

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

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

During the Reporting Period, the special committees under the Board performed their duties earnestly and actively put forward various opinions and recommendations on the Company’s risk management, internal and external audit as well as improvement of internal control. During the Reporting Period, the special committees under the Board did not have any disagreement.

#### **(I) Strategy Committee**

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

During the Reporting Period, the Strategy Committee has not held any meeting as the above matters are still in the study process.

## Chapter 8: Corporate Governance Report

### (II) Risk Management Committee

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

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

No.	Session	Date	Proposal	Report
1	The ninth meeting of the Risk Management Committee of the sixth session of the Board	March 27, 2019	Risk evaluation report of the Company for the fourth quarter of 2018; continuous compliance report on risk control indicators like net capital of the Company for the end of 2018; report on risk appetite, risk tolerance and allocation of economic capital of the Company for 2019; budget for proprietary investment of the Company for 2019; report on all-inclusive budget arrangement for proprietary investment of the Company for 2019; amendment on comprehensive risk management system of China Merchants Securities Co., Ltd.; compliance report of the Company for 2018.	Responding to the questions raised up at the eighth meeting of the Risk Management Committee of the sixth session of the Board and report on relevant situation of Hong Kong subsidiaries



## Chapter 8: Corporate Governance Report

No.	Session	Date	Proposal	Report
2	The tenth meeting of the Risk Management Committee of the sixth session of the Board	June 12, 2019	Resolutions regarding amendment on risk appetite, risk tolerance and allocation of economic capital of China Merchants Securities for 2019 and formulation of risk appetite statement of China Merchants Securities; risk evaluation report of the Company for the first quarter of 2019; Compliance management report of the Company for the first quarter of 2019.	Responding to the questions raised up at the ninth meeting of the Risk Management Committee of the sixth session of the Board and report on disciplinary actions taken against CMS by the SFC due to China Metal Recycling project and mishandling of client money
3	The eleventh meeting of the Risk Management Committee of the sixth session of the Board	August 27, 2019	Risk evaluation report of the Company for the second quarter of 2019; compliance report of the Company for the second quarter of 2019.	—
4	The twelfth meeting of the Risk Management Committee of the sixth session of the Board	November 26, 2019	Risk evaluation report of the Company for the third quarter of 2019; compliance report of the Company for the third quarter of 2019.	—

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

No.	Name	Number of meetings attended/ Number of meetings held
1	SU Min (蘇敏) (Convener)	4/4
2	SU Jian (粟健)	4/4
3	XIONG Jiantao (熊劍濤)	4/4
4	PENG Lei (彭磊)	4/4
5	WANG Daxiong (王大雄)	4/4
6	CHEN Zhigang (陳志剛) (resigned in June 2019)	1/1
7	XIANG Hua (向華)	4/4
8	WANG Wen (王文) (becoming a member since July 2019)	2/2

## Chapter 8: Corporate Governance Report

### (III) Audit Committee

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

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

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

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

## Chapter 8: Corporate Governance Report

No.	Session	Date	Proposal	Report
1	The tenth meeting of the Audit Committee of the sixth session of the board	February 15, 2019	Changes in accounting policies; entering into the securities and financial products, transactions and services framework agreement by the Company and China Merchants Group Limited for the first half of 2019	—
2	The eleventh meeting of the Audit Committee of the sixth session of the board	March 27, 2019	Final financial report of the Company for 2018; 2018 report on deposit and use of proceeds from issuance of H Shares; appointment of auditing firm for 2019; the contemplated ordinary related party transactions of the Company for 2019; 2018 work performance report of Audit Committee of the Board; 2018 internal audit report and 2019 internal audit program of the Company; 2018 internal control assessment report of the Company; 2018 Audit Report of the Company; 2018 audit report on internal control of the Company	Audit work for the 2018 annual report of the Company
3	The twelfth meeting of the Audit Committee of the sixth session of the board	April 25, 2019	First quarterly report of the Company for 2019	—
4	The thirteenth meeting of the Audit Committee of the sixth session of the board	May 21, 2019	Entering into the securities and financial products, transactions and services framework agreement as well as the administrative procurement and property leasing framework agreement by the Company and China Merchants Group Limited	—
5	The fourteenth meeting of the Audit Committee of the sixth session of the board	August 27, 2019	2019 interim internal audit report of the Company, 2019 interim financial report of A Share and the interim review report of H Share of the Company, 2019 interim report on deposit and use of proceeds from issuance of H Shares	—
6	The fifteenth meeting of the Audit Committee of the sixth session of the board	September 3, 2019	2019 self-assessment program on internal control	—
7	The sixteenth meeting of the Audit Committee of the sixth session of the board	October 29, 2019	2019 third quarterly report of the Company, 2019 third quarterly internal audit report of the Company	2019 Working schedule on audit

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

No.	Name	Number of meetings attended/ Number of meetings held
1	XIAO Houfa (肖厚發) (Convener)	7/7
2	SU Jian (粟健)	7/7
3	HUANG Jian (黃堅)	7/7
4	HU Honggao (胡鴻高)	7/7
5	WONG Ti (汪棣)	7/7

## Chapter 8: Corporate Governance Report

### (IV) Remuneration and Appraisal Committee

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

During the Reporting Period, the Remuneration and Appraisal Committee held a total of three meetings, at which review and appraisal on the performance of the senior management, special assessment on the compliance of the Chief Compliance Officer of the Company, and review on the remunerations of senior management were carried out.

## Chapter 8: Corporate Governance Report

No.	Session	Date	Proposal	Report
1	The seventh meeting of the Remuneration and Appraisal Committee of the sixth session of the Board	March 27, 2019	2018 assessment report on compliance officer of the Company	Work debriefing of seven senior management members, HUO Da (霍達) (the Chairman), XIONG Jiantao (熊劍濤) (President), DENG Xiaoli (鄧曉力) (Vice President), LI Zongjun (李宗軍) (Vice President), WU Huifeng (吳慧峰) (Vice President and Secretary to the Board), ZHAO Bin (趙斌) (Vice President) and HU Yu (胡宇) (Chief Compliance Officer)
2	The eighth meeting of the Remuneration and Appraisal Committee of the sixth session of the Board	May 17, 2019	Remuneration adjustment of several senior management of the Company	—
3	The ninth meeting of the Remuneration and Appraisal Committee of the sixth session of the Board	September 26, 2019	2017 total remuneration of the senior management of the Company; distribution of innovative incentives and talent award to the senior management of the Company	—

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

No.	Name	Number of meetings attended/ Number of meetings held
1	XIANG Hua (向華) (Convener)	3/3
2	SU Min (蘇敏)	3/3
3	PENG Lei (彭磊)	3/3
4	XIONG Wei (熊偉)	3/3
5	WONG Ti (汪棣)	3/3

## Chapter 8: Corporate Governance Report

### (V) Nomination Committee

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

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

No.	Session	Date	Resolution	Report
1	The fourth meeting of the Nomination Committee of the sixth session of the Board	February 15, 2019	Nomination of senior management for the Company (WU Guangyan (吳光焰), Xie Jijun (謝繼軍))	—
2	The fifth meeting of the Nomination Committee of the sixth session of the Board	June 3, 2019	Change of director (WANG Wen (王文))	—
3	The sixth meeting of the Nomination Committee of the sixth session of the Board	July 22, 2019	Nomination of chief information officer (XIONG Jiantao (熊劍濤))	—
4	The seventh meeting of the Nomination Committee of the sixth session of the Board	September 30, 2019	Nomination of candidates of board of directors (GAO Hong (高宏))	—

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

No.	Name	Number of meetings attended/ Number of meetings held
1	XIONG Wei (熊偉) (Convener)	4/4
2	PENG Lei (彭磊)	4/4
3	XIAO Houfa (肖厚發)	4/4
4	HU Honggao (胡鴻高)	4/4

## V. Duty Performance of Supervisors

During the Reporting Period, the Supervisory Committee of the Company fully performed its duties in corporate governance in accordance with the relevant laws and regulations such as the Company Law and Securities Law and the related provisions regarding the responsibilities of the Supervisory Committee in the Articles of Association. The Supervisory Committee supervised the Board and senior management in respect of their implementation of resolutions of the shareholders' general meetings, inspected the daily operation and financial position of the Company, monitored the risk control and compliance of the Company, conducted investigations and researches on frontline staff, actively provided advices and safeguarded the legal interests of the Company, its shareholders and all investors and ensured regulated operation of the Company.

### (I) Participation of Supervisors in the Supervisory Committee meetings and shareholders' general meetings

Name of Supervisor	Position	Attendance of meetings of the Supervisory Committee						Attendance of shareholders' general meetings
		Number of meetings of the Supervisory Committee held during the year	Attendance in person	Attendance through correspondence	Attendance by proxy	Absence	Whether not attending in person in two consecutive meetings	Attendance of shareholders' general meeting
ZHOU Linda Lei (周語蕊)	Chairman of the Supervisory Committee	9	9	7	0	0	No	5
LI Xiaofei (李曉霏)	Shareholder Representative Supervisor	9	9	9	0	0	No	2
WANG Zhangwei (王章為)	Shareholder Representative Supervisor	9	9	8	0	0	No	4
MA Yunchun (馬蘊春)	Shareholder Representative Supervisor	9	9	7	0	0	No	5
FANG Xiaobing (房小兵)	Shareholder Representative Supervisor	9	9	7	0	0	No	4
ZHANG Zehong (張澤宏)	Shareholder Representative Supervisor	9	9	7	0	0	No	4
YIN Hongyan (尹虹艷)	Employee Representative Supervisor	9	9	7	0	0	No	5
HE Min (何敏)	Employee Representative Supervisor	9	9	6	0	0	No	5
XIONG Zhigang (熊志綱)	Employee Representative Supervisor	9	8	6	1	0	No	5

Number of meetings of the Supervisory Committee convened	9
Of which: Number of onsite meetings	0
Number of meetings convened by way of correspondence	6
Number of meetings convened onsite and by way of correspondence	3

## Chapter 8: Corporate Governance Report

### (II) Convening of the meetings of the Supervisory Committee

In 2019, the Supervisory Committee convened a total of nine meetings, details of which are set out as follows:

No.	Session	Date of meeting	Proposal	Voting results	Date of Announcement on the resolution
1	The ninth meeting of the sixth session of the Supervisory Committee	February 15, 2019	Changes in accounting policies of the Company	Passed	—
2	The tenth meeting of the sixth session of the Supervisory Committee	March 4, 2019	Audit report in respect of the resignation of Mr. SUN Yizheng (孫議政), the former Vice President of the Company	Passed	March 5, 2019
3	The eleventh meeting of the sixth session of the Supervisory Committee	March 12, 2019	Use of proceeds from last share issuance of the Company and change of the use of some proceeds from H shares	Passed	March 13, 2019
4	The twelfth meeting of the sixth session of the Supervisory Committee	March 27, 2019	Work report of the Supervisory Committee of the Company for 2018; annual report of the Company for 2018; 2018 operational report of the Company; internal control assessment report of the Company for 2018; compliance report of the Company for 2018; social responsibilities report of the Company for 2018; report on the deposit and usage of proceeds from issuance of H Shares in 2018; assessment report on the effectiveness of the Company's compliance management for 2018	Passed	March 29, 2019
5	The thirteenth meeting of the sixth session of the Supervisory Committee	April 25, 2019	The First quarterly report of the Company for 2019	Passed	—
6	The fourteenth meeting of the sixth session of the Supervisory Committee	August 27, 2019	2019 Interim report of the Company; 2019 interim operational report of the Company; 2019 interim report on the deposit and use of proceeds from issuance of H Shares	Passed	August 29, 2019
7	The fifteenth meeting of the sixth session of the Supervisory Committee	October 15, 2019	Proposal and summary of Employee Stock Ownership Scheme of the Company	Passed	October 16, 2019
8	The sixteenth meeting of the sixth session of the Supervisory Committee	October 29, 2019	The third quarterly report of the Company for 2019	Passed	—
9	The seventeenth meeting of the sixth session of the Supervisory Committee	December 26, 2019	Determine the price of purchasing repurchased Shares under and the expected scale of the Employee Stock Ownership Scheme of the Company	Passed	December 27, 2019



### (III) Supervision and inspection by the Supervisory Committee

In 2019, the Supervisory Committee of the Company fully performed its duties in corporate governance in accordance with the relevant laws and regulations such as the Company Law and Securities Law and the related provisions regarding the responsibilities of the Supervisory Committee in the Articles of Association. The Supervisory Committee supervised the Board and senior management in respect of their implementation of resolutions of the general meetings, inspected the daily operation and financial position of the Company, monitored the risk control and compliance of the Company and conducted investigations and researches on frontline staff, actively provided advices and safeguard the legal interests of the Company, its shareholders and all investors and ensure regulated operation of the Company. The major supervision and inspection works are as follows:

#### **1. *Completing assessment on the effectiveness of the Company's compliance management in 2018 and formulating the work plan for 2019***

The Supervisory Committee engaged Grant Thornton ("Grant Thornton") to conduct an assessment on the effectiveness of the Company's compliance management in 2018. According to the Assessment Report on the Effectiveness of the Compliance Management of China Merchants Securities Co., Ltd. in 2018 (《招商證券股份有限公司2018年度合規管理有效性評估報告》) issued by Grant Thornton, it is concluded that the Company has developed and effectively implemented corresponding management systems for the businesses and issues subject to assessment during the Reporting Period, and its targets for compliance management were generally fulfilled. There was no material compliance risk found in all aspects. The above report was delivered to and filed with the CSRC Shenzhen Office upon the approval of the twelfth meeting of the sixth session of the Supervisory Committee.

The Company engaged Grant Thornton by means of quotation for the assessment on the effectiveness of the Company's compliance management in 2019.

#### **2. *Business investigations and assessments***

The Supervisory Committee conducted one assessment on the business departments during the year:

Assessments were conducted by the Supervisory Committee on the operation of the business branches in Ningbo, Zhejiang in November 2019. The business branches debriefed their overall business operation to the Supervisory Committee. The supervisors had thorough communications and discussions with the frontline staff of the business branches, and had provided specific advices or suggestions on various aspects such as team building, expansion of integrated operation projects, transformation of wealth management business, synergic selling of asset management product with wealth management product, adjustment in ranking, etc..

#### **3. *Completion of the audit work in respect of resignation of Mr. SUN Yizheng (孫議政), the former Vice President of the Company***

The Company engaged SHINEWING by way of quotation and procurement to conduct a departure audit of Mr. SUN Yizheng (孫議政), the former Vice President of the Company. The audit report was filed with CSRC Shenzhen Office upon the approval by the tenth meeting of the sixth session of the Supervisory Committee.

## Chapter 8: Corporate Governance Report

### **4. *Completion of the performance appraisals on the Directors, senior management and Supervisors of the Company in 2018***

#### **(IV) Independent opinions of the Supervisory Committee**

In 2019, in accordance with the relevant laws and regulations such as the Company Law and Securities Law and the relevant requirements of the Articles of Association, the Supervisory Committee duly performed its duties with an aim to protect the interests of the Company and all shareholders. The Supervisory Committee supervised and inspected the legal operation, major decisions and financial conditions as well as related party transactions of the Company, and provided the following independent opinions:

##### **1. *Legal operation of the Company***

In 2019, the Board and the management of the Company were able to operate legally in accordance with the Company Law, Securities Law, Articles of Association, and other applicable laws, regulations and rules. In 2019, as an A+H listed Company, the Company was able to maintain regulated operation in respect of corporate governance, information disclosure and investor relations by adhering to the regulatory policies in both the Mainland China and Hong Kong. The major operational decision-making procedures of the Company were lawful and effective. The Company has continuously improved its risk management, compliance management and internal control systems. All internal management systems were effectively implemented. The Supervisory Committee has not identified any behaviour of the Directors and senior management during their performance of duties that violated the relevant laws, regulations and the Articles of Association or was detrimental to the interests of the Shareholders and the Company.

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

In 2019, the Supervisory Committee duly reviewed the financial statements and financial information of the Company. The Supervisory Committee was of the view that the preparation of the financial statements of the Company was in compliance with the relevant requirements of the Accounting Standards for Enterprises and IFRSs. The 2019 financial statements of the Company were able to reflect the financial position, results of operation and cash flows of the Company. The audit opinions contained in the standard unqualified auditor's report issued by Deloitte Touche Tohmatsu were objective and fair.

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

In 2019, the Supervisory Committee monitored the implementation of resolutions of the shareholders' general meetings. The Supervisory Committee was of the view that the Board was able to duly enforce the resolutions of the shareholders' general meetings and had no such behaviours that were detrimental to the interests of shareholders, in particular the minority shareholders.

### **4. Related party transactions**

In 2019, the review, voting, disclosure and implementation of the relevant related party transactions of the Company were in compliance with the applicable laws, regulations and the provisions and requirements of the internal management systems of the Company. The pricing of such transactions was fair and reasonable. The Supervisory Committee has not identified any circumstances that were detrimental to the interests of the Company.

### **5. Review of relevant reports**

The Supervisory Committee reviewed the 2019 Annual Report of the Company (《公司2019年度報告》), 2019 Operational Report of the Company (《公司2019年度經營工作報告》), Report on the Deposit and Use of Proceeds from the Offering of H Shares of the Company in 2019 (《公司2019年度H股募集資金存放與使用情況報告》), Internal Control Assessment Report of the Company for 2019 (《公司2019年度內部控制評價報告》), Compliance Report of the Company for 2019 (《公司2019年度合規報告》) and Social Responsibility Report of the Company for 2019 (《公司2019年度社會責任報告》), and had no objection to such reports.

### **6. Enforcement of the registration and management system for inside information holders**

In 2019, the Supervisory Committee supervised the enforcement of the Registration System for Persons with Inside Information. The Supervisory Committee was of the view that the Company has formulated the Registration System for Persons with Inside Information of China Merchants Securities Co., Ltd. (《招商證券股份有限公司內幕信息知情人登記制度》) in accordance with the Regulation on the Establishment of Registration System for Persons with Inside Information by Listed Companies (《關於上市公司建立內幕信息知情人登記管理制度的規定》), relevant laws and regulations and the Articles of Association. The Supervisory Committee has not identified any violation of such policy.

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

The Supervisory Committee of the Company convened the 18th meeting of the sixth session on March 26, 2020 to assess the performance evaluation of all Directors and senior management of the Company in 2019.

The content of the performance evaluation of the Directors by the Supervisory Committee included attendance of meetings, making recommendation, participating trainings, maintaining the business confidentiality of the Company, faithfully reporting connected transactions and timely declaring shareholdings of the Company, etc. The Supervisors at the meeting concurred that in 2019 all the Directors of the Company performed their duties thoroughly and diligently, seriously attended Board meetings and special committee meetings as well as actively providing advices and propositions, paid close attention to the business and compliance operation of the Company, keeping business confidentiality of the Company and faithful declaration of conditions of connected transactions, so that quality professional opinions and suggestions were provided to the board of directors of the Company for decision making

## Chapter 8: Corporate Governance Report

The content of the performance evaluation of the Supervisory Committees of the management team of the Company included attendance of meetings, respective management of various business segments, commitments to the corporate strategy, compliance management, integrity and self-discipline. The Supervisors at the meeting concurred that the entire senior managements had guided all staff of the Company to actively implement the corporate strategy, the Company had attained better business performance and continued to maintain steady compliance operations in 2019. There was no significant event regarding risk compliance throughout the year while losses of various kinds of risk maintained at a relatively low level, and therefore, the “AA” grade of Type A regulatory rating was maintained for 12th consecutive years. The Supervisory Committee had high accreditation to the performance of the Directors and senior managements of the Company during 2019.

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

### **VI. Appraisal System of Senior Management and the Establishment and Implementation of Incentive Mechanism during the Reporting Period**

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

### **VII. Remuneration of the Directors, Supervisors and Senior Management**

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

### **VIII. Disclosure of Self-Assessment Report of Internal Control**

For details of the self-assessment report of internal control of the Company, please refer to the 2019 Internal Control Assessment Report of China Merchants Securities Co., Ltd (《招商證券股份有限公司2019年度內部控制評價報告》) which will be published on the SSE website on the same date of this report.

### **IX. Relevant Issues Based on the Audit Report on Internal Control**

For details of the audit report on internal control of the Company, please refer to the 2019 Audit Report on Internal Control of China Merchants Securities Co., Ltd. (《招商證券股份有限公司2019年度內部控制審計報告》) which will be published on the SSE website on the same date of this report.

### X. Responsibility Statement on Internal Control and Development of Internal Control System

#### (I) Responsibility statement on internal control

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

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

Based on the assessment on the internal control of the Company, the Board believes that the Company has maintained an effective internal control on financial reporting in all material aspects pursuant to the regulations of corporate internal control system and relevant requirement. As of the date of internal control assessment report (December 31, 2019), the Company was not aware of any material deficiency in the internal control for financial reporting and non-financial reporting aspects.

#### (II) Basis for development of internal control for financial reporting

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

#### (III) Development of internal control system

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

## Chapter 8: Corporate Governance Report

### XI. Development of Compliance Management System of the Company

#### (I) Development of compliance management system of the Company

In 2019, under its five-level compliance management structure comprising the Board, Senior Management, Chief Compliance Officer, Legal and Compliance Department, and other departments, branches and subsidiaries at all levels, and the three-line of compliance management framework consisting of the shareholders' general meeting, the Board and management, the Company duly performed its compliance management duties and maintained proper compliance level. The Company fully promoted the implementation of New Regulations on Compliance Management by interpreting the new regulations, formulating plans of implementation, sorting out and publishing various business compliance flowcharts and compliance control points, defining assessment points, conducting training for compliance officer and implementing compliance check pursuant to requirements of New Regulations on Compliance Management and the de facto situation of the Company. Meanwhile, the Company actively organized the relevant departments to timely formulate internal rules and regulations, embedded the new regulations into various business processes and sessions, and reviewed more than 100 new or revised internal laws and regulations throughout the year, so as to ensure the implementation of requirements of various new regulations and effectively enhance the Company's internal control management. It revised several compliance management policies, namely "Management Measures of Compliance Consultation and Review", "Management Measures of Compliance Warning and Report", "Management Measures of Compliance Risk Disposal", "Measures for Managing the Eligibility of Investors", "The Policy on Managing Rules and Regulations", continuously improved the compliance management system, fully implemented the "Management Measures of Subsidiaries for Compliance", comprehensively standardized the principle of compliance management, the procedures and the responsibilities of each responsible entity, strictly implemented the "Accountability Regulations" and "Rules on Accountability Management" applicable to major and important violations and general violations, and established a sound compliance accountability system.

#### (II) Compliance check during the Reporting Period

In 2019, the Company stepped up its compliance check by carrying out routine inspections and risk incidents triggering tests, and expanding the scope of its preventive compliance inspection to all business lines. In particular, the Company carried out preventive inspections which focused on high-risk areas, new businesses and major regulatory concerns, and timely identified and controlled the potential compliance risk and overall improvement. A total of 41 compliance inspections were carried out throughout the year. In respect of the problems identified by compliance check and suggestions for rectification, the adoption rate was 100%, and this ensured smooth execution of the business regulations.

### XII. Progress of Audit

During the Reporting Period, the supervision of the audit department actively implemented and promoted the “reform strategies” of the Company, continued to execute the transformation to dual emphasis on “risk prevention” and “value adding”, focused on consolidating the three goals of “tightening the control of the institutional system and operation mechanism”, “deepening the inspection of violations and potential risks”, “forwarding proposals and making decisions to improve operational efficiency”, thereby fully achieving “Quality and Efficiency Improvement” in business and management.

During the Reporting Period, the Company completed a total of 140 audit items of various types, in which 27 were related to audit of the business or management of the headquarters and subsidiaries, comprehensively covering the securities research business, IPO business, bond financing and issue business, securities investment business, asset management structured finance business (subsidiary), private equity business (subsidiary), global commodity business (subsidiary), connected transaction management (functional management), information technology operation and maintenance management (functional management), proprietary valuation management (functional management), etc.; 112 items of compulsory departure audit and termination audit of the officers of branches (securities business department and branch offices); leading the completion of the effective self-assessment of the Company’s internal control project.

Through these internal audits and evaluation, the Company inspected the internal control systems of the audit targets and the completeness and effectiveness thereof, and issued reminders on major risks, which significantly supported the improvement of compliance and risk prevention awareness of the audit targets as well as the enhancement of internal control of the Company.

### XIII. Miscellaneous

#### (I) Compliance with code on securities transactions

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



## Chapter 8: Corporate Governance Report

### (II) Responsibilities of Directors for financial statements

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

The Board of the Company has confirmed that it took responsibility for the preparation of the annual report for the year ended December 31, 2019 of the Group.

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

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

### (III) Joint company secretaries

Mr. WU Huifeng and Ms. KWONG Yin Ping Yvonne are the joint company secretaries of the Company, whose appointments were made in July 2015 and April 2016, respectively, and became effective in October 2016. Mr. WU Huifeng is the secretary to the Board and the main contact person within the Company. Ms. KWONG Yin Ping Yvonne is a vice president of SWCS Corporate Services Group (Hong Kong) Limited. According to Rule 3.29 of the Hong Kong Listing Rules, as of December 31, 2019, both Mr. WU Huifeng and Ms. KWONG Yin Ping Yvonne have received over 15 hours of relevant professional trainings.

### (IV) Interests of Shareholders

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

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

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



### (V) Auditor's remuneration

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

### (VI) Relationship with investors

The Company is consistently committed to the responsibility of protecting the interests of investors and strives to improve transparency in the day to day business process so as to enable investors and potential investors to have a better understanding of the Company. During the Reporting Period, the Company communicated with more than 700 domestic and foreign analysts and investors via means such as on-site communications in shareholders' general meetings, the 2019 online investors group reception day and exchange meetings organized by domestic and foreign securities firms for reception of visits and researches, SSE E-Interaction, telephone hotlines, email and WeChat. The Company proactively conducts in-depth communications with domestic and foreign analysts and investors upon hot issues that are substantial to the industry and Company. By summarizing, analyzing and giving feedback to the opinions and suggestions of investors, we are able to create value through communications and interactions, thereby enabling the Company to continuously improve the professionalism and standard of management of investor relations.

### (VII) Risk management

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

For details of the internal control of the Company, please refer to the "2019 Internal Control Assessment Report of China Merchants Securities Co., Ltd." (《招商證券股份有限公司2019年度內部控制評價報告》) which will be published on the SSE website and the "Responsibility Statement on Internal Control and Development of Internal Control System", "Development of Compliance Management System of the Company" and "Progress of Audit" under "Chapter 8 Corporate Governance Report" on the same date of this report.

## Chapter 8: Corporate Governance Report

### (VIII) Management of inside information

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

### (IX) Amendments to the Articles of Association

On May 20, 2019, the resolution regarding the amendments to the Articles of Association of the Company was considered and approved at the first extraordinary general meeting for 2019 of the Company. In October 2019, the Company received "Approval of CSRC Shenzhen Office on the Amendments to the Important Provisions in the Articles Association of China Merchants Securities Co., Ltd." from the CSRC Shenzhen Office (Shen Zheng Xu Ke Zi [2019] No. 84) that the amendments to the Important Provisions in the Article Association of the Company were approved.

For details, please refer to the relevant announcements issued on March 13, April 30, May 21 and October 15, 2019.

# Chapter 9: Corporate Bonds

## I. General Information of Corporate Bonds

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

Unit: 100 million Currency: RMB

Name	Abbreviation	Code	Issue completion date	Date of expiry	Remaining balance	Interest rate (%)	Payment of principal and interest	Trading place	Triggering and implementation of special terms	Eligibility of investors
The 2012 Corporate Bonds of China Merchants Securities Co., Ltd. (10-Year Maturity) (招商證券股份有限公司2012年公司債券(10年期))	12 China Merchants 03 (12招商03)	122234	March 5, 2013	March 5, 2023	55	5.15	Annual payment of interest	SSE	Nil	Offering to investors
The 2014 corporate bonds publicly issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司公開發行2014年公司債券)	14 China Merchants Bonds (14招商債)	122374	May 26, 2015	May 26, 2025	55	5.08	Annual payment of interest	SSE	Nil	Offering to investors
The 2017 Corporate Bonds (second tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2017年公司債券(第二期))	17 China Merchants G2 (17招商G2)	143342	October 23, 2017	October 23, 2020	10.6	4.78	Annual payment of interest	SSE	Nil	Offering to qualified investors
The 2017 Corporate Bonds (third tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2017年公司債券(第三期))	17 China Merchants G3 (17招商G3)	143369	October 31, 2017	October 31, 2020	10	4.85	Annual payment of interest	SSE	Nil	Offering to qualified investors
The 2018 Corporate Bonds (first tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2018年公司債券(第一期))	18 China Merchants G1 (18招商G1)	143460	February 5, 2018	February 5, 2021	19.4	5.35	Annual payment of interest	SSE	Nil	Offering to qualified investors
The 2018 Type One Corporate Bonds (second tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2018年公司債券(第二期)(品種一))	18 China Merchants G2 (18招商G2)	143626	June 12, 2018	June 12, 2020	20	4.78	Annual payment of interest	SSE	Nil	Offering to qualified investors
The 2018 Type Two Corporate Bonds (second tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2018年公司債券(第二期)(品種二))	18 China Merchants G3 (18招商G3)	143627	June 12, 2018	June 12, 2021	10	4.78	Annual payment of interest	SSE	Nil	Offering to qualified investors
The 2018 Type Two Corporate Bonds (third tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2018年公司債券(第三期)(品種二))	18 China Merchants G5 (18招商G5)	143712	July 18, 2018	July 18, 2021	25	4.38	Annual payment of interest	SSE	Nil	Offering to qualified investors
The 2018 Type One Corporate Bonds (fourth tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2018年公司債券(第四期)(品種一))	18 China Merchants G6 (18招商G6)	143392	August 8, 2018	August 8, 2021	30	3.94	Annual payment of interest	SSE	Nil	Offering to qualified investors
The 2018 Type One Corporate Bonds (fifth 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(第五期)(品種一))	18 China Merchants G8 (18招商G8)	143762	September 7, 2018	September 7, 2021	18	4.23	Annual payment of interest	SSE	Nil	Offering to qualified investors
The 2018 Corporate Bonds (seventh 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(第七期))	18 China Merchants F10 (18招商F10)	150930	December 5, 2018	December 5, 2021	25	4.15	Annual payment of interest	SSE	Nil	Offering to qualified institutional investors
The 2019 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2019年公司債券(第一期))	19 China Merchants G1 (19招商G1)	155208	March 8, 2019	March 8, 2022	15	3.59	Annual payment of interest	SSE	Nil	Offering to qualified investors

## Chapter 9: Corporate Bonds

Name	Abbreviation	Code	Issue completion date	Date of expiry	Remaining balance	Interest rate (%)	Payment of principal and interest	Trading place	Triggering and implementation of special terms	Eligibility of investors
The 2019 Type One Corporate Bonds (second tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2019年非公開發行公司債券(第二期)(品種一))	19 China Merchants F3 (19招商F3)	151412	April 10, 2019	April 10, 2021	17	3.85	Annual payment of interest	SSE	Nil	Offering to qualified institutional investors
The 2019 Type Two Corporate Bonds (second tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2019年非公開發行公司債券(第二期)(品種二))	19 China Merchants F4 (19招商F4)	151413	April 10, 2019	April 10, 2022	36	4.00	Annual payment of interest	SSE	Nil	Offering to qualified institutional investors
The 2019 Type One Corporate Bonds (third tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2019年非公開發行公司債券(第三期)(品種一))	19 China Merchants F5 (19招商F5)	151495	April 25, 2019	April 25, 2021	20	4.08	Annual payment of interest	SSE	Nil	Offering to qualified institutional investors
The 2019 Type Two Corporate Bonds (third tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2019年非公開發行公司債券(第三期)(品種二))	19 China Merchants F6 (19招商F6)	151496	April 25, 2019	April 25, 2022	40	4.28	Annual payment of interest	SSE	Nil	Offering to qualified institutional investors
The 2019 Type Two Corporate Bonds (fourth tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2019年非公開發行公司債券(第四期)(品種二))	19 China Merchants F8 (19招商F8)	151600	May 29, 2019	May 29, 2021	40	3.78	Annual payment of interest	SSE	Nil	Offering to qualified institutional investors
Foreign Bonds of China Merchants Securities Co., Ltd. (Three-Year Maturity) (招商證券股份有限公司境外債券(三年期))	CMSEC N2301	40129	January 21, 2020	January 21, 2023	Note 1	2.625	Annual payment of interest	Hong Kong Stock Exchange	Nil	Offering to qualified investors
The 2020 Type One Corporate Bonds (first tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2020年非公開發行公司債券(第一期)(品種一))	20 China Merchants F1 (20招商F1)	166206	March 11, 2020	March 26, 2021	30	2.65	One-off payment of principal and interest upon expiry	SSE	Nil	Offering to qualified institutional investors
The 2020 Type One Corporate Bonds (second tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2020年非公開發行公司債券(第二期)(品種一))	20 China Merchants F3 (20招商F3)	166414	March 25, 2020	April 14, 2021	20	2.65	One-off payment of principal and interest upon expiry	SSE	Nil	Offering to qualified institutional investors
The 2020 Type One Corporate Bonds (second tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2020年非公開發行公司債券(第二期)(品種一))	20 China Merchants F4 (20招商F4)	166415	March 25, 2020	March 25, 2022	15	2.85	Annual payment of interest	SSE	Nil	Offering to qualified institutional investors

Name	Abbreviation	Code	Issue completion date	Date of expiry	Remaining balance	Interest rate (%)	Payment of principal and interest	Trading place	Triggering and implementation of special terms	Eligibility of investors
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	The interest rate for perpetual subordinated bonds are repriced every five years. Upon the maturity of every repricing cycle, the issuer has the option to extend the maturity of the bonds for another repricing cycle, or redeem the bonds entirely.	40	5.18 (Note 2)		SSE	The issuer shall have the option of renewal, and the investors shall not have the option of resale; the issuer shall have the option of deferring payment of interest. The options have not been exercised.	Offering to qualified institutional investors
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		50	5.15 (Note 2)		SSE		Offering to qualified institutional investors
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		37	5.65 (Note 2)		SSE		Offering to qualified institutional investors
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		23	5.58 (Note 2)		SSE		Offering to qualified institutional investors

Note 1: The foreign bonds issued during the period amounted to USD 300 million.

Note 2: The coupon rate for the first five interest-bearing years (the first repricing cycle) of the perpetual subordinated bonds is determined through bookkeeping and filing, and shall remain unchanged during the first five interest-bearing years. Since the sixth interest-bearing year, the coupon rate shall be re-determined every 5 years. The coupon rate for the repricing cycle is the benchmark interest rate plus the initial spread plus 300 basis points. The initial spread is the difference between the coupon rate and the benchmark interest rate in the first repricing cycle.

## Chapter 9: Corporate Bonds

### Payment of interest and principal of corporate bonds

Name	Abbreviation	Code	Issue completion date	Date of expiry	Amount (RMB 100 million)	Payment of interest and principal and implementation of special clause
The 2012 Corporate Bonds of China Merchants Securities Co., Ltd. (10-Year Maturity) (招商證券股份有限公司2012年公司債券(10年期))	12 China Merchants 03 (12招商03)	122234	March 5, 2013	March 5, 2023	55	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	Payment of interest in full as scheduled
The 2017 Corporate Bonds (first tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2017年公司債券(第一期))	17 China Merchants G1 (17招商G1)	143327	October 13, 2017	October 13, 2019	45	Payment of interest and principal in full as scheduled
The 2017 Corporate Bonds (second tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2017年公司債券(第二期))	17 China Merchants G2 (17招商G2)	143342	October 23, 2017	October 23, 2020	10.6	Payment of interest in full as scheduled
The 2017 Corporate Bonds (third tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2017年公司債券(第三期))	17 China Merchants G3 (17招商G3)	143369	October 31, 2017	October 31, 2020	10	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	19.4	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	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	Payment of interest in full as scheduled
The 2018 Type Two Corporate Bonds (third tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2018年公司債券(第三期)(品種二))	18 China Merchants G5 (18招商G5)	143712	July 18, 2018	July 18, 2021	25	Payment of interest in full as scheduled
The 2018 Type One Corporate Bonds (fourth tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2018年公司債券(第四期)(品種一))	18 China Merchants G6 (18招商G6)	143392	August 8, 2018	August 8, 2021	30	Payment of interest in full as scheduled
The 2018 Type One Corporate Bonds (fifth 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(第五期)(品種一))	18 China Merchants G8 (18招商G8)	143762	September 7, 2018	September 7, 2021	18	Payment of interest in full as scheduled

Name	Abbreviation	Code	Issue completion date	Date of expiry	Amount (RMB 100 million)	Payment of interest and principal and implementation of special clause
The 2017 subordinated bonds (first tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年次級債券(第一期))	17 China Merchants C1 (17招商C1)	145899	November 27, 2017	November 27, 2019	22	Payment of interest and principal 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	16.4	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	51.5	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	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	Payment of interest in full as scheduled
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	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	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	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	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	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	Payment of interest and principal in full as scheduled
The 2018 Corporate Bonds (sixth 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(第六期))	18 China Merchants F9 (18招商F9)	150750	October 15, 2018	July 12, 2019	30	Payment of interest and principal in full as scheduled
The 2018 Corporate Bonds (seventh 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(第七期))	18 China Merchants F10 (18招商F10)	150930	December 5, 2018	December 5, 2021	25	Payment of interest in full as scheduled
The 2019 Type One Corporate Bonds (first tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2019年非公開發行公司債券(第一期)(品種一))	19 China Merchants F1 (19招商F1)	151113	January 17, 2019	July 19, 2019	15	Payment of interest and principal in full as scheduled
The 2019 Type Two Corporate Bonds (first tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2019年非公開發行公司債券(第一期)(品種二))	19 China Merchants F2 (19招商F2)	151114	January 17, 2019	October 14, 2019	35	Payment of interest and principal in full as scheduled

## Chapter 9: Corporate Bonds

### Details of the issuance of other corporate bonds

In February 2018, the Company received the No Objection Letter for the Offer for Sale of Corporate Bonds Privately Issued by China Merchants Securities Co., Ltd. (Shang Zheng Han [2018] No. 160) (《關於對招商證券股份有限公司非公開發行公司債券掛牌轉讓無異議的函》(上證函[2018] 160號)) from the SSE, pursuant to which the SSE has no objection to the offer for sale of corporate bonds privately issued by the Company to qualified investors in the amount of no more than RMB 40 billion. From 2019 to the date of approval for the publication of this report, the Company had issued one tranche of privately-offered corporate bonds pursuant to the No Objection Letter and raised RMB 5 billion.

In March 2019, the Company received the No Objection Letter for the Offer for Sale of Corporate Bonds Privately Issued by China Merchants Securities Co., Ltd. (Shang Zheng Han [2019] No. 523) (《關於對招商證券股份有限公司非公開發行公司債券掛牌轉讓無異議的函》(上證函[2019] 523號)) from the SSE, pursuant to which the SSE has no objection to the offer for sale of corporate bonds privately issued by the Company to qualified investors in the amount of no more than RMB 45 billion. From 2019 to the date of approval for the publication of this report, the Company had issued a total of five tranches of privately-offered corporate bonds pursuant to the No Objection Letter and raised RMB21.8 billion.

In April 2018, the Company received the Approval on the Public Offering of Corporate Bonds by China Merchants Securities Co., Ltd. to Qualified Investors (Zheng Jian Xu Ke [2018] No. 612) (《關於核准招商證券股份有限公司向合格投資者公開發行公司債券的批覆》(證監許可[2018] 612號)) from the CSRC, pursuant to which the CSRC approved the Company's public offering of corporate bonds with total face value of no more than RMB 11.8 billion to qualified investors. From 2019 to the date of approval for the publication of this report, the Company had issued one tranche of corporate bonds pursuant to the approval and raised RMB 1.5 billion.

## 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 the trustees and credit rating agencies in the outstanding corporate bonds as at the date of approval for the publication of this annual report:

Abbreviation	Code	Trustee	Credit rating agency
12 China Merchants 03 (12招商03)	122234	Huatai United Securities	Shanghai Brilliance
14 China Merchants Bonds (14招商債)	122374	Everbright Securities	Shanghai Brilliance
17 China Merchants G2 (17招商G2)	143342	Everbright Securities	CCXI
17 China Merchants G3 (17招商G3)	143369		
18 China Merchants G1 (18招商G1)	143460		
18 China Merchants G2 (18招商G2)	143626		
18 China Merchants G3 (18招商G3)	143627		
18 China Merchants G5 (18招商G5)	143712		
18 China Merchants G6 (18招商G6)	143392		
18 China Merchants G8 (18招商G8)	143762		
19 China Merchants G1 (19招商G1)	155208		



Abbreviation	Code	Trustee	Credit rating agency
18 China Merchants F10 (18招商F10)	150930	Essence Securities	CCXI
19 China Merchants F3 (19招商F3)	151412		
19 China Merchants F4 (19招商F4)	151413		
19 China Merchants F5 (19招商F5)	151495		
19 China Merchants F6 (19招商F6)	151496		
19 China Merchants F8 (19招商F8)	151600		
20 China Merchants F1 (20招商F1)	166206		
20 China Merchants F3 (20招商F3)	166414		
20 China Merchants F4 (20招商F4)	166415		
17 China Merchants Y1 (17招商Y1)	145340	China Galaxy	CCXI
17 China Merchants Y2 (17招商Y2)	145371		
17 China Merchants Y3 (17招商Y3)	145545		
17 China Merchants Y4 (17招商Y4)	145579		

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

The original rating agency of the publicly issued corporate bonds "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" and "19 China Merchants G1", privately issued corporate bonds "18 China Merchants F10", "19 China Merchants F3", "19 China Merchants F4", "19 China Merchants F5", "19 China Merchants F6" and "19 China Merchants F8" and perpetual subordinated bonds "17 China Merchants Y1", "17 China Merchants Y2", "17 China Merchants Y3" and "17 China Merchants Y4" is CCXR. In February 2020, CCXR received the Approval for China Chengxin International Credit Rating Co., Ltd. to Engage in Credit Rating Business in the Securities Market (Zheng Jian Xu Ke [2020] No. 267) (《關於核准中誠信國際信用評級有限責任公司從事證券市場資信評級業務的批覆》(證監許可[2020] 267號)) from the CSRC, pursuant to which CCXR ceased to engage in credit rating business in the securities market with effect from February 26, 2020. The credit rating business in the securities market undertaken by CCXR has been carried on by CCXI, its sole shareholder. The rating agency of the above bonds has been changed to CCXI. The change in the rating agency mentioned above has no significant impact on the Company's solvency and the payment of principal and interest on the relevant bonds.

## Chapter 9: Corporate Bonds

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

Trustee	Name	Huatai United Securities Co., Ltd.
	Office address	(01A, 02, 03, 04), 17A, 18A, 24A, 25A & 26A, 5/F, HKCTS Tower, Central Business District, Futian District, Shenzhen
	Contact person	XU Chengcheng (徐晟程)
	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
	Contact person	XUE Jiang (薛江), HUANG Liang (黄亮), 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
	Contact person	XU Yingjie (徐英杰)
	Contact number	0755-82558264
Trustee	Name	China Galaxy Securities Co., Ltd.
	Office address	Level 2, Tower C, Corporate Square, No. 35 Finance Street, Xicheng District, Beijing
	Contact person	XU Jinjun (许进军)
	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 International Credit Rating Co., Ltd.
	Office address	60101, Building 1, No. 2 Nanzhugan Hutong, Dongcheng District, Beijing

### 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 the “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;
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 9: 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 RMB 4.5 billion, with RMB 3 billion used for debt restructuring and RMB 1.5 billion used for replenishment of working capital; “17 China Merchants G2” raised RMB 1.06 billion, all being used for replenishment of working capital; “17 China Merchants G3” raised RMB 1 billion, with RMB 609 million used for debt restructuring and RMB 391 million used for replenishment of working capital; “18 China Merchants G1” raised RMB 1.94 billion, with RMB 1.391 billion used for debt restructuring and RMB 549 million used for replenishment of working capital.

As prescribed in the prospectuses 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 prospectuses.

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

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, 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, “19 China Merchants F3”, “19 China Merchants F4”, “19 China Merchants F5”, “19 China Merchants F6”, “19 China Merchants F8”, “20 China Merchants F1”, “20 China Merchants F3” and “20 China Merchants F4”, 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, 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.

### 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. The regular follow-up ratings of the Company are as follows:

On March 15, 2019, CCXR 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 “18 China Merchants F8” and “18 China Merchants F9” remained at A-1.

On April 25, 2019, Shanghai Brilliance 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 “12 China Merchants 03” and “14 China Merchants Bonds” remained at AAA.

## Chapter 9: Corporate Bonds

On April 26, 2019, CCXR 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 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 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 "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" and "19 China Merchants F4" remained at AAA; the credit ratings of "19 China Merchants F1" and "19 China Merchants F2" remained at A-1; and the credit ratings of "17 China Merchants Y1", "17 China Merchants Y2", "17 China Merchants Y3", "17 China Merchants Y4", "17 China Merchants C1", "18 China Merchants C1" and "18 China Merchants C2" remained at AA+.

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 one and a half 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 one and a half 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 prospectuses and paid all interests and principal of the corporate bonds as scheduled and disclosed relevant information on a timely basis in order to protect the legitimate 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 independent from 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 prospectuses 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 United Securities issued the 2018 Trust Reports on the 2012 Corporate Bonds (Type Three) of China Merchants Securities Co., Ltd..

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

On June 12, 2019, Everbright Securities issued the 2018 Trust Reports 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 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.

On June 27, 2019, Essence Securities 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, China Galaxy 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 SSE website.

## Chapter 9: Corporate Bonds

### VII. Accounting Data and Financial Indicators in the Last Two Years as at the End of the Reporting Period

Unit: 100 million Yuan Currency: RMB

Key indicators	2019	2018	Change (%)	Reasons for the change
EBITDA	155.11	118.32	31.08	Due to the increase in profits
Current ratio	1.63	1.70	-3.90	—
Quick ratio	1.63	1.70	-3.90	—
Gearing ratio (%)	73.40	68.44	7.25	—
EBITDA/debt ratio	6.97	7.09	-1.68	—
Interest coverage ratio	2.41	1.88	28.38	—
Cash interest coverage ratio	0.81	7.41	-89.06	Due to the decrease in net cash flow generated from operating activities
EBITDA/interest coverage ratio	2.50	1.92	30.49	Due to the increase in EBITDA
Loan repayment ratio (%)	100.00	100.00	—	—
Interest payment ratio (%)	100.00	100.00	—	—

### VIII. Principal 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 commercial papers, 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 at December 31, 2019, the Company had available credit lines from its major lending banks amounting to RMB 274.0 billion, of which RMB 68.5 billion were utilized.



### **X. Performance of Commitments or 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 or 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 legitimate 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 at April 30, 2019, total cumulative new borrowings for the year of the Company were RMB 19.690 billion, representing 24.37% (over 20%) of net assets at the end of last year. As at June 30, 2019, the above ratio fell below 20%. As at August 31, 2019, total cumulative new borrowings for the year of the Company were RMB21.277 billion, representing 26.34% (over 20% for the second time) of net assets at the end of last year. For details, please refer to the relevant announcements published by the Company on the SSE website on May 11, 2019 and September 7, 2019, respectively.

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, De Facto Controller and Acquirer” under “Chapter 5 Major Events” of this report and “Changes in Directors, Supervisors and Senior Management” under “Chapter 7 Directors, Supervisors, Senior Management and Employees”. 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 10: Financial Report

## INDEPENDENT AUDITOR'S REPORT

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

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

## Opinion

We have audited the consolidated financial statements of China Merchants Securities Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 218 to 365, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

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

## Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
<p><i>1. Determination of consolidation scope of structured entities</i></p>	
<p>We identified the determination of consolidation scope of structured entities as a key audit matter due to the significant judgment applied by the management in determining whether a structured entity was required to be consolidated by the Group and the significance of these balances to the Group's consolidated financial statements as a whole.</p> <p>The Group held a number of interests in structured entities including investment funds, collective asset management schemes and limited partnerships where the Group was involved as investment manager. As disclosed in note 4 to the consolidated financial statements, the management applied judgment in determining whether these investments should be consolidated in accordance with International Financial Reporting Standard 10: Consolidated Financial Statements ("IFRS 10") by determining (i) whether the Group had power over these investees, and (ii) whether the combination of investments it held, if any, together with its remuneration and credit enhancement created exposure to variability of returns from the activities of the asset management schemes, investment funds and limited partnerships that was of such significance that it indicated that the Group had control.</p> <p>As disclosed in notes 21 and 23, as at December 31, 2019, the total assets of the consolidated structured entities amounted to RMB 6,988.8 million and the total assets of the unconsolidated structured entities sponsored by the Group amounted to RMB 705,517.2 million, respectively.</p>	<p>Our procedures in relation to the determination of consolidation scope of structured entities included:</p> <ul style="list-style-type: none"> <li>• Evaluating and testing the key controls of management in determining the consolidation scope as set out in IFRS 10 of interests in structured entities;</li> <li>• Examining on a sample basis, the related significant investment contracts and other related service agreements of investments in structured entities to determine whether management's conclusion as to whether or not a structured entity was required to be consolidated by the Group was in accordance with IFRS 10;</li> <li>• Checking, on a sample basis, the accuracy of management's calculations of the Group's exposure or right to variable returns from its involvement with the structured entities and examining the data used in these calculations by reference to the related contracts.</li> </ul>

## Chapter 10: Financial Report

### Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>2. Measurement of expected credit losses ("ECL") for financial assets of credit business</i></p>	
<p>We identified the measurement of ECL for the Group's financial assets of credit business (advances to customers and financial assets held under resale agreements) as a key audit matter due to the significance of these assets to the Group's consolidated financial statements and the significant management estimates and judgment required in the measurement.</p> <p>As set out in note 62(2) to the consolidated financial statements, the measurement involved significant management estimates and judgment in the following key areas:</p> <ul style="list-style-type: none"> <li>• Determination of the criteria for significant increase in credit risk ("SICR");</li> <li>• Use of models and assumptions;</li> <li>• Determination of probability of default ("PD") and loss given default ("LGD").</li> </ul> <p>The high degree of estimation uncertainty of the ECL had a significant impact on the carrying values of these assets, which in aggregate amounted to RMB 90,904.4 million and constituted appropriately 23.81% of the total assets of the Group as at December 31, 2019.</p> <p>As at December 31, 2019, the Group recognized expected credit losses of RMB 93.4 million for advances to customers; RMB 332.3 million for financial assets held under resale agreements; as disclosed in notes 29 and 26 to the consolidated financial statements, respectively.</p>	<p>Our procedures in relation to the measurement of ECL for financial assets of credit business included:</p> <ul style="list-style-type: none"> <li>• Evaluating and testing the key controls relating to the measurement of ECL for advances to customers and financial assets held under resale agreements;</li> <li>• Evaluating the appropriateness of the ECL model and the critical assumptions and parameters used in the model, in particular, PD and LGD, with the involvement of our internal experts;</li> <li>• Evaluating the appropriateness of SICR criteria determined by management and, on a sample basis, testing the application of the SICR criteria to individual advances to customers and financial assets held under resale agreements;</li> <li>• Examining major inputs to the ECL model for selected samples, including exposure at default and loss rate;</li> <li>• For credit-impaired financial assets, on a sample basis, assessing the reasonableness of expected credit losses made by management based on the estimated future cash flows by reference to the latest collateral valuations, as appropriate.</li> </ul>

## Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="199 405 1145 437"><i>3. Valuations of financial assets classified under the fair value hierarchy as Level 3</i></p> <p data-bbox="199 459 804 670">We identified the valuations of financial assets classified under the fair value hierarchy as Level 3 (“Level 3 financial assets”) as a key audit matter due to the significant management estimates and judgments arising from the involvement of significant unobservable inputs in their valuations.</p> <p data-bbox="199 685 804 972">As disclosed in note 63 to the consolidated financial statements, the fair value of the Group’s Level 3 financial assets amounted to RMB 3,678.7 million as at December 31, 2019. Level 3 financial assets were measured using valuation models that involved a number of inputs; some of significant inputs were not based on observable market data, including volatility and discount for lack of marketability, etc.</p>	<p data-bbox="826 459 1433 523">Our procedures in relation to the valuations of Level 3 financial assets included:</p> <ul data-bbox="826 541 1433 1336" style="list-style-type: none"> <li data-bbox="826 541 1433 642">• Evaluating and testing the key controls over the valuation process for Level 3 financial assets;</li> <li data-bbox="826 659 1433 799">• Evaluating the appropriateness of the valuation models used by the management for Level 3 financial assets, based on our knowledge of current industry practice;</li> <li data-bbox="826 817 1433 993">• Reading the investment agreements, on a sample basis, to understand the relevant investment terms and identifying any conditions that were relevant to the valuations of these financial assets;</li> <li data-bbox="826 1011 1433 1151">• Evaluating, on a sample basis, the appropriateness of the unobservable and observable inputs, used for measuring the fair value of Level 3 financial assets;</li> <li data-bbox="826 1168 1433 1336">• Performing independent valuations of Level 3 financial assets, on a sample basis, and comparing these valuations with the Group’s valuations, with the involvement of our valuation experts, as appropriate.</li> </ul>

## Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor’s report thereon.

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

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

## Chapter 10: Financial Report

### Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal controls as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Wo Mi.

#### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

March 27, 2020

The independent auditor's report and the accompanying consolidated financial statements and related notes have been issued in English. The Chinese version is used as a translated version for reference only. In the event of any discrepancy in the interpretation between the English version and Chinese version, the English version shall prevail.

## Consolidated Statement of Profit or Loss

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	Year ended December 31,	
		2019	2018
Fee and commission income	7	8,858,493	7,753,532
Interest income	8	8,288,799	8,186,595
Investment gains or losses, net	9	6,159,670	2,120,062
Other income and gains or losses	10	2,352,139	9,359
<b>Total revenues, gains and other income</b>		<b>25,659,101</b>	<b>18,069,548</b>
Depreciation and amortization	11	(530,908)	(216,391)
Staff costs	12	(5,559,394)	(3,850,480)
Fee and commission expenses	13	(1,422,798)	(1,305,055)
Interest expenses	14	(6,393,610)	(6,340,505)
Tax and surcharges		(94,364)	(88,223)
Other operating expenses	15	(3,670,815)	(1,614,634)
Impairment losses under expected credit loss model, net of reversal	16	(92,027)	(121,037)
Other impairment losses, net		(3,556)	(3,211)
<b>Total expenses</b>		<b>(17,767,472)</b>	<b>(13,539,536)</b>
Share of profits of associates		882,008	917,473
<b>Profit before income tax</b>		<b>8,773,637</b>	<b>5,447,485</b>
Income tax expenses	17	(1,460,354)	(1,001,224)
<b>Profit for the year</b>		<b>7,313,283</b>	<b>4,446,261</b>
Attributable to:			
Shareholders of the Company and holders of other equity instruments		7,282,381	4,424,986
Non-controlling interests		30,902	21,275
		<b>7,313,283</b>	<b>4,446,261</b>
Earnings per share attributable to shareholders of the Company (Expressed in RMB per share)	18		
— Basic		<b>0.97</b>	<b>0.54</b>

The accompanying notes form an integral part of these consolidated financial statements.



## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Year ended December 31,	
	2019	2018
<b>Profit for the year</b>	<b>7,313,283</b>	<b>4,446,261</b>
<b>Other comprehensive income (expense):</b>		
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
Equity instruments designated as at fair value through other comprehensive income		
Net fair value changes during the year	335,203	(913,992)
Income tax impact	(83,801)	228,498
Sub-total	251,402	(685,494)
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Debt instruments at fair value through other comprehensive income:		
Net fair value changes during the year	153,397	758,923
Reclassification adjustment to profit or loss	(183,740)	22,463
Impairment losses under expected credit loss model, net of reversal	3,314	(1,032)
Income tax impact	7,178	(195,089)
Sub-total	(19,851)	585,265
Share of other comprehensive income of associates, net of related income tax	12,008	326
Exchange differences arising from translation of foreign operations	106,710	286,813
Other comprehensive income for the period (net of tax)	350,269	186,910
<b>Total comprehensive income for the period (net of tax)</b>	<b>7,663,552</b>	<b>4,633,171</b>
<b>Attributable to:</b>		
Shareholders of the Company and holders of other equity instruments	7,632,650	4,611,896
Non-controlling interests	30,902	21,275
	<b>7,663,552</b>	<b>4,633,171</b>

The accompanying notes form an integral part of these consolidated financial statements.

## Consolidated Statement of Financial Position

As at December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	As at December 31,	
		2019	2018
<b>Non-current assets</b>			
Property and equipment	19	1,540,746	1,628,792
Right-of-use assets	20	1,610,549	
Prepaid lease payment		—	431,685
Goodwill		9,671	9,671
Other intangible assets		15,855	19,121
Interests in associates	22	8,833,586	8,287,924
Equity instruments at fair value through other comprehensive income	24	7,057,809	6,722,607
Debt instruments at amortized cost	25	1,424,662	1,796,608
Financial assets held under resale agreements	26	2,170,301	5,277,749
Financial assets at fair value through profit or loss	32	2,708,857	2,202,967
Deferred tax assets	27	826,872	868,510
Other non-current assets	28	817,565	221,103
<b>Total non-current assets</b>		<b>27,016,473</b>	<b>27,466,737</b>
<b>Current assets</b>			
Advances to customers	29	55,224,619	42,976,430
Current tax assets		180,145	34,668
Accounts and other receivables	30	3,213,572	3,263,335
Debt instruments at fair value through other comprehensive income	31	45,734,307	41,642,341
Debt instruments at amortized cost	25	469,974	47,587
Financial assets held under resale agreements	26	33,509,524	27,766,111
Financial assets at fair value through profit or loss	32	135,437,211	97,921,779
Derivative financial assets	33	1,805,819	1,150,232
Deposits with exchanges and non-bank financial institutions	34	4,780,890	1,431,420
Clearing settlement funds	35	12,471,616	13,796,281
Cash and bank balances	36	61,927,739	47,433,784
<b>Total current assets</b>		<b>354,755,416</b>	<b>277,463,968</b>
<b>Total assets</b>		<b>381,771,889</b>	<b>304,930,705</b>

The accompanying notes form an integral part of these consolidated financial statements.

## Consolidated Statement of Financial Position (Continued)

As at December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	As at December 31,	
		2019	2018
<b>Current liabilities</b>			
Short-term borrowings	38	3,103,673	1,581,861
Short-term debt instruments	39	33,098,616	34,850,476
Placements from banks and other financial institutions	40	7,013,199	3,519,000
Accounts payable to brokerage clients	41	61,724,220	48,911,748
Accrued staff costs	42	5,042,877	3,654,135
Other payables and accrued charges	43	6,847,972	3,524,201
Current tax liabilities		57,064	133,968
Financial liabilities at fair value through profit or loss	44	7,918,509	7,124,452
Derivative financial liabilities	33	2,183,222	1,305,685
Financial assets sold under repurchase agreements	45	97,706,686	61,267,557
Lease liabilities	46	267,627	
Long-term borrowings due within one year	51	1,144,880	—
Bonds payable due within one year	53	15,478,614	17,855,355
<b>Total current liabilities</b>		<b>241,587,159</b>	<b>183,728,438</b>
<b>Net current assets</b>		<b>113,168,257</b>	<b>93,735,530</b>
<b>Total assets less current liabilities</b>		<b>140,184,730</b>	<b>121,202,267</b>
<b>Equity</b>			
Share capital	47	6,699,409	6,699,409
Other equity instruments	48	15,000,000	15,000,000
Capital reserve		27,533,939	27,533,939
Less: Treasury stock	47	663,954	—
Investment revaluation reserve of financial assets at fair value through other comprehensive income	49	542,629	299,070
Foreign currency translation reserve		278,786	172,076
General reserves	50	16,401,426	13,864,963
Retained profits		19,256,086	17,153,389
<b>Equity attributable to shareholders of the Company</b>		<b>85,048,321</b>	<b>80,722,846</b>
Non-controlling interests		79,530	69,508
<b>Total equity</b>		<b>85,127,851</b>	<b>80,792,354</b>

The accompanying notes form an integral part of these consolidated financial statements.

## Consolidated Statement of Financial Position (Continued)

As at December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	As at December 31,	
		2019	2018
<b>Non-current liabilities</b>			
Accrued staff costs	42	525,040	787,540
Deferred tax liabilities	27	485,282	148,764
Financial liabilities at fair value through profit or loss	44	2,157,877	2,404,123
Deferred income		122,537	125,734
Lease liabilities	46	984,520	
Long-term borrowings	52	268,735	1,380,015
Bonds payable	54	50,512,888	35,563,737
<b>Total non-current liabilities</b>		<b>55,056,879</b>	<b>40,409,913</b>
<b>Total equity and non-current liabilities</b>		<b>140,184,730</b>	<b>121,202,267</b>

The accompanying notes form an integral part of these consolidated financial statements.

The consolidated financial statements on pages 218 to 365 were approved and authorized for issue by the board of directors on March 27, 2020 and are signed on its behalf by:

**HUO Da**

*Executive Director, Chairman*

**XIONG Jiantao**

*Executive Director, President*

## Consolidated Statement of Changes in Equity

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Equity attributable to shareholders of the Company									Non-controlling interests	Total
	Share capital	Other equity instruments	Capital reserves	Treasury stock	Investment revaluation reserve of financial assets at fair value through other comprehensive income	Translation reserve	General reserves	Retained profits	Sub-total		
		(Note 48)		(Note 47)	(Note 49)		(Note 50)				
At January 1, 2018	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 for the year	—	—	—	—	—	—	—	4,424,986	4,424,986	21,275	4,446,261
Other comprehensive (expense) income for the year	—	—	—	—	(99,903)	286,813	—	—	186,910	—	186,910
<b>Total comprehensive (expense) income for the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(99,903)</b>	<b>286,813</b>	<b>—</b>	<b>4,424,986</b>	<b>4,611,896</b>	<b>21,275</b>	<b>4,633,171</b>
Capital redemption by non-controlling shareholders	—	—	—	—	—	—	—	—	—	(11,998)	(11,998)
Appropriation to general reserve	—	—	—	—	—	—	1,074,623	(1,074,623)	—	—	—
Distribution to holders of other equity instruments (note 55)	—	—	—	—	—	—	—	(802,090)	(802,090)	—	(802,090)
Dividends recognized as distribution (note 55)	—	—	—	—	—	—	—	(2,317,996)	(2,317,996)	(43,324)	(2,361,320)
<b>At December 31, 2018</b>	<b>6,699,409</b>	<b>15,000,000</b>	<b>27,533,939</b>	<b>—</b>	<b>299,070</b>	<b>172,076</b>	<b>13,864,963</b>	<b>17,153,389</b>	<b>80,722,846</b>	<b>69,508</b>	<b>80,792,354</b>
Effect of adoption of IFRS 16	—	—	—	—	—	—	—	(72,487)	(72,487)	—	(72,487)
<b>At January 1, 2019</b>	<b>6,699,409</b>	<b>15,000,000</b>	<b>27,533,939</b>	<b>—</b>	<b>299,070</b>	<b>172,076</b>	<b>13,864,963</b>	<b>17,080,902</b>	<b>80,650,359</b>	<b>69,508</b>	<b>80,719,867</b>
Profit for the year	—	—	—	—	—	—	—	7,282,381	7,282,381	30,902	7,313,283
Other comprehensive income for the year	—	—	—	—	243,559	106,710	—	—	350,269	—	350,269
<b>Total comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>243,559</b>	<b>106,710</b>	<b>—</b>	<b>7,282,381</b>	<b>7,632,650</b>	<b>30,902</b>	<b>7,663,552</b>
Appropriation to general reserves	—	—	—	—	—	—	1,944,678	(1,944,678)	—	—	—
Distribution to holders of other equity instruments (note 55)	—	—	—	—	—	—	—	(802,090)	(802,090)	—	(802,090)
Dividends recognized as distribution (note 55)	—	—	—	—	—	—	—	(1,768,644)	(1,768,644)	(20,880)	(1,789,524)
Repurchase of ordinary shares	—	—	—	(663,954)	—	—	—	—	(663,954)	—	(663,954)
Others	—	—	—	—	—	—	591,785	(591,785)	—	—	—
<b>At December 31, 2019</b>	<b>6,699,409</b>	<b>15,000,000</b>	<b>27,533,939</b>	<b>(663,954)</b>	<b>542,629</b>	<b>278,786</b>	<b>16,401,426</b>	<b>19,256,086</b>	<b>85,048,321</b>	<b>79,530</b>	<b>85,127,851</b>

## Consolidated Statement of Cash Flows

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Year ended December 31	
	2019	2018
<b>OPERATING ACTIVITIES</b>		
Profit before income tax	8,773,637	5,447,485
<b>Adjustments for:</b>		
Interest expenses	6,393,610	6,340,505
Share of results of associates	(882,008)	(917,473)
Depreciation and amortization	530,908	216,391
Impairment losses, net	95,583	124,248
Losses on disposal of property and equipment, other intangible assets and other non-current assets, net	2,754	1,230
Foreign exchange (gains) losses, net	(30,189)	75,487
Net realized (gains) losses from disposal of financial assets at fair value through other comprehensive income	(183,740)	22,463
Dividend income and interest income on financial assets at fair value through other comprehensive income	(2,167,290)	(1,808,581)
Unrealized fair value changes in financial instruments at fair value through profit or loss	(2,089,290)	680,300
Unrealized fair value changes in derivative financial instruments	66,027	(38,296)
<b>Operating cash flows before movements in working capital</b>	<b>10,510,002</b>	<b>10,143,759</b>
(Increase) decrease in advances to customers	(12,096,676)	17,239,589
Increase in other current assets	(666,807)	(674,903)
(Increase) decrease in financial assets held under resale agreements	(2,788,974)	3,050,168
Increase in financial instruments at fair value through profit or loss, net	(34,895,689)	(20,577,688)
Increase in deposits with exchanges and non-bank financial institutions	(3,349,470)	(206,942)
Decrease in clearing settlement funds	1,757,796	143,640
(Increase) decrease in cash held on behalf of customers	(12,895,839)	2,381,578
Increase (decrease) in accounts payable to brokerage clients	12,679,565	(2,183,587)
Increase (decrease) in accrued staff costs	1,126,242	(986,470)
Increase in other current liabilities	3,312,085	886,059
Increase in financial assets sold under repurchase agreements	36,364,189	27,817,631
Increase in placements from banks and other financial institutions	3,500,000	2,030,000
<b>Cash from operation</b>	<b>2,556,424</b>	<b>39,062,834</b>
Income taxes paid	(1,381,980)	(632,865)
Interest paid	(2,323,934)	(1,739,044)
<b>NET CASH (USED IN) FROM OPERATING ACTIVITIES</b>	<b>(1,149,490)</b>	<b>36,690,925</b>

## Consolidated Statement of Cash Flows (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

	Year ended December 31	
	2019	2018
<b>INVESTING ACTIVITIES</b>		
Dividends and interest received from investments	2,422,525	1,900,175
Purchase of property and equipment, other intangible assets and other non-current assets	(241,338)	(461,339)
Proceeds from disposal of property and equipment, other intangible assets and other non-current assets	1,793	1,297
Net purchase or proceeds from disposal of debt instruments at fair value through other comprehensive income	(3,934,246)	(19,708,161)
Net purchase or proceeds from disposal of debt instruments at amortized cost	(47,832)	—
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,799,098)</b>	<b>(18,268,028)</b>
<b>FINANCING ACTIVITIES</b>		
Dividends paid to shareholders and other equity instrument holders	(2,591,614)	(3,163,410)
Interest payment of bonds and short-term debt instruments	(4,265,247)	(4,157,576)
Interest payment of borrowings	(115,555)	(133,595)
Interest payment of lease liabilities	(37,418)	—
Repayment of bonds and short-term debt instruments	(98,020,130)	(87,200,340)
Proceeds from bonds and short-term debt instruments	109,284,840	78,935,720
Repayment of lease liabilities	(278,287)	—
Net repayment or proceeds from short-term borrowings	1,447,534	(5,230,149)
Net repayment or proceeds from long-term borrowings	—	(121,317)
Repurchase of ordinary shares	(663,954)	—
Other financing activities payments	—	(11,998)
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>4,760,169</b>	<b>(21,082,665)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,811,581</b>	<b>(2,659,768)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>11,143,119</b>	<b>13,371,687</b>
Effect of foreign exchange rate changes	219,040	431,200
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>13,173,740</b>	<b>11,143,119</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES INCLUDE</b>		
Interest received	6,282,046	6,546,697

## Notes to the Consolidated Financial Statements

For the year ended December 31, 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 Co., Ltd.. On August 1, 1993, with the approval of People’s Bank of China (Shenzhen branch) and Shenzhen Administration for Industry and Commerce, the Company was duly established as the Securities Department of China Merchants Bank Co., Ltd. (招商銀行證券業務部). On August 26, 1994, the Securities Department of China Merchants Bank Co., Ltd. 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 the 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 RMB 891,273,800 H Shares, which were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

As at December 31, 2019, the Company’s registered capital was RMB 6,699,409,329 and the Company has a total of 6,699,409,329 issued shares of RMB 1 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 (collectively referred to as the “Group”) are principally engaged in securities brokerage, securities financial advisory, financial advisory relating to securities trading and securities investment activities, securities underwriting and sponsorship, proprietary trading, asset management, margin financing and securities lending, securities investment fund distribution, intermediary services to futures company, agency sales of financial products, insurance agency and securities investment management.

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



## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

New and Amendments to IFRSs that are mandatorily effective for the current year.

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) for the first time in the current year.

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
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 year has had no material impact on the Group’s financial performance and positions for the current and prior years and on the disclosures set out in these consolidated financial statements.

#### 2.1 IFRS 16 Leases

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

##### ***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.

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 standard 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 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

#### 2.1 IFRS 16 Leases (Continued)

##### As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2019.

As at January 1, 2019, the Group recognized additional lease liabilities and measured right-of-use assets at the carrying amounts as if IFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying IFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognized in the opening retained profits and comparative information has not been restated.

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 recognize 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.

When recognizing 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% per annum.

	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)
<b>Lease liabilities relating to operating leases recognized upon application of IFRS 16 as at January 1, 2019</b>	<b>1,315,352</b>
Analyzed as	
Current	280,424
Non-current	1,034,928

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

#### 2.1 IFRS 16 Leases (Continued)

##### As a lessee (Continued)

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 recognized upon application of IFRS 16	1,666,339
By class:	
Leasehold land	431,685
Land and buildings	1,234,654

The following adjustments were made to the amounts recognized in the 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
<b>Non-current assets</b>			
Right-of-use assets	—	1,666,339	1,666,339
Prepaid lease payment	431,685	(431,685)	—
<b>Current liabilities</b>			
Lease liabilities	—	280,424	280,424
Other payables and accrued charges	3,524,201	(8,211)	3,515,990
<b>Equity</b>			
Retained profits	17,153,389	(72,487)	17,080,902
<b>Non-current liabilities</b>			
Lease liabilities	—	1,034,928	1,034,928

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended December 31, 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at January 1, 2019 as disclosed above.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

#### New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective.

IFRS 17	Insurance Contracts <sup>1</sup>
Amendments to IFRS 3	Definition of a Business <sup>2</sup>
Amendments IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to IAS 1	Classification of Liabilities as Current or Non-current <sup>5</sup>
Amendments to IAS 1 and IAS 8	Definition of Material <sup>4</sup>
Amendments to IFRS 9, IAS 39, and IFRS 7	Interest Rate Benchmark Reform <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2021

<sup>2</sup> Effective for business combination or asset acquisition for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

<sup>4</sup> Effective for annual periods beginning on or after January 1, 2020

<sup>5</sup> Effective for annual periods beginning on or after January 1, 2022

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after January 1, 2020.

The directors of the Company anticipate that the application of all the new and amendments to IFRSs will have no material impact on the consolidated financial statement in the foreseeable future.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the following accounting policies which conform with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are accounted for in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 *Impairment of Assets*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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

- Level 1: Inputs are quoted prices (unadjusted) in active market for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: Inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3: Inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved where the Company:

- (a) has power over the investee;
- (b) is exposed, or has rights, to variable returns from its involvement with the investee; and
- (c) has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Investments in subsidiaries are stated at cost less accumulated impairment loss, if any, in the Company's statement of financial position. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or losses from the date the Group gains control until the date when the Group ceases to control the subsidiary.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of consolidation (Continued)

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company. When the Group loses control of a subsidiary, it (i) derecognizes the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them) and (ii) derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost. When assets and liabilities of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income and accumulated in equity, the amounts previously recognized in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets and liabilities. The fair value of any investment retained in the former subsidiary at the date when control is lost which is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Structured entities

The Group serves as the manager of collective asset management schemes, funds and partnerships. These collective asset management schemes, funds and partnerships invest mainly in equities, debt securities, cash and cash equivalents and securities-backed lending under resales agreements. The Group's proportion of ownership in these structured entities can fluctuate from day to day according to the Group's and third-party participation in them. Where the Group is deemed to control such collective asset management schemes, funds and partnerships, with control determined based on an analysis of the guidance in IFRS 10 *Consolidated financial statements*, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the relevant group entity as an issuer to repurchase or redeem units in such collective asset management schemes, funds and partnerships for cash. These are presented as "Financial liabilities at fair value through profit or loss" in the consolidated statement of financial position.

#### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- (1) deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income taxes* and IAS 19 *Employee benefits* respectively;
- (2) liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based payment* at the acquisition date; and
- (3) assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations* are measured in accordance with that standard.
- (4) lease liabilities are recognized and measured at the present value of the remaining lease payments (as defined in IFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognized and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.



### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Business combinations (Continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognized in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income and measured under IFRS 9 Financial Instruments would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

#### Foreign currencies

When the Company receives capital in foreign currencies from investors, the capital is translated to functional currency at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to functional currency at the spot exchange rates or the rates that approximate the spot exchange rates on the dates of the transactions.

A spot exchange rate is an exchange rate quoted by the "People's Bank of China", the State Administrative of Foreign Exchange or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is a rate determined under a systematic and rational method, normally the average exchange rate of the current year.

Monetary items denominated in foreign currencies are translated to functional currency at the spot exchange rate at the end of the year. The resulting exchange differences are recognized in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to functional currency using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate on the date the fair value is determined; the resulting exchange differences are recognized in profit or loss.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Foreign currencies (Continued)

The assets and liabilities of foreign operation are translated to presentation currency at the spot exchange rate at the end of reporting period. The equity items, excluding “retained profits”, are translated to presentation currency at the spot exchange rates at the transaction dates. The income and expenses of foreign operation are translated to presentation currency at the rates that approximate the spot exchange rates. The resulting translation differences are recognized in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Company’s interests in associates.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to insignificant risk of change in value.

#### Goodwill

Goodwill represents the excess of:

- (1) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group’s previously held equity interest in the acquiree; or
- (2) the net fair value of the acquiree’s identifiable assets and liabilities measured as at the acquisition date.

When (2) is greater than (1), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group’s cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. The Group’s policy for goodwill arising on the acquisition of associates is described below.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Interests in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, unless it is classified as held for sale. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exist, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal or partial disposal of the Group's interest in an associate in which the Group lost significant influence and discontinued the use of equity method, any retained interest that is within the scope of IFRS 9 is measured at fair value on that date, the difference between the carrying amount of the associate at the date, and the proceeds from disposing of such interest (or partial interest) in the associate and the fair value of the retained interest is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in their comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related asset or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Interests in associates (Continued)

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

When an investment in an associate is held by, or is held indirectly through, a group entity that is a venture capital organization and similar entities, the Group may elect to measure investments in those associates at fair value through profit or loss in accordance with IFRS 9.

#### Property and equipment and other non-current assets

Property and equipment including buildings and leasehold land (classified as finance leases) and other non-current assets including leasehold improvement and deferred expenses for use in the supply of services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation/amortization and subsequent accumulated impairment losses, if any.

Depreciation/amortization is recognized so as to write off their costs, other than construction in progress, less their residual values over their estimated useful lives, using straight-line method. The estimated useful lives, residual values and depreciation/amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress is carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories when completed and ready for intended use. Depreciation/amortization of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment and other non-current assets is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

If an item of property and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, the cost and accumulated depreciation of that item at the date of transfer are transferred to investment property for subsequent measurement and disclosure purposes.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Property and equipment and other non-current assets (Continued)

The estimated residual value rates and useful lives of each class of property and equipment and other non-current assets are as follows:

Classes	Estimated residual value rates	Useful lives
Leasehold land and buildings	5%	30-50 years
Motor vehicles	5%	5 years
Electronic and communication equipment	5%	5 years
Office equipment	5%	5 years

#### Intangible assets

##### *Intangible assets acquired separately*

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment on non-financial assets other than goodwill below).

The estimated useful lives of each class of intangible assets with finite useful life are as follows:

Classes	Useful lives
Trading rights	10 years
Others	5 years

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Intangible assets (Continued)

##### *Intangible assets acquired in a business combination*

The intangible assets acquired in the business combination shall be separately recognized from the goodwill, and shall be initially recognized based on the fair value at the acquisition date (as the cost of the intangible assets). After the initial recognition, the intangible assets with limited useful lives obtained in the business combination shall be presented on the same basis as the intangible assets obtained separately, and shall be presented according to the cost minus accumulated amortization and any accumulated impairment losses. Intangible assets with indefinite useful lives obtained in a business combination are stated at cost less any subsequent accumulated impairment losses. (Please refer to the accounting policy related to the impairment on non-financial assets other than goodwill below).

An intangible asset is derecognized when it is disposed of or it is expected that its use or disposal will no longer generate future economic benefits. The gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss on derecognition of the asset.

##### **Impairment on non-financial assets other than goodwill**

At the end of the reporting period, the Group reviews the carrying amounts of its property and equipment, right-of-use assets, investment property, intangible assets with finite useful lives, and other non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Leases

##### *Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)*

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 or arising from business combinations 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, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

##### *The Group as lessee (upon application of IFRS 16 in accordance with transitions in note 2)*

#### **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. Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

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 recognized as expense on a straight-line basis over the lease term.

#### **Right-of-use assets**

The cost of right-of-use assets 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Leases (Continued)

#### *The Group as lessee (upon application of IFRS 16 in accordance with transitions in note 2) (Continued)*

#### Right-of-use assets (Continued)

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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.

#### Lease liabilities

At the commencement date of a lease, the Group recognizes 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.

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.



### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Leases (Continued)

#### *The Group as lessee (upon application of IFRS 16 in accordance with transitions in note 2) (Continued)*

#### Lease liabilities (Continued)

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.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

#### 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.

#### *The Group as lessee (prior to 1 January)*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the lease term.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Leases (Continued)

##### *The Group as lessors*

#### **Classification and measurement of leases**

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognized as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognized as an expense on a straight-line basis over the lease term

#### **Allocation of consideration to components of a contract**

When a contract includes both leases and non-lease components, the Group applies IFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

If the construction of qualifying assets have been suspended under abnormal circumstances, the corresponding capitalization of the borrowing cost should be stopped accordingly. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### **Government grants**

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Government grants (Continued)

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

#### Employee benefits

##### *Salaries and allowances*

Salaries and allowances are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

##### *Contributions to retirement benefits scheme*

The Group participates in Central Provident Fund Scheme for its employees in the PRC organized by the municipal governments of the relevant provinces. The Group also participates in the Mandatory Provident Fund Scheme (the "MPF Scheme") for its employees in Hong Kong under the Mandatory Provident Fund Scheme Ordinance. The Group also sets up annuity scheme for qualified employees. Annuity contributions are accrued based on a certain percentage of the participants' total salary when employees have rendered service entitling them to the contributions. The contribution is recognized in profit or loss.

##### *Other social welfare*

Social welfare expenditure refers to payments for employees' social welfare system established by the government of the PRC, including social pension insurance, health care insurance, housing funds and other social welfare contributions. The Group contributes on a regular basis to these funds based on certain percentage of the employees' salaries and the contributions are recognized in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.

##### *Other long-term employee benefits*

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in respect of their services in the current and prior periods.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

#### *Current tax*

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

#### *Deferred tax*

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Taxation (Continued)

##### *Deferred tax (Continued)*

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognized due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognized on the date of remeasurement or modification.

#### Financial instruments

A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### *(i) Recognition and derecognition of financial instruments*

A financial asset or financial liability is recognized in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *(i) Recognition and derecognition of financial instruments (Continued)*

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortized over the remaining term. Any adjustment to the carrying amount of the financial liability is recognized in profit or loss at the date of modification.

##### *(ii) Classification of financial assets*

The Group classifies financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset shall be measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### (ii) Classification of financial assets (Continued)

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income as stated above. However the Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At initial recognition, the Group may irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

##### (iii) Financial liabilities and equity instruments

#### Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### Financial liabilities

The Group classifies all financial liabilities as subsequently measured at amortized cost, except for:

- financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- financial guarantee contracts and commitments to provide a loan at a below-market interest rate.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *(iii) Financial liabilities and equity instruments (Continued)*

#### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

##### *(iv) Embedded derivatives*

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host. An embedded derivative and its host contract form a hybrid contract.

If a hybrid contract contains a host that is an asset within the scope of IFRS 9, the Group shall not separate an embedded derivative from the host, but shall apply the requirements of IFRS 9 to the entire hybrid contract.

##### *(v) Reclassification of financial instruments*

When, and only when, the Group changes its business model for managing financial assets it shall reclassify all affected financial assets. The Group shall not reclassify any financial liability.

If the Group reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. The Group shall not restate any previously recognized gains, losses (including impairment gains or losses) or interest.

- If the Group reclassifies a financial asset out of the amortized cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.
- If the Group reclassifies a financial asset out of the amortized cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.



### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### (v) *Reclassification of financial instruments (Continued)*

- If the Group reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortized cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortized cost. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.
- If the Group reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss at the reclassification date.
- If the Group reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortized cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.
- If the Group reclassifies a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

When reclassifying the financial assets, the Group determines effective interest rate based on the fair value of the financial assets at the reclassification date.

##### (vi) *Measurement of financial instruments*

The Group initially recognizes a financial asset or financial liability at its fair value. Fair value is the transaction price of a financial asset or financial liability. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

After initial recognition, the Group subsequently measure a financial asset at amortized cost, fair value through other comprehensive income or fair value through profit or loss.

After initial recognition, the Group subsequently measure a financial liability at amortized cost or fair value through profit or loss.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *(vi) Measurement of financial instruments (Continued)*

Interest income is calculated by using the effective interest method.

##### *(vii) Impairment of financial instruments*

The Group recognize a loss allowance for expected credit losses (“ECL”) for the following items:

- financial assets that are measured at amortized cost or debt instruments measured at fair value through other comprehensive;
- lease receivables;
- contract assets;
- loan commitments that are not measured at fair value through profit or loss.

ECL are defined as the weighted average of the credit losses of financial instruments with the respective risks of default occurring as the weights.

The Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition at the reporting date and recognizes the loss allowance for expected credit loss and its movement.

- The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition. An impairment loss (gain) is recognized in profit or loss for the amount of ECL (or reversal) needed to adjust the loss allowance at the reporting date to the required amount.
- The Group always recognizes lifetime ECL for accounts receivable recognized under IFRS 15. The ECL are assessed individually for debtors with significant balances and/or collectively using a provision matrix with aging groupings.
- Except for accounts receivable recognized under IFRS 15, the Group measure the loss allowance for a financial instrument at an amount equal to the 12-month ECL if the credit risk on that financial instrument has not increased significantly since initial recognition. An impairment loss (gain) is recognized in profit or loss for the amount of ECL (or reversal) needed to adjust the loss allowance at the reporting date to the required amount.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *(vii) Impairment of financial instruments (Continued)*

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

##### *(viii) Profit of loss*

A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognized in profit or loss unless:

- it is a non-held for trading investment in an equity instrument that is designated as at fair value through other comprehensive income and the entity has elected to present gains and losses on that investment in other comprehensive income;
- it is a financial liability designated as at fair value through profit or loss and the entity is required to present the effects of changes in the liability's credit risk in other comprehensive income;
- it is a financial asset measured at fair value through other comprehensive income and the entity is required to recognize some changes in fair value in other comprehensive income.

A gain or loss on a financial asset that is measured at amortized cost and is not part of a hedging is recognized in profit or loss when the financial asset is derecognized, reclassified, through the amortization process or in order to recognize impairment gains or losses. A gain or loss on a financial liability that is measured at amortized cost and is not part of a hedging is recognized in profit or loss when the financial liability is derecognized and through the amortization process.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *(ix) Estimation of fair value*

If there is a principal market for the asset or liability, the fair value measurement represents the price in that market.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include market approach, income approach and cost approach. Unobservable inputs are acceptable in valuation technique only when observable inputs are not available.

The fair value of a liability reflects the effect of non-performance risk. Non-performance risk includes, but may not be limited to, an entity's own credit risk. Non-performance risk is assumed to be the same before and after the transfer of the liability.

##### *(x) Transfer and derecognize of financial assets*

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between:

- the carrying amount (measured at the date of derecognition) and
- the consideration received is recognized in profit or loss.

If a part of a financial asset is transferred and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, on the basis of the relative fair values of those parts on the date of the transfer. The difference between:

- the carrying amount (measured at the date of derecognition) allocated to the part derecognized and
- the consideration received for the part derecognized is recognized in profit or loss.

If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the entity shall continue to recognize the transferred asset in its entirety and shall recognize a financial liability for the consideration received. In subsequent periods, the entity shall recognize any income on the transferred asset and any expense incurred on the financial liability.

##### *(xi) Derivative financial instruments*

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments other than those designed as hedge instrument are recognized in profit or loss. All derivatives are recognized as assets when the fair value is positive and as liabilities when the fair value is negative. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *(xii) Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Group has a legally enforceable right to set off the recognized amounts and the transactions are intended to be settled on a net basis, or by realizing the asset and settling the liability simultaneously.

#### Revenue from contracts with customers

The Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

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

An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- the entity can identify each party’s rights regarding the goods or services to be transferred;
- the entity can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance (i.e. the risk, timing or amount of the entity’s future cash flows is expected to change as a result of the contract); and
- it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

When a contract with a customer does not meet the criteria stated above and an entity receives consideration from the customer, the entity shall recognize the consideration received as revenue only when either of the following events has occurred the entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable, otherwise the consideration received from a customer should be considered as a contract liability.

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

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue from contracts with customers (Continued)

Otherwise, revenue is recognized at a point in time when the customer obtains control of the distinct good or service. The Group shall consider indicators of the transfer of control, which include, but are not limited to, the following:

- The Group has a present right to payment for the asset and a customer is presently obliged to pay for an asset.
- The Group has transferred physical possession of the asset and the customer has obtained physical possession of an asset.
- The customer has accepted the good for service.
- Other indicators of the transfer of control of the good or service to the customer.

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

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

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

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

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

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

Details are as followed:

(i) Fee and commission income

- Brokerage commission income is recognized at a point in time on a trade date basis at a certain percentage of the transaction value of the trades executed.
- Handling and settlement fee income arising from brokerage business is recognized at a point in time when the related services are rendered.
- Commission income of the agency custody of securities business is recognized over time as the customers simultaneously receive benefits provided by the Group.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue from contracts with customers (Continued)

- Underwriting and sponsors fees are recognized at a point in time when the relevant activities are completed.
- Asset and fund management fee income is recognized as a performance obligation satisfied over time as the customers simultaneously receive benefits provided by the Group.

(ii) Interest income

Interest income from a financial asset is accrued on a timely basis using the effective interest method.

(iii) Other income

Other income mainly comes from the bulk commodities trading of the Group's commodities trading subsidiaries. The revenue is recognized at a point in time when the Group fulfills its performance obligations in the contract and the customer obtains the control of relevant bulk commodity goods.

#### Provision

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and the amount of the obligation can be reliably measured.

The amount recognized as provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organization, management requirements and internal reporting system. Each of the Group's operating segments represents a strategic business unit that offers services which are subject to risks and returns that are different from the other operating segments.

Two or more operating segments may be aggregated into a single operating segment if the segments have same or similar economic characteristics and are similar in respect of the nature of each products and service, the nature of production processes, the type or class of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Financial performance is regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance, and for which consolidated financial statements regarding financial position, financial performance and cash flows is available.

Inter segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group include, but are not limited to:

- the Company's parent/de facto controller;
- the Company's subsidiaries;
- enterprises that are controlled by the Company's parent;
- investors that have joint control or exercise significant influence over the Group;
- enterprises if a party has control or joint control over both the enterprises and the Group;
- joint ventures of the Group, including subsidiaries of joint ventures;
- associates of the Group, including subsidiaries of associates;
- principal individual investors of the Group and close family members of such individuals;
- key management personnel of the Group and close family members of such individuals;
- key management personnel of the Company's parent;
- close family members of key management personnel of the Company's parent;
- other enterprises that are controlled or jointly controlled by the principal individual investors, key management personnel of the Group, and close family members of such individuals; and
- a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.



### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### **Critical judgments in applying accounting policies**

The followings are the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized and disclosures made in the consolidated financial statements.

#### ***Determination of consolidation scope***

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor and/or as an investment manager, controls the investee. The principle of control sets out the following three elements of control: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor's returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For collective asset management schemes, investment funds and limited partnerships where the Group involves as manager and also as investor, the Group assesses whether the combination of investments it holds together with its remuneration and credit enhancement creates exposure to variability of returns from the activities of the collective asset management schemes, investment funds and limited partnerships that is of such significance that it indicates that the Group is a principal. The collective asset management schemes, investment funds and limited partnerships are consolidated if the Group has control.

#### ***Classification of financial assets***

The classification and measurement of financial assets depend on contractual cash flow test and business model test. The Group will consider all the relevant evidences in the business model test, including the way the performance of financial assets are evaluated and reported to the key management, the risk affected the performance of financial asset and how the risk are managed, as well as how the management are paid. The Group also needs to judge whether the contractual cash flow generated by financial assets is only the payment of the principal and interest based on the principal outstanding.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

#### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### *Measurement of ECL*

##### Significant increase in credit risk

Under ECL model, impairment provision equal to 12-month ECL is recognized for stage 1 financial assets and impairment provision equal to lifetime ECL is recognized for stage 2 and stage 3 financial assets. The Group will consider quantitative and qualitative forward-looking information with reasonable basis to assess the credit risk increase.

##### Establishment of assets group with similar risk characteristics

When the expected credit loss is measured on group basis, the financial instruments are grouped by similar characteristics of risk. The Group continuously assesses whether these financial instruments continue to maintain similar credit risk characteristics, so as to ensure that once the characteristics of credit risk change, the financial instruments will be appropriately reclassified. This may result in new assets group or reclassification of assets to certain existing assets group, so as to better reflect the similar credit risk characteristics of which category of assets.

##### Use of model and assumption

The Group adopts different models and assumptions to assess the fair value and expected credit loss of financial assets. The Group determines the applicable model for each category of financial assets using judgment so as to determine the assumptions used by such models, including assumptions relating to the key drivers of credit risk.

##### Forward-looking information

In assessing the expected credit loss, the Group used reasonable forward-looking information with basis. Such information is based on the assumption of future trend of different economic driving factors, and the assumption of how these economic driving factors affect each other.

##### Probability of default

The probability is key input of expected credit risk. The probability of default is the estimates of possibility of default in certain period of time. The calculation involves historical information, assumption and expectation on future conditions.

### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

#### Key sources of estimation uncertainty (Continued)

##### *Measurement of ECL (Continued)*

##### **Loss given default**

Loss given default is the estimate of loss arising from default. It is based on the difference between contractual cash flows and the cash flows expected to be received by the borrower, and also considered the cash flows from pledge assets and overall credit enhancement.

Details of above significant judgment and estimation on ECL are set out in note 62(2) and note 63.

##### *Fair value of financial instruments*

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques use observable inputs and data of the market. When the market observable inputs are not available, the Group make estimate on the significant unobservable inputs and data. Details of fair value measurement are set out in note 63.

##### *Income taxes and deferred tax assets*

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

The realization of a deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future.

In cases where it becomes probable that sufficient profits or taxable temporary differences are expected to be generated, deferred tax assets would be recognized in profit or loss in that period. On the contrary, if sufficient profits or taxable temporary differences are not expected to be generated, deferred tax assets would be reversed in profit or loss in that period. Details of the tax losses and deductible temporary differences are disclosed in note 27 to consolidated financial statements. As those deferred tax assets can only be recognized to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognized if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 5. TAXATION

The Group's main applicable taxes and tax rates are as follows:

Tax type	Tax basis	Tax rates
Value added tax	Based on taxable revenue	6%
City maintenance and construction tax	Based on value added tax accrued	7%
Enterprise income tax	Based on taxable profits	15%, 16.5% (Note), 25%
Education surcharge	Based on value added tax accrued	2%–3%

Under the Law of the PRC on Enterprise Income Tax ("EIT") and implementation regulation of the EIT Law, the tax rate of the Company and its subsidiaries established in the PRC is 25% during the year, except for as mentioned below.

Upon the approval of the Regulation on the EIT Preferential Policies for the Development of Western China by Ganzhou City (Trial) (《贛州市執行西部大開發企業所得稅優惠政策管理辦法(試行)》), from January 1, 2012 to December 31, 2020, the Company is subject to a tax rate of 15%. The subsidiaries of the Group incorporated in Ganzhou namely, Ganzhou China Merchants Zhiyuan No. 1 Fund Management Co., Ltd. and Ganzhou Zhaoyuan Investment Management Co., Ltd. are subject to the above preferential tax rate of 15% from January 1, 2012 to December 31, 2020.

In accordance with the "Circular regarding the Value-added Taxes Policies for Financial, Real Estate Development and Education Ancillary and Other Services" (Cai Shui [2016] No. 140), the "Supplementary Circular regarding Issues concerning Value-added Taxes Policies for Asset Management Products" (Cai Shui [2017] No. 2) and the "Circular on the Relevant Issues concerning Value-added Tax Levied on Asset Management Products" (Cai Shui [2017] No. 56), the Group shall pay VAT at rate of 3% for related asset management taxable activities undertaken after January 1, 2018.

On March 21, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

### 6. SEGMENT INFORMATION

#### (1) Operating segments

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, being the chief operating decision maker, which are consistent with the accounting and measurement criteria in the preparation of the consolidated financial statements. The Group's operating segments are as follows:

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

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 6. SEGMENT INFORMATION (Continued)

#### (1) Operating segments (Continued)

The operating and reportable segment information provided to the chief operating decision maker (hereinafter refer as “CODM”) for the years ended December 31, 2019 and 2018 are as follows:

	Wealth management and institutional business	Investment banking	Investment management	Investment and trading	Others	Elimination	Total
<b>For the year ended December 31, 2019</b>							
Segment revenue and results							
Segment revenue	11,955,926	1,878,151	1,844,837	7,358,833	330,232	(61,017)	23,306,962
Segment other income and gains or losses	11,735	1,626	28,936	1	2,309,841	—	2,352,139
Segment revenue and other income	11,967,661	1,879,777	1,873,773	7,358,834	2,640,073	(61,017)	25,659,101
Segment expenses	(8,620,568)	(906,320)	(378,980)	(4,847,651)	(3,074,970)	61,017	(17,767,472)
Segment result	3,347,093	973,457	1,494,793	2,511,183	(434,897)	—	7,891,629
Share of results of associates (i)	—	—	4,937	67,389	809,682	—	882,008
Profit before income tax	3,347,093	973,457	1,499,730	2,578,572	374,785	—	8,773,637
<b>As at December 31, 2019</b>							
Segment assets and liabilities							
Segment assets	145,680,785	1,391,831	11,694,285	210,824,946	18,308,810	(6,128,768)	381,771,889
Segment liabilities	(97,973,186)	(1,943,465)	(5,239,388)	(180,830,833)	(16,785,934)	6,128,768	(296,644,038)
Other segment information							
Amounts included in the measurement of segment profit or loss or segment assets:							
Interest income	6,029,638	—	57,005	1,932,941	330,232	(61,017)	8,288,799
Interest expenses	(2,930,793)	(32,056)	(80,894)	(3,397,041)	(13,843)	61,017	(6,393,610)
Capital expenditure	(143,584)	(8,915)	(47)	(9,517)	(75,331)	—	(237,394)
Depreciation and amortization	(294,240)	(46,402)	(7,777)	(25,924)	(156,565)	—	(530,908)
Impairment losses	(92,244)	—	(3,339)	—	—	—	(95,583)

- (i) The interests in associates of Investment management segment, Investment and trading segment and others segment was RMB33,150 thousand, 1,022,194 thousand and 7,778,242 thousand respectively.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 6. SEGMENT INFORMATION (Continued)

#### (1) Operating segments (Continued)

	Wealth management and institutional business	Investment banking	Investment management	Investment and trading	Others	Elimination	Total
<b>For the year ended December 31, 2018</b>							
Segment revenue and results							
Segment revenue	11,332,947	1,599,601	1,379,264	3,361,706	448,228	(61,557)	18,060,189
Segment other income and gains or losses	20,408	559	2,122	—	(13,730)	—	9,359
Segment revenue and other income	11,353,355	1,600,160	1,381,386	3,361,706	434,498	(61,557)	18,069,548
Segment expenses	(8,698,045)	(1,195,330)	(482,112)	(2,756,567)	(469,039)	61,557	(13,539,536)
Segment result	2,655,310	404,830	899,274	605,139	(34,541)	—	4,530,012
Share of results of associates (ii)	—	—	415	73,746	843,312	—	917,473
Profit before income tax	2,655,310	404,830	899,689	678,885	808,771	—	5,447,485
<b>As at December 31, 2018</b>							
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)
Other segment information							
Amounts included in the measurement of segment profit or loss or segment assets:							
Interest income	6,401,979	—	82,589	1,315,357	448,227	(61,557)	8,186,595
Interest expenses	(3,761,016)	(22,861)	(73,227)	(2,544,958)	—	61,557	(6,340,505)
Capital expenditure	(328,150)	(13,599)	(398)	(15,008)	(97,708)	—	(454,863)
Depreciation and amortization	(179,155)	(2,853)	(2,274)	(3,988)	(28,121)	—	(216,391)
Impairment losses (reversal)	(125,280)	—	1,032	—	—	—	(124,248)

- (ii) The interests in associates of Investment management segment, Investment and trading segment and others segment was RMB28,213 thousand, 1,021,159 thousand and 7,238,552 thousand respectively.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 6. SEGMENT INFORMATION (Continued)

#### (2) Geographical segments

The Group has two major geographical operation in the PRC, namely Mainland China and Hong Kong, which is also the Group's revenue from external customers and the Group's assets located. The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property and equipment, 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 location of the asset, in the case of property and equipment, right-of-use assets and other non-current assets, they are based on the location of operation to which they are allocated; in the case of goodwill and other intangible assets, they are based on the location of operations.

	Mainland China	Outside Mainland China	Total
<b>For the year ended December 31, 2019</b>			
Segment Revenue			
Revenue from external customers	22,263,080	1,043,882	23,306,962
Other income and gains or losses	2,325,776	26,363	2,352,139
	<b>24,588,856</b>	<b>1,070,245</b>	<b>25,659,101</b>
<b>For the year ended December 31, 2018</b>			
Segment Revenue			
Revenue from external customers	17,339,582	720,607	18,060,189
Other income and gains or losses	18,091	(8,732)	9,359
	<b>17,357,673</b>	<b>711,875</b>	<b>18,069,548</b>

#### *Specified non-current assets*

	Mainland China	Outside Mainland China	Total
<b>As at December 31, 2019</b>			
Specified non-current assets	12,603,357	224,615	12,827,972
<b>As at December 31, 2018</b>			
Specified non-current assets	10,059,423	107,187	10,166,610



## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 6. SEGMENT INFORMATION (Continued)

#### (3) Information about major customers:

There were no customer (Year ended December 31 2018: no customer) for the year ended December 31, 2019 contributing over 10% of the total revenue of the Group.

### 7. FEE AND COMMISSION INCOME

	Year ended December 31,	
	2019	2018
Securities and futures brokerage business	5,338,454	4,255,295
Underwriting and sponsorship business	1,585,454	1,293,606
Asset management and fund management business	1,051,671	1,212,667
Financial advisory business	295,080	338,933
Others <sup>(i)</sup>	587,834	653,031
	<b>8,858,493</b>	<b>7,753,532</b>

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

### 8. INTEREST INCOME

	Year ended December 31,	
	2019	2018
Interest income from deposits with exchanges and financial institutions	1,460,228	1,491,624
Interest income from advances to customers and securities Lending	3,467,704	3,693,823
Interest income from securities-backed lending and stock repurchase agreements	1,430,115	1,678,565
Interest income from other financial assets held under resale agreements	215,307	96,243
Interest income on debt instruments at amortized cost	100,522	100,545
Interest income from debt instruments at fair value through other comprehensive income	1,614,923	1,120,066
Others	—	5,729
	<b>8,288,799</b>	<b>8,186,595</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 9. INVESTMENT GAINS OR LOSSES, NET

	Year ended December 31,	
	2019	2018
Dividend and interest from financial assets at fair value through profit or loss	4,127,170	3,020,205
Dividend from financial assets at fair value through other comprehensive income	451,845	587,970
Net gains (losses) from disposals of debt instruments measured at fair value through other comprehensive income	183,740	(22,463)
Net gains (losses) from financial assets at fair value through profit or loss	3,213,714	(1,892,299)
Net losses from financial liabilities at fair value through profit or loss	(281,343)	(324,741)
Net (losses) gains from derivative financial instruments	(1,535,456)	751,390
	<b>6,159,670</b>	<b>2,120,062</b>

### 10. OTHER INCOME AND GAINS OR LOSSES

	Year ended December 31,	
	2019	2018
Income from commodity trading	2,188,370	3,318
Fee from tax withholding and remitting	46,206	40,843
Government grants <sup>(i)</sup>	44,498	18,130
Foreign exchange gains (losses), net	30,189	(75,487)
Rental income	11,112	8,501
Others	31,764	14,054
	<b>2,352,139</b>	<b>9,359</b>

- (i) Government grants represent the unconditional grants received by the Group from local government and are used for supporting the business at specific locations.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 11. DEPRECIATION AND AMORTIZATION

	Year ended December 31,	
	2019	2018
Depreciation of property and equipment	172,621	143,691
Amortization of other non-current assets	91,240	71,785
Depreciation of right-of-use assets	267,047	
Amortization of other intangible assets	—	915
	<b>530,908</b>	<b>216,391</b>

### 12. STAFF COSTS

	Year ended December 31,	
	2019	2018
Salaries, bonus and allowances	4,725,812	2,974,992
Contributions to retirement benefits <sup>(1)</sup>	379,179	335,488
Other social welfare <sup>(2)</sup>	290,577	397,395
Others	163,826	142,605
	<b>5,559,394</b>	<b>3,850,480</b>

<sup>(1)</sup> The domestic employees of the Group in the PRC participate in state-managed retirement benefits plans, operated by the relevant municipal and provincial governments. According to the relevant regulations, the premiums and retirement benefit contributions borne by the Group are calculated and paid to the relevant labour and social welfare authorities on a regular basis. These retirement benefits plans are defined contribution plans and contributions to the plans are expensed as incurred. In addition to the above retirement benefits plans, the Group also provides annuity schemes for certain qualified employees in the PRC. The employees' and the Group's contributions for the annuity schemes are calculated based on certain percentage of employees' salaries and recognized in profit or loss as expense. These annuity schemes are defined contribution plans.

The Group also operates the MPF Scheme for all qualified employees in Hong Kong. The Group contributes certain percentage of relevant payroll costs to the scheme, and the contribution is matched by employees but subject to a maximum amount for each employee. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

<sup>(2)</sup> The domestic employees of the Group in the PRC participate in state-managed social welfare plans, including social pension insurance, health care insurance, housing funds and other social welfare contributions, operated by the relevant municipal and provincial governments. These social welfare plans are defined contribution plans and contributions to the plans are recognized as expense as incurred.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 13. FEE AND COMMISSION EXPENSES

	Year ended December 31,	
	2019	2018
Securities and futures brokerage business	1,345,527	1,101,053
Underwriting and sponsorship business	58,925	175,696
Asset management and fund management business	9,401	10,801
Financial advisory business	8,656	10,479
Others	289	7,026
	<b>1,422,798</b>	<b>1,305,055</b>

### 14. INTEREST EXPENSES

	Year ended December 31,	
	2019	2018
Bonds payable	2,876,964	2,222,418
Financial assets sold under repurchase agreements	1,927,488	1,203,435
Short-term financing bills payable	367,545	97,843
Structured notes	340,413	1,163,779
Short-term bonds payable	238,146	978,333
Accounts payable to brokerage clients	187,629	171,961
Placements from banks and other financial institutions	134,123	145,647
Margin and securities refinancing	128,399	199,136
Borrowings	117,676	129,902
Lease liabilities	37,418	
Others	37,809	28,051
	<b>6,393,610</b>	<b>6,340,505</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 15. OTHER OPERATING EXPENSES

	Year ended December 31,	
	2019	2018
Cost of commodity trading	2,186,800	3,318
Advertising and promotion expenses	283,689	259,651
Electronic equipment operation expenses	202,086	178,560
Postal and communications expenses	158,938	150,837
Business travel expenses	142,084	165,066
Rental and property management expenses <sup>(i)</sup>	138,855	418,765
Stock exchange fees	111,162	85,716
General and administrative expenses	82,143	102,677
Securities and futures investor protection funds	69,892	48,588
Auditors' remuneration	3,525	3,100
Sundry expenses	291,641	198,356
	<b>3,670,815</b>	<b>1,614,634</b>

- (i) Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of IFRS 16 is RMB 77,587 thousand.

### 16. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

	Year ended December 31,	
	2019	2018
Impairment loss on financial assets held under resale agreements (note 26)	132,605	58,935
(Reversal of) Impairment loss on advances to customers (note 29)	(50,440)	59,038
Impairment loss (Reversal of Impairment loss) on accounts and other receivables (note 30)	9,233	(553)
Impairment loss (Reversal of Impairment loss) on debt instruments at fair value through other comprehensive income (note 31)	3,314	(1,032)
(Reversal of) Impairment loss on debt instruments at amortized cost (note 25)	(2,685)	4,649
	<b>92,027</b>	<b>121,037</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 17. INCOME TAX EXPENSES

	Year ended December 31	
	2019	2018
Current tax:		
— PRC Enterprise Income Tax	1,122,244	1,005,895
— Hong Kong Profits Tax	38,693	17,948
	<b>1,160,937</b>	<b>1,023,843</b>
Under (over) provision in respect of prior years:		
— PRC Enterprise Income Tax	224	(4,091)
— Hong Kong Profits Tax	(2,340)	—
	<b>(2,116)</b>	<b>(4,091)</b>
Deferred taxation		
— Origination and reversal of temporary differences (note 27)	301,533	(18,528)
	<b>1,460,354</b>	<b>1,001,224</b>

The reconciliation between the income tax expense at the statutory tax rate of 25% and the effective tax rate is as follows:

	Year ended December 31,	
	2019	2018
<b>Profit before income tax</b>	<b>8,773,637</b>	<b>5,447,485</b>
Tax at the income tax rate of 25%	2,193,409	1,361,871
Tax effect of share of result of associates	(220,502)	(229,368)
Tax effect of expenses not deductible for tax purpose	38,430	36,647
Tax effect of income that are not taxable	(352,489)	(194,168)
Effect of different tax rates of subsidiaries	(26,181)	(11,518)
Tax effect of tax losses not recognized	8,969	15,058
Utilization of tax losses previously not recognized	(1,168)	—
Over provision in respect of prior years:	(2,116)	(4,091)
Others <sup>(i)</sup>	(177,998)	26,793
<b>Income tax expense for the year</b>	<b>1,460,354</b>	<b>1,001,224</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 17. INCOME TAX EXPENSES (Continued)

As at December 31, 2019, the estimated unused tax losses for the Group's subsidiaries were RMB 84,514 thousand (December 31, 2018: RMB 77,301 thousand), no deferred tax assets had been recognized in relation to such item in the consolidated statement of financial position due to the unpredictability of future profit streams of the subsidiaries. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax assets may arise, which would be recognized in the consolidated statement of profit or loss and other comprehensive income for the period in which such recognition takes place.

Majority of the tax losses comes from the subsidiaries in Hong Kong which can be carried forward indefinitely for offsetting against future taxable profits of the respective companies in which the losses arose. These estimated tax losses have no expiry date but are subject to the approval of the Hong Kong Inland Revenue Department.

According to the announcement on the corporate income tax policy of perpetual bonds (Announcement No. 64, 2019 of the Ministry of Finance and the State Administration of Taxation), when an enterprise issues perpetual bonds that meet the specified conditions, the corporate income tax policy can be applied in accordance with the bond interest, that is, the interest expense attributable to the current year of perpetual bonds paid by the issuer is allowed to be deducted before the corporate income tax. According to the above provisions, the Company deducted the interest expense of perpetual bonds in the current year when calculating the taxable income.

### 18. 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:

	Year ended December 31,	
	2019	2018
Earnings for the purpose of basic earnings per share:		
Profit attributable to Shareholders of the Company and holders of other equity instruments	7,282,381	4,424,986
Less: Profit attributable to holders of perpetual subordinated bonds	(802,090)	(802,090)
Sub-total	6,480,291	3,622,896
Number of shares:		
Weighted average number of shares in issue (in thousand)	6,697,121	6,699,409
Earnings per share:		
Earnings per share (RMB)	0.97	0.54

For the years ended December 31, 2019 and 2018, there were no potential ordinary shares in issue, thus no diluted earnings per share is presented.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19. PROPERTY AND EQUIPMENT

	Leasehold land and buildings	Motor vehicles	Electronic and communication equipment	Office equipment	Construction in progress	Total
<b>Cost</b>						
As at January 1, 2019	1,329,857	65,116	752,581	59,137	82,099	2,288,790
Additions	—	3,914	82,815	3,275	48,819	138,823
Disposals	—	(7,162)	(26,794)	(3,128)	—	(37,084)
Transfer	—	—	10,505	984	(11,489)	—
Transfer to other non-current assets (note 28)	—	—	—	—	(53,456)	(53,456)
Exchange differences	—	34	1,848	769	612	3,263
As at December 31, 2019	1,329,857	61,902	820,955	61,037	66,585	2,340,336
<b>Accumulated depreciation and impairment</b>						
As at January 1, 2019	210,063	47,085	376,712	26,138	—	659,998
Charge for the year	34,877	6,885	123,411	7,448	—	172,621
Disposals	—	(6,834)	(24,887)	(2,948)	—	(34,669)
Exchange differences	—	28	1,315	297	—	1,640
As at December 31, 2019	244,940	47,164	476,551	30,935	—	799,590
<b>Carrying values</b>						
As at December 31, 2019	1,084,917	14,738	344,404	30,102	66,585	1,540,746
	Leasehold land and buildings	Motor vehicles	Electronic and communication equipment	Office equipment	Construction in progress	Total
<b>Cost</b>						
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 28)	—	—	—	—	(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
<b>Accumulated depreciation and impairment</b>						
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
<b>Carrying values</b>						
As at December 31, 2018	1,119,794	18,031	375,869	32,999	82,099	1,628,792



## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19. PROPERTY AND EQUIPMENT (Continued)

As at December 31, 2019, included in leasehold land and buildings, there are carrying values of RMB 928,459 thousand (December 31, 2018: RMB 951,782 thousand), for which the Group is in the progress to obtain the relevant land and building certificates. The directors of the Company consider that these will not have significant impact on the consolidated financial statements for the year ended December 31, 2019.

As the lease payments included in the Group's leasehold land and buildings cannot be allocated reliably between the land and buildings, the entire leases are classified as finance lease and accounted for as property and equipment.

The leasehold land and buildings of the Group are situated in the PRC and held under medium-term lease.

### 20. RIGHT-OF-USE ASSETS

	Land and buildings	Leasehold land	Total
<b>Cost</b>			
As at January 1, 2019	1,657,682	432,600	2,090,282
Additions	211,835	—	211,835
Disposals	(5,281)	—	(5,281)
Exchange differences	3,505	—	3,505
As at December 31, 2019	1,867,741	432,600	2,300,341
<b>Accumulated depreciation and impairment</b>			
As at January 1, 2019	423,028	915	423,943
Additions	256,072	10,975	267,047
Disposals	(2,718)	—	(2,718)
Exchange differences	1,520	—	1,520
As at December 31, 2019	677,902	11,890	689,792
<b>Carrying values</b>			
<b>As at December 31, 2019</b>	<b>1,189,839</b>	<b>420,710</b>	<b>1,610,549</b>

The Group leases offices for its operations. Lease contracts are entered into for fixed term of 13 months to 12 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

For the year ended 31 December 2019, total cash outflow for leases amounted to RMB 393,292 thousand.

As at 31 December 2019, the lease agreements did not impose any covenants other than the security interests in the leased assets that were held by the lessor. Leased assets may not be used as security for borrowing purposes.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 21. INTERESTS IN CONSOLIDATED STRUCTURED ENTITIES

Structured entities consolidated by the Group stand for the asset management schemes, limited partnerships 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 the structured entities to a level of such significance that it indicates that the Group is a principal.

The financial impact of these structured on the Group's financial position as at December 31, 2019 and 2018, and the results and cash flows for the years ended December 31, 2019 and 2018, though consolidated, are not significant and therefore not disclosed separately.

As at December 31, 2019, the Group consolidated 12 (December 31, 2018: 13) structured entities. The total assets of the consolidated structured entities are RMB 6,988,792 thousand (December 31 2018: RMB 6,625,393 thousand) within which are RMB 6,801,963 thousand of investments accounted for as financial assets at fair value through profit or loss (December 31, 2018: financial assets at fair value through profit or loss in total: RMB 6,363,118 thousand).

### 22. INTERESTS IN ASSOCIATES

	As at December 31,	
	2019	2018
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	3,956,796	3,411,134
	<b>9,502,736</b>	<b>8,957,074</b>
Impairment loss	(669,150)	(669,150)
	<b>8,833,586</b>	<b>8,287,924</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 22. INTERESTS IN ASSOCIATES (Continued)

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

Name of associate	Place and date of incorporation/ establishment	Equity interest held by the Group		Principal activities
		December 31		
		2019	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 Center Co., Ltd. <sup>(i)</sup>	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.* <sup>(ii)</sup>	PRC/June 19, 2000	23%	23%	Investment holding

\* English name translated is for identification purpose only.

- (i) Guangdong Equity Exchange Center Co., Ltd. was recognized as an associate as one of the ten directors of the company was appointed by the Group.
- (ii) This associate went into liquidation, and impairment losses have been fully recognized and written off.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 22. INTERESTS IN ASSOCIATES (Continued)

Summarized financial information of the Group's material associates, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

#### Bosera Asset Management Co., Ltd.

	As at December 31,	
	2019	2018
Total assets	7,396,384	6,713,006
Total liabilities	(2,574,705)	(2,520,017)
Net assets	4,821,679	4,192,989
Revenue	3,485,897	3,165,355
Profit for the year	912,889	903,445
Other comprehensive income (expense)	15,801	(1,747)
Total comprehensive income	928,690	901,698
Dividends declared by the associate attributable to the Group	147,000	98,000
Net assets of the associate attributable to the Group	4,821,679	4,192,989
The Group's share of net assets of the associate	2,362,623	2,054,565
– Goodwill	3,425,523	3,425,523
– Impairment loss recognized(iii)	(669,150)	(669,150)
<b>Carrying amount in the consolidated financial statements</b>	<b>5,118,996</b>	<b>4,810,938</b>

- (iii) As at December 31, 2014, the Company had recognized an impairment loss amounted to RMB 669,150 thousand to the interests in Bosera Asset Management Co., Ltd. The recoverable amounts of RMB 3,763,141 thousand had been determined by Vocational International (Beijing) Asset Appraisal Co., Ltd., a qualified valuer not related to the Group. The valuer determined the value-in-use by using cash flow projections which is based on financial budgets covering a five-year period approved by management. The pre-tax discount rates applied and growth rate used to extrapolate the cash flow projections is 10.78% and 9.2% respectively. The growth rates beyond the five-year period is nil for the forecast period. As at December 31, 2019, the Company reassessed the valuation of the investment and determined no further impairment is needed at the end of the year.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 22. INTERESTS IN ASSOCIATES (Continued)

#### China Merchants Fund Management Limited

	As at December 31,	
	2019	2018
Total assets	7,295,400	6,611,399
Total liabilities	(1,911,085)	(1,739,185)
Net assets	5,384,315	4,872,214
Revenue	2,587,395	2,587,041
Profit for the year	802,623	893,913
Other comprehensive income	9,479	2,638
Total comprehensive income	812,102	896,551
Net assets of the associate attributable to the Group	5,384,315	4,872,214
The Group's share of net assets of the associate	2,422,942	2,192,496
— Goodwill	199,545	199,545
<b>Carrying amount in the consolidated financial statements</b>	<b>2,622,487</b>	<b>2,392,041</b>

Aggregate information of associates that are not individually material:

	As at December 31,	
	2019	2018
The Group's share of profit for the year	73,512	72,524
The Group's share of other comprehensive income (expense)	—	(5)
The Group's share of total comprehensive income	73,512	72,519
Dividend declared by associates attributable to the Group	66,354	21,371
<b>Aggregate carrying amount of the Group's interests in these associates</b>	<b>1,092,103</b>	<b>1,084,944</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 23. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

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

#### (1) Structured entities sponsored by the Group

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

As at December 31, 2019, the total assets of these unconsolidated structured entities sponsored by the Group amounted to RMB 705,517,238 thousand (December 31, 2018: RMB 729,590,715 thousand).

The amount of fee income derived from these unconsolidated structured entities managed by the Group are detailed in Note 7.

#### (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 fees from managing assets on behalf of investors. These vehicles are financed through the issue of units to investors. The carrying amount of the related accounts in the consolidated statement of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by third party institutions as at December 31, 2019 and 2018, which are listed below:

	As at December 31, 2019		
	Financial assets at fair value through other comprehensive income	Financial assets at fair value through profit or loss	Total
Funds	—	16,127,666	16,127,666
Trust schemes	—	1,239,484	1,239,484
Wealth management products	—	432,920	432,920
Others	7,057,809	11,432,144	18,489,953
	<b>7,057,809</b>	<b>29,232,214</b>	<b>36,290,023</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 23. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

#### (2) Structured entities sponsored by third party institutions (Continued)

	As at December 31, 2018		
	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
	<b>6,722,607</b>	<b>27,660,277</b>	<b>34,382,884</b>

### 24. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at December 31,	
	2019	2018
Special account <sup>(i)</sup>	7,057,809	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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 25. DEBT INSTRUMENTS AT AMORTIZED COST

#### (1) Analyzed by nature

	As at December 31,	
	2019	2018
<b>Non-current</b>		
Bonds	1,425,818	1,797,953
Less: Expected credit losses	(1,156)	(1,345)
	<b>1,424,662</b>	<b>1,796,608</b>
<b>Current</b>		
Bonds	375,587	—
Unsecured accounts receivable loan(i)	96,727	52,346
	<b>472,314</b>	<b>52,346</b>
Less: Expected credit losses	(2,340)	(4,759)
	<b>469,974</b>	<b>47,587</b>

- (i) As at December 31, 2019, customer loans receivable were charged at Libor plus 1.25% annually (December 31, 2018: 2.75%).

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

	As at December 31,	
	2019	2018
At the beginning of the year	6,104	1,345
Expected credit losses recognized	25	4,649
Reversal of expected credit losses	(2,710)	—
Exchange differences	77	110
<b>At the end of the year</b>	<b>3,496</b>	<b>6,104</b>



## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 25. DEBT INSTRUMENTS AT AMORTIZED COST (Continued)

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

	As at December 31, 2019			
	12 months (stage 1)	Life time (stage 2)	Life time (stage 3)	Total
Principal and interest	1,898,132	—	—	1,898,132
Expected credit losses	3,496	—	—	3,496

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

During the period, the reversal of expected credit losses of Stage 1 of the debt instruments at amortized cost was RMB 2,608 thousand. There was no transfer between the stages of expected credit losses.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 26. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

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

	As at December 31,	
	2019	2018
<b>Non-current</b>		
Analyzed by collateral type:		
Stocks <sup>(i)</sup>	2,170,301	5,279,193
Analyzed by market:		
Stock exchanges	2,170,301	5,279,193
Less: Allowance for expected credit losses	—	(1,444)
	<b>2,170,301</b>	<b>5,277,749</b>
<b>Current</b>		
Analyzed by collateral type:		
Stocks <sup>(i)</sup>	18,939,491	17,602,330
Bonds	14,902,372	10,362,071
	<b>33,841,863</b>	<b>27,964,401</b>
Analyzed by market:		
Stock exchanges	28,417,983	19,787,735
Interbank bond market	5,423,880	8,176,666
	<b>33,841,863</b>	<b>27,964,401</b>
Less: Allowance for expected credit losses	(332,339)	(198,290)
	<b>33,509,524</b>	<b>27,766,111</b>

- (i) The financial assets (pledged by stocks) held under resale agreements and securities back-lending are those resale agreements which the qualified investors entered into with the Group with a commitment to purchase the specified securities at a future date with an agreed price. As at December 31, 2019, the fair value of securities of the Group which have been received as collateral were RMB 89,929,785 thousand (December 31, 2018: RMB 69,527,116 thousand).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 26. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

#### (2) Movements of allowances for expected credit losses is as below

	As at December 31,	
	2019	2018
At the beginning of the year	199,734	140,799
Expected credit losses recognized	132,605	58,935
<b>At the end of the year</b>	<b>332,339</b>	<b>199,734</b>

Details of expected credit losses and the fair value of the collateral of the repurchase agreements related to stocks are as below:

	As at December 31, 2019			
	12 months (stage 1)	Life time (stage 2)	Life time (stage 3)	Total
Principal and interest	20,195,191	—	914,601	21,109,792
Expected credit losses	5,298	—	327,041	332,339
Collateral	71,220,184	—	1,443,388	72,663,572

	As at December 31, 2018			
	12 months (stage 1)	Life time (stage 2)	Life time (stage 3)	Total
Principal and interest	21,685,123	486,130	710,270	22,881,523
Expected credit losses	89,738	16,755	93,241	199,734
Collateral	56,974,299	755,158	840,518	58,569,975

#### (3) The following tables show reconciliation of loss allowances that has been recognized for financial assets held under resale agreements.

	Stage 1 12 months ECL	Stage 2 Lifetime ECL (not credit- impaired)	Stage 3 Lifetime ECL (credit- impaired)	Total
At January 1, 2019	89,738	16,755	93,241	199,734
Changes in the expected credit losses:				
— Transfer to Stage 1	—	—	—	—
— Transfer to Stage 2	—	—	—	—
— Transfer to Stage 3	—	—	—	—
— Charged to profit or loss	(84,440)	(16,755)	233,800	132,605
<b>At December 31, 2019</b>	<b>5,298</b>	<b>—</b>	<b>327,041</b>	<b>332,339</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 27. DEFERRED TAX ASSETS (LIABILITIES)

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

	As at December 31,	
	2019	2018
Deferred tax assets	826,872	868,510
Deferred tax liabilities	(485,282)	(148,764)
	<b>341,590</b>	<b>719,746</b>

The followings are the major deferred tax assets (liabilities) recognized and movements thereon during the year:

	Financial instruments at fair value through profit and loss/ derivatives	Accrued staff costs	Deferred income	Impairment allowances	Financial instruments at fair value through other comprehensive income	Property and equipment	Others	Total
At January 1, 2018	(15,544)	667,892	31,500	61,857	(133,372)	(2,242)	57,825	667,916
Credit (charge) to 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 differences	—	—	—	—	—	(108)	(4)	(112)
At December 31, 2018	110,274	564,158	31,433	88,751	(99,963)	(3,476)	28,569	719,746
(Charge) credit to profit or loss	(381,733)	58,173	(799)	20,796	—	1,077	1,033	(301,453)
Charge to other comprehensive income	—	—	—	—	(76,623)	—	—	(76,623)
Exchange differences	—	—	—	—	—	(78)	(2)	(80)
At December 31, 2019	<b>(271,459)</b>	<b>622,331</b>	<b>30,634</b>	<b>109,547</b>	<b>(176,586)</b>	<b>(2,477)</b>	<b>29,600</b>	<b>341,590</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019  
(Expressed in thousands of Renminbi, unless otherwise stated)

### 28. OTHER NON-CURRENT ASSETS

#### (1) Analyzed by nature

	As at December 31,	
	2019	2018
Leasehold improvements and deferred expenses	281,341	221,103
Prepayment for investment	536,224	—
	<b>817,565</b>	<b>221,103</b>

#### (2) Movements of leasehold improvements and deferred expenses are as follows:

	As at December 31,	
	2019	2018
At the beginning of the year	221,103	197,917
Additions	98,022	53,467
Transfer from construction in progress (note 19)	53,456	41,504
Amortization	(91,240)	(71,785)
<b>At the end of the year</b>	<b>281,341</b>	<b>221,103</b>

### 29. ADVANCES TO CUSTOMERS

#### (1) Analyzed by nature

	As at December 31,	
	2019	2018
Advances to customers	55,318,037	43,119,896
Less: expected credit losses in respect of advances to customers	(93,418)	(143,466)
	<b>55,224,619</b>	<b>42,976,430</b>

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

The majority of the advances to customers which are secured by the underlying pledged securities and cash collateral as disclosed in note 41 are interest bearing. The Group maintains a list of approved stocks for margin lending at a specified loan-to-collateral ratio. Any excess in the lending ratio will trigger a margin call upon which the customers have to make up the difference.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 29. ADVANCES TO CUSTOMERS (Continued)

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

	As at December 31,	
	2019	2018
<b>Collateral measured at fair value:</b>		
Cash	7,086,437	5,123,777
Bonds	1,067,353	7,718,425
Equity securities	166,883,077	109,524,319
Funds	1,193,700	1,412
	<b>176,230,567</b>	<b>122,367,933</b>

#### (3) The movements of allowance of impairment losses are as below

	As at December 31,	
	2019	2018
At the beginning of the year	143,466	83,816
Expected credit losses recognized	1,386	59,038
Reversal of expected credit losses	(51,826)	—
Exchange differences	392	612
<b>At the end of the year</b>	<b>93,418</b>	<b>143,466</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 29. ADVANCES TO CUSTOMERS (Continued)

#### (3) The movements of allowance of impairment losses are as below (Continued)

	As at December 31, 2019			
	12 months (stage 1)	Life time (stage 2)	Life time (stage 3)	Total
Principal and interest	55,185,388	—	132,649	55,318,037
Expected credit losses	33,655	—	59,763	93,418

	As at December 31, 2018			
	12 months (stage 1)	Life time (stage 2)	Life time (stage 3)	Total
Principal and interest	42,885,536	185,446	48,914	43,119,896
Expected credit losses	89,902	16,058	37,506	143,466

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

The concentration of credit risk is limited due to the size and uncorrelated nature of the customer base.

#### (4) The following tables show reconciliation of expected credit losses that has been recognized for advances to customers.

	Stage 1 12m ECL	Stage 2 Lifetime ECL (not credit- impaired)	Stage 3 Lifetime ECL (credit- impaired)	Total ECL
As at January 1, 2019	89,902	16,058	37,506	143,466
Changes in the expected credit losses:				
— Transfer to Stage 1	—	—	—	—
— Transfer to Stage 2	—	—	—	—
— Transfer to Stage 3	(101)	(6,870)	6,971	—
— (Credit) charged to profit or loss	(56,146)	(9,188)	15,286	(50,048)
<b>As at December 31, 2019</b>	<b>33,655</b>	<b>—</b>	<b>59,763</b>	<b>93,418</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 30. ACCOUNTS AND OTHER RECEIVABLES

#### (1) Analyzed by nature

	As at December 31,	
	2019	2018
<b>Accounts and other receivables from/related to:</b>		
Clearing houses, brokers and dealers	1,726,337	2,007,388
Fee and commission income	729,316	656,413
Other receivables	227,280	238,457
Dividends receivable	262,354	171,500
Prepayments	122,927	79,366
Others	158,280	113,824
	<b>3,226,494</b>	<b>3,266,948</b>
Less: Expected credit losses of accounts and other receivables	(12,922)	(3,613)
	<b>3,213,572</b>	<b>3,263,335</b>

#### (2) Analyzed by ageing

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

	As at December 31, 2019		As at December 31, 2018	
	Amount	Expected credit losses	Amount	Expected credit losses
Within 1 year	740,361	(1,467)	689,262	(115)
Between 1 and 2 years	21,468	(3,463)	16,075	(381)
Between 2 and 3 years	8,922	(4,441)	3,176	—
After 3 years	2,757	(434)	449	—
	<b>773,508</b>	<b>(9,805)</b>	<b>708,962</b>	<b>(496)</b>



## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 31. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

#### (1) Analyzed by type

	As at December 31,	
	2019	2018
<b>Current</b>		
Bonds issued by policy banks	12,767,751	11,970,815
Government bonds	12,026,576	11,964,323
Bonds issued by commercial banks and other financial institutions	278,496	4,005,409
Others <sup>(i)</sup>	20,661,484	13,701,794
	<b>45,734,307</b>	<b>41,642,341</b>

(i) Others mainly comprise of corporate bonds, enterprise bonds and medium term notes.

#### (2) Movements of allowances for expected credit losses is as below

	As at December 31,	
	2019	2018
At the beginning of the year	6,185	7,217
Expected credit losses recognized	3,338	—
Reversal of expected credit losses	—	(1,032)
<b>At the end of the year</b>	<b>9,523</b>	<b>6,185</b>

	As at December 31, 2019			
	12 months (stage 1)	Life time (stage 2)	Life time (stage 3)	Total
Principal and interest	45,696,723	47,107	—	45,743,830
Expected credit losses	9,422	101	—	9,523

	As at December 31, 2018			
	12 months (stage 1)	Life time (stage 2)	Life time (stage 3)	Total
Principal and interest	41,648,526	—	—	41,648,526
Expected credit losses	6,185	—	—	6,185

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

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

#### (2) Movements of allowances for expected credit losses is as below (Continued)

During the year, the increase of the expected credit losses of the debt instruments at fair value through other comprehensive income was RMB 3,338 thousand, of which the increase of the stage 1 was RMB 3,270 thousand and the stage 2 was RMB 68 thousand. The expected credit losses in stage 1 was transferred to stage 2 of RMB 33 thousand.

### 32. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December 31	
	2019	2018
<b>Current</b>		
Debt securities	99,782,134	67,139,386
Funds	16,125,036	20,750,896
Equity investments	11,517,173	6,840,221
Others <sup>(i)</sup>	8,012,868	3,191,276
<b>Total</b>	<b>135,437,211</b>	<b>97,921,779</b>
<b>Non-current</b>		
Equity investments <sup>(ii)</sup>	<b>2,708,857</b>	<b>2,202,967</b>

- (i) Others mainly represent investments in collective asset management schemes, bank financing products and trusts.
- (ii) 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 63.

As at December 31, 2019, the Group entered into securities lending arrangement with clients that resulted in the transfer of equity securities at FVTPL with total fair values of RMB 1,054,100 thousand (December 31, 2018: RMB 357,730 thousand) to clients. These securities continued to be recognized as financial assets of the Group.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 33. DERIVATIVE FINANCIAL INSTRUMENTS

	As at December 31, 2019			As at December 31, 2018		
	Notional principal amounts	Fair Value		Notional principal amounts	Fair Value	
		Assets	Liabilities		Assets	Liabilities
<b>Interest derivative instrument</b>						
Interest rate swaps <sup>(i)</sup>	120,674,999	226,180	232,652	93,585,000	394,434	392,849
Bond futures <sup>(i)</sup>	10,781,605	—	332	7,997,256	—	1,655
<b>Equity derivative instrument</b>						
Equity return swaps	260,660	182,909	—	1,152,517	210,192	19,477
Stock index futures <sup>(i)</sup>	5,617,793	—	—	3,403,365	—	18
Options <sup>(ii)</sup>	38,826,908	246,616	812,673	6,602,796	49,823	166,537
<b>Credit derivatives</b>						
Credit default swap	123,000	534	5,413	50,000	489	1,123
<b>Other derivative instrument</b>						
Commodity futures <sup>(i)</sup>	39,138,422	1,120,349	1,105,762	9,555,315	446,665	446,316
Commodity swaps	3,818,084	16,373	2,972	2,782,782	10,486	264,023
Commodity	980,607	12,381	22,254	1,160,802	38,143	12,205
Forward contracts	1,082,416	477	1,164	98,172	—	1,482
	<b>221,304,494</b>	<b>1,805,819</b>	<b>2,183,222</b>	<b>126,388,005</b>	<b>1,150,232</b>	<b>1,305,685</b>

- (i) Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in the PRC interest rate swaps, 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 year-end date.
- (ii) Options: Included in options are over-the-counter options, exchanged-traded options and embedded derivatives of structure notes.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 34. DEPOSITS WITH EXCHANGES AND NON-BANK FINANCIAL INSTITUTIONS

	As at December 31,	
	2019	2018
<b>Deposits with stock exchanges and clearing houses:</b>		
China Securities Depository and Clearing Corporation Limited	803,393	446,899
Shanghai Clearing House	279,848	70,109
Hong Kong Securities Clearing Company Limited	76,942	44,169
Hong Kong Stock Exchange	1,948	1,507
China Beijing Equity Exchange	1,803	1,184
<b>Deposits with futures and commodity exchanges and financial institutions:</b>		
China Financial Futures Exchange	1,360,274	10,057
Intercontinental Exchange.	363,232	—
Pingan Futures Co., Ltd.	270,627	190,051
The London Metal Exchange	222,572	409,310
Huatai Futures Co., Ltd.	120,158	5,887
Jianxin Futures Co., Ltd.	115,422	22,889
CITIC Futures Co., Ltd.	109,641	59,549
Yongan Futures Co., Ltd.	107,114	129,879
Shanghai Gold Exchange	43,598	7,972
Nanhua Futures Co., Ltd.	25,813	11,913
Hong Kong Futures Exchange	9,673	15,913
Chicago Mercantile Exchange	3,488	3,432
Others	865,344	700
	<b>4,780,890</b>	<b>1,431,420</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 35. CLEARING SETTLEMENT FUNDS

	As at December 31,	
	2019	2018
Clearing settlement funds held with clearing houses for:		
House accounts	4,346,364	3,913,233
Clients	8,125,252	9,883,048
	<b>12,471,616</b>	<b>13,796,281</b>

These clearing settlement funds are held by the clearing houses for the Group and these balances carry interest at prevailing market interest rates.

### 36. CASH AND BANK BALANCES

	As at December 31,	
	2019	2018
House accounts	8,827,376	7,229,886
Pledged and restricted bank deposits		
— Restricted bank deposit for purchase of bond, stock and as risk reserves	60,040	59,414
Bank balances — house accounts	8,887,416	7,289,300
Cash held on behalf of customers	53,040,323	40,144,484
	<b>61,927,739</b>	<b>47,433,784</b>

### 37. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the followings:

	As at December 31,	
	2019	2018
Bank balances — house accounts (note 36)	8,887,416	7,289,300
Clearing settlement funds — house accounts (note 35)	4,346,364	3,913,233
Less: Pledged and restricted bank deposits (note 36)	(60,040)	(59,414)
	<b>13,173,740</b>	<b>11,143,119</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 38. SHORT TERM BORROWINGS

	As at December 31,	
	2019	2018
<b>Current</b>		
Secured bank borrowings <sup>(i)</sup>	22,339	1,576,882
Unsecured bank borrowings <sup>(ii)</sup>	3,078,825	—
Interest accrued	2,509	4,979
	<b>3,103,673</b>	<b>1,581,861</b>

- (i) As at December 31, 2019, the Group pledged notes payable with market value amounting to RMB 2,300 million for these borrowings, the discount rate was 2.90%. (As at December 31, 2018, the Group pledged securities with market value amounting to RMB 3,618.36 million, and the Group's short-term secured bank borrowings interest rates ranging from 1.25% to 4.90% per annum.)
- (ii) As at December 31, 2019, the Group's short-term unsecured bank borrowings floating interest rates ranging from 1.65% to 5.81% (December 31, 2018: nil) per annum.

### 39. SHORT-TERM DEBT INSTRUMENTS

	Coupon rate	As at January 1, 2019	Issuance/ Other Transfer	Redemption	As at December 31, 2019
Short-term bond payables <sup>(i)</sup>		9,000,000	5,000,000	14,000,000	—
Short-term financing bills payables <sup>(ii)</sup>	2.90%–3.15%	5,000,000	61,000,000	46,000,000	20,000,000
Principals of structured notes <sup>(iii)</sup>	2.80%–3.55%	20,051,050	14,484,840	21,620,130	12,915,760
Interest accrued		799,426	946,104	1,562,674	182,856
		<b>34,850,476</b>	<b>81,430,944</b>	<b>83,182,804</b>	<b>33,098,616</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 39. SHORT-TERM DEBT INSTRUMENTS (Continued)

	Coupon rate	As at January 1, 2018	Transfer in	Issuance/ Other Transfer	Redemption	As at December 31, 2018
Short-term bond payables <sup>(i)</sup>	3.78%-5.30%	23,030,000		12,170,000	26,200,000	9,000,000
Short-term financing bills payables <sup>(ii)</sup>	3.13%-3.15%	—		14,000,000	9,000,000	5,000,000
Principals of structured notes <sup>(iii)</sup>	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
		<b>47,045,670</b>	<b>663,983</b>	<b>56,939,302</b>	<b>69,798,479</b>	<b>34,850,476</b>

(i) Short-term bond payables

As at December 31, 2019, the Group had no short term bond payables. As at December 31, 2018, the short-term bond payables interest rates ranging from 3.78% to 5.30% per annum.

(ii) Short-term financing bills payables

As at December 31, 2019, the short-term financing bill payables were bonds issued in the PRC Inter-Bank market by the Group and interest rates ranging from 2.90% to 3.15% (December 31, 2018: 3.13% to 3.15%) per annum.

(iii) Principals of structured notes

As at December 31, 2019, the amount represents principals received from investors for subscription of structured notes issued by the Group. The structured notes interest rates ranging from 2.80% to 3.55% (December 31, 2018: 3.00% to 5.50%) per annum, or variable rates linked to certain stock index. The principals and interest are repayable upon maturity within one year. The structured notes with variable rate contain non-closely related derivative as their returns are linked to the fluctuation of stock index. For those embedded derivatives, they are accounted for as derivatives in note 33 after being bifurcated from their respective host contracts.

### 40. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at December 31,	
	2019	2018
Placement from banks <sup>(i)</sup>	2,500,000	1,500,000
Placement from other financial institutions <sup>(ii)</sup>	4,500,000	2,000,000
Interest accrued	13,199	19,000
	<b>7,013,199</b>	<b>3,519,000</b>

(i) As at December 31, 2019, the effective interest rates on due to banks were ranging from 2.73% to 3.25% (December 31, 2018: 3.00%) per annum. The amounts are repayable within seven days from the end of the reporting period.

(ii) As at December 31, 2019, the effective interest rates on due to other financial institutions were ranging from 3.25% to 3.50% (December 31, 2018: 4.80% to 5.10%) per annum. The amounts are repayable within six months from the end of the reporting period.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 41. ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

	As at December 31,	
	2019	2018
Clients' deposits for margin financing and securities lending	7,086,437	5,123,777
Clients' deposits for other brokerage business	54,637,783	43,787,971
	<b>61,724,220</b>	<b>48,911,748</b>

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

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

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

### 42. ACCRUED STAFF COSTS

	As at December 31,	
	2019	2018
<b>Non-current</b>		
Salaries, bonus and allowances	525,040	787,540
<b>Current</b>		
Salaries, bonus and allowances	4,939,112	3,561,933
Short-term social welfare	52,054	52,054
Defined contribution plans <sup>(i)</sup>	1,416	729
Others	50,295	39,419
	<b>5,042,877</b>	<b>3,654,135</b>

- (i) The defined contribution plans refer to social pension insurance plan and unemployment insurance plan required by the government, and annuity scheme launched by the Group. The Group participates in the social pension insurance plan and unemployment insurance plan pursuant to pertinent regulations and contributes to the funds set up by the Government on a monthly basis. Besides, the group sets up annuity schemes and MPF Scheme for qualified employees in the PRC and Hong Kong and contributes to the schemes which are managed by third parties on an annual basis or on a monthly basis.

The total expense recognized in profit or loss of RMB 383,878 thousand (2018: RMB 340,465 thousand) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 31 December 2019, contributions of RMB 1,416 thousand due in respect of the year ended 31 December 2019 had not been paid over to the plans (31 December 2018: RMB 729 thousand). The amounts were paid subsequent to the end of the year.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 43. OTHER PAYABLES AND ACCRUED CHARGES

	As at December 31,	
	2019	2018
Settlement payables to brokers and clearing houses	3,149,435	1,560,595
Deposits of equity return swaps <sup>(i)</sup>	1,566,393	458,577
Dividends payables to holders of other equity instruments	592,196	592,196
Other tax payable	411,785	424,507
Commission and handling fee payable	98,083	109,498
Futures risk reserve	81,315	73,510
Notes payable	615,000	—
Others <sup>(ii)</sup>	333,765	305,318
	<b>6,847,972</b>	<b>3,524,201</b>

- (i) As at December 31, 2019 and 2018, the balance represents deposits received from investors for equity return swaps which is refundable with the contract terms upon the expiry date. The deposit will be mature within one year from the end of the reporting period. These instruments contain non-closely related embedded derivatives as their returns are linked to the fluctuation of certain stock index or specific stock price. For those embedded derivatives with significant fair values, they are accounted for in these consolidated financial statements under note 33 after being bifurcated from their respective host contracts.
- (ii) Others mainly represent payables of annual membership fees, investor protection fund, interest payables and other payables arising from normal course of business.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 44. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at December 31,	
	2019	2018
<b>Non-current</b>		
<b>Financial liabilities designated at fair value through profit or loss</b>		
— Structured entities	2,157,877	2,404,123
<b>Current</b>		
<b>Financial liabilities held for trading</b>		
— Equity securities	147,189	105,660
— Debt securities	6,922,046	6,839,015
— Gold	166,992	—
— Others	143,194	152,363
<b>Financial liabilities designated at fair value through profit or loss</b>		
— Structured entities	539,088	27,414
	<b>7,918,509</b>	<b>7,124,452</b>

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

### 45. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at December 31,	
	2019	2018
<b>Current</b>		
Analyzed by collateral type:		
Bonds	93,513,611	61,267,557
Gold	4,193,075	—
	<b>97,706,686</b>	<b>61,267,557</b>
Analyzed by market:		
Stock exchange	43,775,212	31,847,196
Interbank bond market	53,797,755	29,361,582
Over-the-counter	133,719	58,779
	<b>97,706,686</b>	<b>61,267,557</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 45. FINANCIAL ASSETS SOLD UNDER REPRUCHASE AGREEMENTS (Continued)

Sales and repurchase agreements are transactions in which the Group sells a security as well as rights and interests in margin loans and simultaneously agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risk and rewards of those securities sold. These securities are not derecognized from the financial statements but regarded as “collateral” for the liabilities because the Group retains substantially all the risk and rewards of these securities and margin loans.

As at 31 December 2019, the Group’s pledged collateral in connection with its repurchase financing business amounted to RMB 102,789 million (31 December 2018: RMB 96,094 million).

### 46. LEASE LIABILITIES

	As at December 31, 2019
Within 1 year	267,627
Within a period of more than 1 year but not more than 2 years	216,646
Within a period of more than 2 years but not more than 5 years	405,271
Within a period of more than 5 years	362,603
	<b>1,252,147</b>
Less: Amount due for settlement within 12 months shown under current liabilities	(267,627)
Amount due for settlement after 12 months shown under non-current liabilities	984,520

### 47. SHARE CAPITAL

All shares issued by the Company are fully paid common shares. The par value per share is RMB 1. The Company’s number of shares issued and their nominal value are as follows:

	As at December 31,	
	2019	2018
Registered, issued and fully paid ordinary shares of RMB 1 each:		
— Domestic shares	5,719,009	5,719,009
— Foreign invested shares	980,400	980,400
	<b>6,699,409</b>	<b>6,699,409</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 47. SHARE CAPITAL (Continued)

During the year, the Company repurchased its own ordinary shares and the number of shares and the consideration paid are as follows:

Month of repurchase	No. of ordinary shares	Aggregate consideration paid
From November 2019 to December 2019	40,020,780	663,954

On March 12, 2019, the 17th Meeting of the Sixth Session of the Board of the Company was held to consider and approve the A Share Repurchase Plan. On April 11, 2019, the Company issued an announcement that it intended to use all the A Shares repurchased by means of centralized bidding transactions for use of Employee Stock Ownership Scheme. On December 26, 2019, the Company issued an announcement of Implementation Results and Share Changes of China Merchants Securities Co., Ltd. At the 28th meeting of the sixth session of the Board held on December 26, 2019, the Company approved, the Proposal on Early Completion of Repurchase A Shares of the Company. Pursuant to the subscription intention of the Company's Employee Stock Ownership Scheme and the authorization of the Company's General Meeting and Separate Class Meeting of Shareholders, the repurchase of the A shares of the Company will be completed in advance. The aggregate number of A Shares repurchased by the Company through the centralized bidding was 40,020,780, accounting for 0.5974% of the Company's total existing share capital and the aggregate amount paid by the Company was RMB 663,895,568.36 (excluding transaction fees) recognized as treasury stock at the consolidated statement of financial position. According to the Company's A Share Repurchase Plan, all the repurchased shares will be used as the source of the Company's subsequent implementation of the Employee Stock Ownership Scheme.

### 48. OTHER EQUITY INSTRUMENTS

	As at December 31,	
	2019	2018
Perpetual subordinated bonds	15,000,000	15,000,000

The Company issued four batches of perpetual subordinated bonds with a total principal amount of RMB 4,000,000,000, RMB 5,000,000,000, RMB 3,700,000,000 and RMB 2,300,000,000 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 48. OTHER EQUITY INSTRUMENTS (Continued)

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 year as well as all interest 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 from the issuer and reductions of registered capital.

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

### 49. INVESTMENT REVALUATION RESERVE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at December 31,	
	2019	2018
At the beginning of the year	299,070	398,973
Debt instruments at fair value through other comprehensive income		
Net changes in fair value for the year	153,397	758,923
Reclassification to profit or loss	(183,740)	22,463
Income tax impact	7,464	(195,347)
Expected credit losses of debt instruments at fair value through other comprehensive income		
Net changes in fair value for the year	3,314	(1,032)
Income tax impact	(286)	258
Equity instruments at fair value through other comprehensive income		
Net changes in fair value for the year	335,203	(913,992)
Income tax impact	(83,801)	228,498
Share of fair value gain on financial assets at fair value through other comprehensive income of associates	12,008	326
<b>At the end of the year</b>	<b>542,629</b>	<b>299,070</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 50. GENERAL RESERVES

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

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

In accordance with the "Financial Rules for Financial Enterprises", the Company is required to appropriate 10% of net profit derived in accordance with the People's Republic of China Generally Accepted Accounting Principles ("PRC GAAP") before distribution to shareholders as general risk reserve from retained profits. And in accordance with the requirements of the guidance of China Securities Regulatory Commission's ("CSRC") about regulating financial institutions in the asset management business for collective asset management business of securities, the subsidiary, China Merchants Securities Asset Management Co., Ltd. had appropriated of 10% of management fees from large-size collective assets management business as general risk reserve since December 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 cannot be distributed or transferred to share capital.

The movements of the general reserves are set out below:

#### As at December 31, 2019

	At the beginning of the year	Addition	At the end of the year
Statutory reserve	4,662,350	573,798	5,236,148
General risk reserve <sup>(i)</sup>	4,669,075	1,069,738	5,738,813
Transaction risk reserve <sup>(ii)</sup>	4,533,538	892,927	5,426,465
	<b>13,864,963</b>	<b>2,536,463</b>	<b>16,401,426</b>

(i) The addition in general risk reserve included reclassification of RMB 347,595 thousand from general reserves.

(ii) The addition in transaction risk reserve included reclassification of RMB 244,190 thousand from general reserves.

#### As at December 31, 2018

	At the beginning of the year	Addition	At the end of the year
Statutory reserve	4,306,384	355,966	4,662,350
General risk reserve	4,306,384	362,691	4,669,075
Transaction risk reserve	4,177,572	355,966	4,533,538
	<b>12,790,340</b>	<b>1,074,623</b>	<b>13,864,963</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 51. LONG-TERM BORROWINGS DUE WITHIN ONE YEAR

	As at December 31,	
	2019	2018
Unsecured bank borrowings	1,140,394	—
Interest accrued	4,486	—
	<b>1,144,880</b>	<b>—</b>

As at December 31, 2019, the Group's unsecured long-term bank borrowings due within one year bore interest rates ranging from 4.014% to 4.066% (December 31, 2018: nil) per annum.

### 52. LONG-TERM BORROWINGS

	As at December 31,	
	2019	2018
Unsecured bank borrowings	268,735	1,380,015

As at December 31, 2019, the Group's unsecured long-term bank borrowings bore floating interest rates ranging from 3.711% to 3.893% (December 31, 2018: 3.445% to 3.876%) per annum. The above loan will be repaid upon maturity within two years.

### 53. BONDS PAYABLE DUE WITHIN ONE YEAR

	As at December 31,	
	2019	2018
Non-convertible bonds <sup>(1)</sup>	7,060,000	14,200,000
Subordinated bonds <sup>(2)</sup>	6,790,000	2,200,000
Interest accrued	1,628,614	1,455,355
	<b>15,478,614</b>	<b>17,855,355</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 53. BONDS PAYABLE DUE WITHIN ONE YEAR (Continued)

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

Name	Issue amount	Value date	Maturity date	Coupon rate
17CMG2	1,060,000	23/10/2017	23/10/2020	4.78%
17CMG3	1,000,000	31/10/2017	31/10/2020	4.85%
18CMG2	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%
GF Assets Management – China Merchants Securities Capital Lending Phase IV Asset-backed Special Plan	2,000,000	29/11/2019	29/11/2020	3.32%

According to CSRC “Reply on Approval of China Merchants Securities Co., Ltd. to Publicly offer Corporate Bonds to Qualified Investors” (Zheng Jian Xu Ke [2017] No. 1669), the Company is approved to publicly offer corporate bond to qualified investors with total principal amount not exceeding RMB 8,500 million. In October 2017 and June 2018, the Company successively issued three batches corporate bonds. Therein, phase III bonds include type I and type II, i.e. 18CMG2 and 18CMG3, of which the issued amounts are RMB 2,000 million and RMB 1,000 million with the interest rate of 4.78% per annum, the rest two batches of corporate bonds are 17CMG2 and 17CMG3, of which the issued amounts are RMB 1,060 million and RMB 1,000 million, with the interest rates of 4.78% and 4.85% per annum, respectively. Therein, 18CMG3 is disclosed in Note 54.

(2) The following table presents an analysis of subordinated bonds

Name	Issue amount	Value date	Maturity date	Coupon rate
18CMC1	1,640,000	12/01/2018	12/01/2020	5.56%
18CMC2	5,150,000	22/01/2018	22/01/2020	5.70%

According to Shanghai Stock Exchange “Letter of Consent on China Merchants Securities Co., Ltd. Listing the Non-publicly Offered Subordinated Bonds for Transfer” (Shang Zheng Han [2017] No. 100), the Company was approved to non-publicly offering subordinated bonds to qualified investors with total principal amount not exceeding RMB 10,000 million. On January 12, 2018, and January 22, 2018, the Company respectively issued two batches subordinated bonds with total issued amount of RMB 6,790 million, including 18CMC1 and 18CMC2, of which the issued amounts are RMB 1,640 million and RMB 5,150 million with the interest rates of 5.56% and 5.70% per annum, respectively.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 54. BONDS PAYABLE

	As at December 31,	
	2019	2018
Non-convertible bonds <sup>(i)</sup>	50,512,888	28,773,737
Subordinated bonds	—	6,790,000
	<b>50,512,888</b>	<b>35,563,737</b>

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

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%
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	1,700,000	08/03/2019	08/03/2022	3.59%
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%
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%
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%
19CMF8	4,000,000	29/05/2019	29/05/2021	3.78%
19CM01BC	5,000,000	11/10/2019	11/10/2022	3.45%

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 54. BONDS PAYABLE (Continued)

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

According to CSRC “Reply on Approval of China Merchants Securities Co., Ltd. to Publicly offer Corporate Bonds” (Zheng Jian Xu Ke [2013] No. 73), the Company was approved to publicly offer corporate bonds with total principal amount not exceeding RMB 10,000 million. On 5 March 2013, the Company issued corporate bonds amounting to RMB 10,000 million at Shanghai Stock Exchange, including 12CM01 amounting to RMB 3,000 million with the interest rate of 4.45% per annum, 12CM02 amounting to RMB 1,500 million with the interest rate of 4.80% per annum, and 12CM03 amounting to RMB 5,500 million with the interest rate of 5.15% per annum, respectively. In the current year, 12CM01 and 12CM02 was due on March 5, 2018.

According to CSRC “Reply on Approval of China Merchants Securities Co., Ltd. to Publicly offer Corporate Bonds” (Zheng Jian Xu Ke [2015] No. 512), the Company was approved to publicly offer corporate bonds with total principal amount not exceeding RMB 5,500 million. On May 26, 2015, the Company completed the issuance of 14CM bonds at Shanghai Stock Exchange, with total issued amount of RMB 5,500 million with the interest rate of 5.08% per annum and a term of 10 years.

According to CSRC “Reply on Approval of China Merchants Securities Co., Ltd. to Publicly offer Corporate Bonds to Qualified Investors” (Zheng Jian Xu Ke [2018] No. 612), the Company was approved to publicly offer corporate bond to qualified investors with total principal amount not exceeding RMB 11,800 million. On February 5, 2018, July 18, 2018, August 8, 2018, September 7, 2018 and March 8, 2019, the Company respectively issued five batches corporate bonds at Shanghai Stock Exchange including 18CMG1, 18CMG5, 18CMG6, 18CMG8 and 19CMG1. The amounts of the five batches corporate bonds are RMB 1,940 million, RMB 2,500 million, RMB 3,000 million, RMB 1,800 million and RMB 1,700 million, with the interest rates of 5.53%, 4.38%, 3.94%, 4.23% and 3.59% per annum, respectively.

According to Shanghai Stock Exchange “Letter of Consent on China Merchants Securities Co., Ltd. Listing the Non-publicly Offered Corporate Bonds for Transfer” (Shang Zheng Han 2018 No. 160), the Company was approved to non-publicly offering corporate bonds to qualified investors with total principal amount not exceeding RMB 40,000 million, valid within 12 months since the date on which the letter of consent is issued. In the current year, the Company successively issued six batches non-public corporate bond with term of one and above years, including 18CMF10, 19CMF3, 19CMF4, 19CMF5, 19CMF6 and 19CMF8, of which the issued amounts are RMB 2,500 million, RMB 1,700 million, RMB 3,600 million, RMB 2,000 million, RMB 4,000 million and RMB 4,000 million, with the interest rates of 4.15%, 3.85%, 4.00%, 4.08%, 4.28% and 3.78% per annum, respectively.

According to Shenzhen Stock Exchange “Letter of Consent on Listing GF Assets Management – China Merchants Securities Capital Lending Phase (I-X) Asset-backed Special Plan”, the Company was approved to adopt the method of phased issuance with total principal amount not exceeding RMB 8,000 million. On November 14, 2018, March 18, 2019, April 25, 2019, and November 29, 2019, the Company successively established four phases of special asset support plans with the issued amounts are RMB 1,000 million, RMB 3,000 million, RMB 2,000 million and RMB 2,000 million, with the interest rates of 3.95%, 3.70%, 4.20% and 3.32% per annum with the priority ratio of 95%, respectively. Therein, GF Assets Management – China Merchants Securities Capital Lending Phase I Asset-backed Special Plan and GF Assets Management – China Merchants Securities Capital Lending Phase IV Asset-backed Special Plan are disclosed in Note 53.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 55. DIVIDENDS TO THE SHAREHOLDERS OF THE COMPANY AND DISTRIBUTION TO THE HOLDERS OF OTHER EQUITY INSTRUMENTS

	As at December 31,	
	2019	2018
Dividends recognized as distribution	1,768,644	2,317,996
Distribution to holders of other equity instruments	802,090	802,090

Pursuant to the resolution of the shareholders meeting held on June 28, 2019, the Company declared cash dividends of RMB 2.64 for every 10 shares (tax included) based on 6,699,409,329 shares held amounting to RMB 1,768,644 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 RMB 3.46 for every 10 shares (tax included) based on 6,699,409,329 shares held amounting to RMB 2,317,996 thousand in total for the year ended December 31, 2017.

As at December 31, 2019, dividend of the Group on perpetual bonds amounted to RMB 802,090 thousand.

### 56. TRANSFERS OF FINANCIAL ASSETS

#### (1) Repurchase agreements

The Group entered into repurchase agreements with certain counterparties to sell Group's securities and interests in margin loans and the proceeds are presented as financial assets sold under repurchase agreements. In accordance with the terms of the repurchase agreements, the legal title of those securities and interests in margin loans are not transferred to the counterparties during the year and both parties simultaneously agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risks and rewards of those securities and rights and interests in margin loans sold. These securities and margin loans are not derecognized from the consolidated financial statements but regarded as "collateral" for the liabilities because the Group retains substantially all the risks and rewards of these securities and rights and interest in margin loans.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 56. TRANSFERS OF FINANCIAL ASSETS (Continued)

The following tables provide a summary of carrying amounts and fair values related to transferred financial assets that are not derecognized in their entirety and the associated liabilities:

#### As at December 31, 2019

	Financial assets at fair value through profit or loss	Debt instruments at amortized cost	Debt instruments at fair value through other comprehensive income	Securities lending arrangements	Total
Carrying amount of transferred assets	62,642,843	459,778	31,677,046	5,255,033	100,034,700
Carrying amount of associated liabilities	61,185,015	449,078	30,939,856	5,132,737	97,706,686
	1,457,828	10,700	737,190	122,296	2,328,014

#### As at December 31, 2018

	Financial assets at fair value through profit or loss	Debt instruments at amortized cost	Debt instruments at fair value through other comprehensive income	Securities lending arrangements	Total
Carrying amount of transferred assets	32,208,680	459,271	22,850,421	6,870,858	62,389,230
Carrying amount of associated liabilities	31,629,612	451,014	22,439,602	6,747,329	61,267,557
	579,068	8,257	410,819	123,529	1,121,673

#### (2) Securities lending arrangements

The Group entered into securities lending agreements with clients to lend out its financial assets classified as financial assets at fair value through profit or loss with carrying amount totaling RMB 855,997 thousand as at December 31, 2019 (December 31, 2018: RMB 357,074 thousand), which are secured by client's securities and deposits held as collateral. As stipulated in the securities lending agreements, the legal ownership of these securities is transferred to the customers. Although the customers are allowed to sell these securities during the covered period, they have obligations to return these securities to the Group at specified future dates. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized these securities in the consolidated financial statements.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 56. TRANSFERS OF FINANCIAL ASSETS (Continued)

#### (3) Securities borrowing arrangements

The Group borrowed securities from interbank securities market platform used for the business of financial assets sold under repurchase agreements and securities short selling, and simultaneously offers bonds classified as financial assets at fair value through profit and loss, debt instruments at fair value through other comprehensive income and debt instruments at amortized cost as collateral to the counterparties. As at December 31, 2019 and 2018, the type and fair values of financial assets at fair value through profit or loss to the Group borrowed from banks through interbank securities market trading platform for the purpose of financial assets sold under repurchase agreements are as follows:

	As at December 31,	
	2019	2018
Treasury bonds	5,547,770	4,988,382
Local government bonds	1,536,264	514,808
Policy bank debt	5,316,155	9,458,056
	<b>12,400,189</b>	<b>14,961,246</b>

As at December 31, 2019, the above securities borrowing transactions are due before April 24, 2020. As at December 31, 2018, the above securities borrowing transactions are due before May 16, 2019.

As at December 31, 2019 and 2018, the type and fair values of securities pledged for the Group's securities borrowing arrangements are as follows:

	As at December 31,	
	2019	2018
Bonds	11,036,469	12,252,789

### 57. CAPITAL COMMITMENTS

As of December 31, 2019 and 2018, the Group does not have any significant capital commitments.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 58. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments of directors and supervisors of the Company paid and/or payable by the Group for the years ended December 31, 2019 and 2018 are set out below:

#### Year ended December 31, 2019

Name	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Bonuses	Total emoluments
<b>Executive directors:</b>					
HUO Da	—	2,024	263	2,868	5,155
XIONG Jiantao	—	2,022	257	2,868	5,147
	—	4,046	520	5,736	10,302
<b>Non-executive directors:</b>					
SU Min	—	—	—	—	—
XIONG Xianliang	—	—	—	—	—
SU Jian	—	—	—	—	—
PENG Lei	—	—	—	—	—
HUANG Jian	—	—	—	—	—
WANG Daxiong	—	—	—	—	—
WANG Wen <sup>(1)</sup>	—	—	—	—	—
CHEN Zhigang <sup>(2)</sup>	—	—	—	—	—
	—	—	—	—	—
<b>Independent non-executive directors:</b>					
XIANG Hua	200	—	—	—	200
XIAO Houfa	200	—	—	—	200
XIONG Wei	200	—	—	—	200
HU Honggao	200	—	—	—	200
WANG Di	200	—	—	—	200
	1,000	—	—	—	1,000

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 58. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Year ended December 31, 2019 (Continued)

Name	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Bonuses	Total emoluments
<b>Supervisors:</b>					
ZHOU Linda Lei	—	1,635	228	2,295	4,158
FANG Xiaobing	—	—	—	—	—
ZHANG Zehong	—	—	—	—	—
HE Min	—	672	149	480	1,301
YIN Hongyan	—	926	172	640	1,738
XIONG Zhigang	—	710	172	700	1,582
LI Xiaofei	—	—	—	—	—
WANG Zhangwei	—	—	—	—	—
MA Yunchun	—	—	—	—	—
	—	3,943	721	4,115	8,779
	1,000	7,989	1,241	9,851	20,081

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 58. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Year ended December 31, 2018

Name	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Bonuses	Total emoluments
<b>Executive directors:</b>					
HUO Da	—	2,168	219	2,080	4,467
WANG Yan <sup>(3)</sup>	—	1,601	149	—	1,750
XIONG Jiantao	—	1,817	201	1,664	3,682
	—	5,586	569	3,744	9,899
<b>Non-executive directors:</b>					
SU Min	—	—	—	—	—
XIONG Xianliang	—	—	—	—	—
SU Jian	—	—	—	—	—
PENG Lei	—	—	—	—	—
HUANG Jian	—	—	—	—	—
WANG Daxiong	—	—	—	—	—
CHEN Zhigang	—	—	—	—	—
	—	—	—	—	—
<b>Independent non-executive directors:</b>					
XIANG Hua	200	—	—	—	200
XIAO Houfa	200	—	—	—	200
XIONG Wei	200	—	—	—	200
HU Honggao	200	—	—	—	200
WANG Di <sup>(4)</sup>	200	—	—	—	200
YANG Jun <sup>(5)</sup>	—	—	—	—	—
	1,000	—	—	—	1,000



## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 58. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

#### Year ended December 31, 2018 (Continued)

Name	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Bonuses	Total emoluments
<b>Supervisors:</b>					
ZHOU Linda Lei	—	1,823	180	1,664	3,667
FANG Xiaobing	—	—	—	—	—
ZHANG Zehong	—	—	—	—	—
HE Min	—	749	130	—	879
YIN Hongyan	—	896	148	—	1,044
XIONG Zhigang	—	811	148	—	959
LI Xiaofei	—	—	—	—	—
WANG Zhangwei	—	—	—	—	—
MA Yunchun	—	—	—	—	—
	—	4,279	606	1,664	6,549
	1,000	9,865	1,175	5,408	17,448

- (1) WANG Wen was appointed as non-executive director in July 2019.
- (2) CHEN Zhigang resigned in June 2019.
- (3) WANG Yan resigned in August 2018.
- (4) Wang Di was appointed as independent non-executive director in January 2018.
- (5) Yang Jun resigned in January 2018.

The emoluments of executive directors and supervisors shown above were for their services in connection with the management of the affairs of the Company and the Group. The non-executive directors' emoluments shown above were for their services as directors of the Company and the subsidiaries, if applicable.

As of the date of the issuance of these consolidated financial statements, the above compensation packages including performance-based bonus for executive directors, non-executive directors and supervisors for the year ended 31 December 2019 have not been finalized. Management of the Group believes that the difference between the final emoluments and that disclosed above will not have significant impact on the consolidated financial statements of the Group.

No directors of the Company waived or agreed to waive any emolument paid by the Group during the year. No emoluments were paid by the Group to the directors of the Company as an incentive payment for joining the Group or as compensation for resignation during the year.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 59. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2018: three) were directors of the Company. The emoluments of the remaining two individuals (2018: two) with the highest emoluments are as below:

	As at December 31,	
	2019	2018
Basic salaries and allowances	1,794	3,070
Bonuses	6,652	3,120
Contributions to retirement benefit scheme	358	403
	<b>8,804</b>	<b>6,593</b>

Bonus was determined with reference to results of the Group and performance of individuals. No emoluments were paid by the Group to these individuals as an incentive payment for joining the Group or as compensation for resignation during the year.

The emoluments of the individuals (non-director) with the highest emoluments are within the following bands:

	As at December 31,	
	2019	2018
Emolument bands		
HKD3,500,001 to HKD4,000,000	—	2
HKD4,000,001 to HKD4,500,000	1	—
HKD5,000,001 to HKD5,500,000	1	—

During the year of 2019, the emoluments paid by the Group to these non-director individuals were based on the services provided to the Group by these individuals.

### 60. SIGNIFICANT RELATED PARTY TRANSACTIONS

#### (1) Relationship of related parties

##### (a) Major shareholders

Major shareholders include shareholders of the Company with 5% or above ownership. Share percentage in the Company:

	As at December 31,	
	2019	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%

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 60. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

#### (1) Relationship of related parties (Continued)

##### (b) Associates of the Group

The details information of the Group's associates is set out in Note 22.

##### (c) Other related parties

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

The table below lists the Group's other significant related parties:

Significant related legal entities	The relationship with the Group
China Merchants Bank Co., Ltd.	Significant influence by the ultimate controller
China Merchants Expressway Network Technology Holdings Co., Ltd.	Fellow subsidiary of the ultimate controller
China Merchants Shekou Industrial Zone Holdings Co., Ltd.	Fellow subsidiary of the ultimate controller
China Merchants Energy Shipping Co., Ltd.	Fellow subsidiary of the ultimate controller
China Merchants Port Group Co., Ltd.	Fellow subsidiary of the ultimate controller
China Merchants Property Co., Ltd.	Fellow subsidiary of the ultimate controller
China Merchants (Shanghai) Investment Co., Ltd.*	Fellow subsidiary of the ultimate controller
Shenzhen Merchants Property Management Co., Ltd.*	Fellow subsidiary of the ultimate controller
China Merchants Shekou (Tianjin) Co., Ltd.*	Fellow subsidiary of the ultimate controller
China Merchants Real Estate (Beijing) Co., Ltd.*	Fellow subsidiary of the ultimate controller
Sinotrans Limited	Fellow subsidiary of the ultimate controller
Nanjing Tanker Corporation	Fellow subsidiary of the ultimate controller
China Merchants Gangtong Development (Shenzhen) Co., Ltd.*	Fellow subsidiary of the ultimate controller
Eureka Investment Company Limited	Fellow subsidiary of the ultimate controller
Shanghai Rural Commercial Bank Co., Ltd	The director of the Company acts as a director of the entity

\* English name translated is for identification purpose only.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 60. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

#### (2) Related parties transaction and balances

(a) *During the years ended December 31, 2019 and 2018, the Group's major transactions and balances with its associate are as below:*

Transactions between the Group and the associate:

	As at December 31,	
	2019	2018
Fee and commission income		
— Funds managed by Bosera Asset Management Co., Ltd. and China Merchants Fund Management Limited	120,351	88,972

Balances between the Group and the associate:

	As at December 31,	
	2019	2018
Accounts and other receivables		
— Funds managed by Bosera Asset Management Co., Ltd. and China Merchants Fund Management Limited	224,052	198,867

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

Transactions between the Group and other related parties:

	Year ended December 31,	
	2019	2018
Fee and commission income		
— China Merchants Bank Co., Ltd.	98,045	170,206
— China Merchants Shekou Industrial Zone Holdings Co., Ltd.	65,057	24,321
— China Merchants Expressway Network Technology Holdings Co., Ltd.	8,019	234
— China Merchants Energy Shipping Co., Ltd.	1,683	9,434
— China Merchants Port Group Co., Ltd.	—	22,642
— Sinotrans Limited	21,782	—
— Nanjing Tanker Corporation	5,660	—
— China Merchants Gangtong Development (Shenzhen) Co. Ltd.*	7,547	—
— Eureka Investment Company Limited	12,045	—

\* English name translated is for identification purpose only.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 60. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

#### (2) Related parties transaction and balances (Continued)

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

Transactions between the Group and other related parties: (Continued)

	Year ended December 31,	
	2019	2018
Interest income		
— China Merchants Bank Co., Ltd.	383,136	375,770
Investment Income		
— China Merchants Shekou Industrial Zone Holdings Co., Ltd.	66,934	52,542
Fee and commission expenses		
— China Merchants Bank Co., Ltd.	(229,019)	(259,182)
Interest expenses of placement from banks		
— China Merchants Bank Co., Ltd.	(11,417)	(27,726)
Interest expenses of bond lending business		
— China Merchants Bank Co., Ltd.	(190)	(6,315)
Interest expenses of repurchase agreements business		
— Shanghai Rural Commercial Bank Co., Ltd.	(6,694)	(2,841)
— China Merchants Bank Co., Ltd.	(3,717)	(14,752)
Other operating expenses		
— China Merchants Bank Co., Ltd.	(62,017)	(52,083)
— China Merchants (Shanghai) Investment Co., Ltd.*	(8,953)	(8,460)
— China Merchants Property Co., Ltd.	(209,292)	(3,318)
— Shenzhen Merchants Property Management Co., Ltd.*	(17,902)	(9,612)

\* English name translated is for identification purpose only.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 60. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

#### (2) Related parties transaction and balances (Continued)

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

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

	As at December 31,	
	2019	2018
Accounts and other receivables		
— China Merchants Shekou Industrial Zone Holdings Co., Ltd.	62,000	—
— Qingdao Asset Management Co., Ltd.	66,354	—
— China Merchants Shekou (Tianjin) Co., Ltd.*	100,000	—
— China Merchants Real Estate (Beijing) Co., Ltd.*	436,224	—
Bank balances		
— China Merchants Bank Co., Ltd.	23,249,531	14,591,303
Borrowings		
— China Merchants Bank Co., Ltd.	449,082	—
Placements from banks		
— China Merchants Bank Co., Ltd.	700,272	1,500,625
Lease liabilities		
— China Merchants Bank Co., Ltd.	625,807	

\* English name translated is for identification purpose only.

During the year ended December 31, 2019, the Group entered into two new lease agreements for the use of buildings with China Merchants Bank Co., Ltd. for 5 years and 13 years respectively. The Group has recognized additions of right-of-use assets amounted to RMB562 thousand and RMB38,378 thousand respectively.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 60. SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

#### (3) Key management personnel

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

	As at December 31,	
	2019	2018
<b>Short-term benefits:</b>		
– Salaries, allowance and bonuses	37,101	27,327
Post-employment benefits:		
– Contribution to retirement schemes	2,292	1,760
	<b>39,393</b>	<b>29,087</b>

#### (4) Other related parties transaction

In December 2015, China Merchants Shekou Industrial Zone Holdings Co., Ltd. issued A Shares for the purpose to acquire China Merchants Property Development Co., Ltd. and issued A Shares to certain specific targets for fund raising purpose. The Company subscribed 84,746 thousand shares 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 December 31, 2019, the fair value of the above shares was amounting to RMB 1,093,444 thousand (December 31, 2018: 1,388,588 thousand).

During the year, China Merchants Investment Co., Ltd., a subsidiary of the Group, has signed cooperation framework agreement with China Merchants Real Estate (Beijing) Co., Ltd. and China Merchants Shekou (Tianjin) Co., Ltd. about the Beijing Yizhuang residential project and west green high-speed rail station project in Tianjin. China Merchants Investment Co., Ltd will invest no more than RMB 500 million yuan and RMB 200 million yuan respectively. As at December 31, 2019, China Merchants Investment Co., Ltd. has made prepayment of RMB436.22 million and RMB100 million, respectively.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 61. FINANCIAL INSTRUMENTS

#### Categories of financial instruments

	As at December 31,	
	2019	2018
<b>Financial assets</b>		
Equity instruments at fair value through other comprehensive income	7,057,809	6,722,607
Debt instruments at fair value through other comprehensive income	45,734,307	41,642,341
Financial assets measured at amortized cost	175,647,017	143,790,198
Derivative financial assets	1,805,819	1,150,232
Financial assets at fair value through profit or loss	138,146,068	100,124,746
	<b>368,391,020</b>	<b>293,430,124</b>
<b>Financial liabilities</b>		
Derivative financial liabilities	2,183,222	1,305,685
Financial liabilities at fair value through profit or loss	10,076,386	9,528,575
Financial liabilities at amortized cost	276,487,697	208,713,652
	<b>288,747,305</b>	<b>219,547,912</b>



### 62. 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 operation strategy and focuses on its frontier departments at the business level. The structure of the risk management of the Company consists of five levels, including the strategical arrangement by the Board of Directors, supervision and scrutiny by the Supervisory Committee, or decision-making by the senior management and the Risk Management Committee, check-and-balance and internal controls maintained of relevant risk management departments and direct management of other departments, branches and its wholly-owned subsidiaries.

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

The overall risk management duties of departments or posts under the risk management organization structure are as follows:

- (i) the Board of Directors and Risk Management Committee are responsible for considering and approving the Group's risk appetite, risk tolerance and various risk limit indicators. They are also responsible for considering and approving the Group's economic capital allocation plan, convening quarterly meetings, reviewing quarterly risk reports and reviewing the Group's overall risk management;
- (ii) the Supervisory Committee of the Group is responsible for supervising and examining the operations of the comprehensive risk management system of the Group;
- (iii) the senior management comprising the president and vice presidents of the Group is responsible for the risk management of business operations, determining risk control measures and formulating risk limit indicators on a regular basis by reference to the risk evaluation reports. The Risk Management Committee set up by the senior management is the ultimate risk decision-making body at 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;

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 62. FINANCIAL RISK MANAGEMENT (Continued)

#### (1) Risk management structure (Continued)

- (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, money laundering risk management and assisting in the compliance director on reviewing, supervising and scrutinizing compliance issues of the Group, promoting the implementation of anti-money laundering work. 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.

#### (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: (a) risk arising from default of customers to repay debts in businesses of margin financing and securities lending, securities-backed lending or stock repurchases; (b) risk of losses of principal and interest for investments in debt securities, trust products and other credit products due to default of the issuers or borrowers; (c) risk arising from default of 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; (d) 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.

### 62. FINANCIAL RISK MANAGEMENT (Continued)

#### (2) Credit risk (Continued)

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

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

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

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

#### *Expected credit loss (ECL) measurement*

The Group applies ECL model for financial assets at amortized cost, mainly including advances to customers, financial assets held under resale agreements, debt instruments at amortized cost and debt instruments at fair value through other comprehensive income.

The Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition at the reporting date and recognizes the impairment loss allowance for expected credit loss and its movements.

If the credit risk of the financial instrument has not increased significantly since its initial recognition, it is classified as "Stage 1" and its impairment loss allowance is measured at an amount equivalent to the expected credit loss of the financial instrument in the next 12 months. The increase or reversal of the impairment loss allowance thus formed shall be included in the profit and loss as impairment losses under expected credit loss model, net of reversal.

If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to "Stage 2" and its impairment loss allowance is measured at an amount equivalent to the expected credit loss of the financial instrument over its lifetime. The increase or reversal of the impairment loss allowance thus formed shall be included in the profit and loss as impairment losses under expected credit loss model, net of reversal.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 62. FINANCIAL RISK MANAGEMENT (Continued)

#### (2) Credit risk (Continued)

##### *Expected credit loss (ECL) measurement (Continued)*

If the financial instrument is credit-impaired, the financial instrument is moved to "Stage 3", and its impairment loss allowance is measured at an amount equivalent to the expected credit loss of the financial instrument over its lifetime. The increase or reversal of the impairment loss allowance thus formed shall be included in the profit and loss as impairment losses under expected credit loss model, net of reversal.

The criteria for the three-stage division of ECL of the main financial assets are as follows:

Advances to customers: exposures with collateral coverage ratio less than 100% for more than 30 days are considered to be credit impaired and recognized as Stage 3; exposures with collateral coverage ratio less than 100% for less than 30 days are considered to be with significant increase in risk and recognized as Stage 2; for exposures that do not have the above situations are considered to be credit risk not increased significantly and recognized as Stage 1.

Financial assets under resale agreements: based on the obligors' credit quality, contract maturity date, the related collateral securities information, which including the sector situation, liquidity discount factor, concentration, volatility and related information, the Group sets differentiable collateral coverage ratios (generally not less than 160%) as triggering margin calls and force liquidation thresholds (collateral coverage ratios generally not less than 140%) against different exposures related to these transactions. Exposures with collateral coverage ratios fall below the pre-determined force liquidation thresholds for more than 30 days or those past due for more than 30 days are considered to be credit impaired and recognized as Stage 3; exposures with collateral coverage ratios fall below the pre-determined force liquidation thresholds for less than 30 days or those past due for less than 30 days are considered to be with significant increase in credit risks and recognized as Stage 2; for exposures that do not have the above situations are considered to be credit risk not increased significantly and recognized as Stage 1.

For debt investment exposures, financial instruments with lower credit risk at the end of the reporting period, or financial instruments with no significant increase in credit risk after initial recognition (Stage 1); financial instruments with significantly increased credit risk since initial recognition, however, no credit loss has occurred, that is, there is no objective evidence of a credit loss event for a financial instrument, and its expected credit losses should be measured at an amount equivalent to the expected credit loss of the financial instrument throughout its lifetime (Stage 2); purchased or originated credit-impaired financial instruments, or non-purchased or originated financial instruments that have suffered credit impairment (Stage 3).

### 62. FINANCIAL RISK MANAGEMENT (Continued)

#### (2) Credit risk (Continued)

##### *Expected credit loss (ECL) measurement (Continued)*

For financial assets classified as Stage 1, the expected credit loss is measured using the probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”), or loss ratio method. For financial assets recognized as Stage 2 and Stage 3, the expected credit losses are measured by estimating the future cash flows associated with the financial assets.

##### *Measuring ECL — inputs, assumptions and estimation techniques*

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, PD, LGD, whether there are SICR and judgment on low risk assets, and the impairment loss allowance in respect of fixed-income financial assets is determined on the basis of the projected future cash inflows.

For credit business, based on the obligors’ credit quality, contract maturity date, the related collateral securities information, which including the sector situation, liquidity discount factor, concentration, volatility, the amount of a single debt and the operation of issuers, the Group uses loss rate method to estimate loss rate through the maintenance margin ratio, adopting the method of individual identification to identify each transaction in order to measure the impairment loss allowance of high risk credit business.

On the basis of credit rating of counterparties, credit 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 margin ratio and the degree of collateral concentration, etc., and makes sure the above factors are reflected in parameters such as PD, LGD and maturity of borrowers. The potential default losses of credit business are measured on a transaction-to-transaction basis, then the Group’s overall credit risk exposures are aggregated, with stress tests and sensitivity analysis as supplement for the measurement of credit risks.

For debt securities investments, the Group uses PD/LGD model to measure the expected credit losses for applicable financial assets. Factors considered in the assessment using the PD/LGD model mainly includes asset categories, PD, LGD, EAD, discount rate and adjustment factors.

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

LGD is estimated based on historical data and subject to a forward looking adjustment.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 62. FINANCIAL RISK MANAGEMENT (Continued)

#### (2) Credit risk (Continued)

##### *Measuring ECL — inputs, assumptions and estimation techniques (Continued)*

Corresponding loss rates for the Group's credit business under the 3 stages were as follows:

Stage 1: According to the maintenance margin ratio, concentration and conditions of restriction on trading, the loss rates on advances to customers range from 0.00% to 1.25%, the loss rates on financial assets under resale agreements range from 0.00% to 3.78%.

Stage 2 and Stage 3: Loss rate is determined based on the estimated future cash flows associated with the financial assets.

##### **SICR**

The Group uses the following criteria to determine significant increase in credit risks of debt securities investments.

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 is a significant increase in credit risks, but there is an external rating downgrade.

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 CSRC, criteria of low credit risks are as follows:

- International external rating of foreign bond investment is rated at BBB- or above;
- Domestic external rating of domestic bond investment is rated at AA or above.

For exposures of financial assets under resale agreements with collateral coverage ratios fall below the pre-determined force liquidation thresholds or past due are considered to be with significant increase in credit risks. Based on the obligors' credit quality, contract maturity date, the related collateral securities information, which including the sector situation, liquidity discount factor, concentration, volatility and related information, the Company sets differentiable collateral coverage ratios and force liquidation thresholds.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 62. FINANCIAL RISK MANAGEMENT (Continued)

#### (2) Credit risk (Continued)

##### *Forward looking information*

For credit business, based on the analysis of characteristics of industries, the Group identifies specific indicators related to the loss rate of credit business, that is, the concentration of client positions in margin financing and margin trading business, the cumulative pledge ratio of stock pledge business, and the type of collateral. By constructing the relationship between these specific indicators and the loss rate, forward-looking adjustments are made to the expected credit loss of credit business.

For debt securities investments, the forward looking adjustment factors are firstly, evaluated mainly based on analyzing the relationship between the default rate and the long-term average default rate under different economic environments (or macroeconomic factors) in China and other countries, and determined through forecasting economic environment.

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

##### (a) *Maximum credit risk exposure*

	As at December 31,	
	2019	2018
Financial assets at fair value through profit or loss <sup>(i)</sup>	101,877,615	67,497,116
Derivative financial assets	1,805,819	1,150,232
Advances to customers	55,224,619	42,976,430
Financial assets held under resale agreements	35,679,825	33,043,860
Accounts and other receivables	3,667,692	3,264,229
Deposits with exchanges and non-bank financial institutions	4,780,890	1,431,420
Clearing settlement funds	12,471,616	13,796,281
Cash and bank balances	61,927,739	47,433,784
Debt instruments at amortized cost <sup>(ii)</sup>	1,894,639	1,844,195
Debt instruments at fair value through other comprehensive income	45,734,307	41,642,341
	<b>325,064,761</b>	<b>254,079,888</b>

- (i) Financial assets at fair value through profit or loss subjected to credit risk represent the investment in debt securities, trust products, equity securities lent to customers and asset-backed securities.
- (ii) Debt instruments at amortized cost subjected to credit risk represent the investment in debt securities and customer loans receivable.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 62. 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 categorized by geographical area as follows:

##### As at December 31, 2019

	Mainland China	Outside Mainland China	Total
Financial assets at fair value through profit or loss	96,542,607	5,335,008	101,877,615
Derivative financial assets	649,150	1,156,669	1,805,819
Advances to customers	51,302,490	3,922,129	55,224,619
Financial assets held under resale agreements	35,679,825	—	35,679,825
Accounts and other receivables	1,759,101	1,908,591	3,667,692
Deposits with exchanges and non-bank financial institutions	4,101,323	679,567	4,780,890
Clearing settlement funds	11,900,495	571,121	12,471,616
Cash and bank balances	53,499,838	8,427,901	61,927,739
Debt instruments at amortized cost	1,800,034	94,605	1,894,639
Debt instruments at fair value through other comprehensive income	45,441,799	292,508	45,734,307
	<b>302,676,662</b>	<b>22,388,099</b>	<b>325,064,761</b>



## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 62. FINANCIAL RISK MANAGEMENT (Continued)

#### (2) Credit risk (Continued)

##### (b) Risk concentration (Continued)

As at December 31, 2018

	Mainland China	Outside Mainland China	Total
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
Deposits 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 at amortized cost	1,796,608	47,587	1,844,195
Debt instruments at fair value through other comprehensive income	41,642,341	—	41,642,341
	<b>237,222,786</b>	<b>16,857,102</b>	<b>254,079,888</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 62. FINANCIAL RISK MANAGEMENT (Continued)

#### (2) Credit risk (Continued)

##### (c) Credit rating analysis of financial assets

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

	As at December 31,	
	2019	2018
Rating		
Issuers in Mainland China		
PRC sovereign bonds (Note)	54,875,682	50,939,463
AAA	75,223,521	36,480,181
AA+	8,174,320	7,255,461
AA	2,528,962	1,222,258
AA-	—	—
AA- below	8,995	15,539
A-1	307,220	553,357
Non-rated	570,260	23,207,093
Sub-total	141,688,960	119,673,352
Issuers in Hong Kong and other regions		
PRC sovereign bonds (Note)	2,670	9,740
A	951,750	102,910
B	4,598,707	956,562
C	—	—
D	—	—
Non-rated	74,388	197,842
Sub-total	5,627,515	1,267,054
<b>Total</b>	<b>147,316,475</b>	<b>120,940,406</b>

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

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

### 62. FINANCIAL RISK MANAGEMENT (Continued)

#### (3) Liquidity risk

##### (a) *Origin and management of liquidity risk*

The Group's exposure to liquidity risk mainly arises from failure to obtain sufficient funds at reasonable costs and in a timely manner to repay due debts, perform other payment obligations and satisfy 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 interest 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 bonds, 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 Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 62. FINANCIAL RISK MANAGEMENT (Continued)

#### (3) Liquidity risk (Continued)

##### (b) Undiscounted cash flows by contractual maturities

	As at December 31, 2019							
	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
<b>Non-derivative financial liabilities</b>								
Borrowings	4,512,018	—	3,086,527	11,742	1,202,719	277,116	—	4,578,104
Short-term debt instruments	32,915,760	—	7,097,642	19,227,621	6,975,269	—	—	33,300,532
Placements from banks and other financial institutions	7,000,000	—	2,501,976	508,847	4,065,722	—	—	7,076,545
Bonds payable	64,348,043	—	7,174,734	496,390	9,001,158	49,129,380	5,779,400	71,581,062
Financial assets sold under repurchase agreements	97,572,967	—	93,380,656	1,310,520	3,107,525	—	—	97,798,701
Financial liabilities at fair value through profit or loss	10,076,386	564,455	6,945,434	—	408,620	2,157,877	—	10,076,386
Accounts payable to brokerage clients	61,724,220	61,724,220	—	—	—	—	—	61,724,220
Other payables and accrued charges	4,937,347	4,900,870	36,477	—	—	—	—	4,937,347
Notes payable	615,000	—	—	—	615,000	—	—	615,000
Lease liabilities	1,252,147	—	22,107	44,938	212,262	694,416	489,300	1,463,023
<b>Total</b>	<b>284,953,888</b>	<b>67,189,545</b>	<b>120,245,553</b>	<b>21,600,058</b>	<b>25,588,275</b>	<b>52,258,789</b>	<b>6,268,700</b>	<b>293,150,920</b>
Derivative financial liabilities – net settlement	2,183,222	1,367,051	480,062	173,073	163,036	—	—	2,183,222

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 62. FINANCIAL RISK MANAGEMENT (Continued)

#### (3) Liquidity risk (Continued)

##### (b) Undiscounted cash flows by contractual maturities (Continued)

	As at December 31, 2018							
	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
<b>Non-derivative financial liabilities</b>								
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
<b>Total</b>	<b>214,360,980</b>	<b>54,011,731</b>	<b>80,190,894</b>	<b>19,171,858</b>	<b>27,868,617</b>	<b>35,484,521</b>	<b>6,040,848</b>	<b>222,768,469</b>
Derivative financial liabilities – net settlement	1,305,685	1,120,668	40,500	58,653	85,864	—	—	1,305,685

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 62. 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 utilize their extensive experience and in-depth knowledge of the markets and products to conduct risk management in trading transactions within their authorities and dynamically manages risk exposures to the securities held in open position by taking initiative measures to mitigate or hedging these risks. Risk Management Department is independent from other business departments and reports to Chief Risk Officer. By applying professional risk management tools and methods, Risk Management Department aims to independently monitor, measure and manage market risk at different levels, including investment strategies, business units/lines and the entire Group. Reports of evaluation and risk analysis are generated and delivered to the responsible officers of the business departments/business lines and management of the Group on a daily, monthly or quarterly basis to facilitate decision making. When risk level is approaching or exceeds the threshold values, Risk Management Department will warn against relevant management officers promptly, and the respective business departments/business lines will implement measures according to the resolutions of the relevant committees.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 62. FINANCIAL RISK MANAGEMENT (Continued)

#### (4) Market risk (Continued)

##### (b) Price risk

#### Value at Risk ("VaR")

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

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

Final

	At December 31,	
	2019	2018
Market risk of equity price	175,609	191,994
Market risk of interest rate	36,248	51,405
Market risk of commodity price	4,475	6,491
Market risk of foreign exchange	61	157
Diversification effect	(37,910)	(58,517)
	<b>178,483</b>	<b>191,530</b>

Highest

	At December 31,	
	2019	2018
Market risk of equity price	254,416	255,080
Market risk of interest rate	42,714	52,076
Market risk of commodity price	7,191	5,707
Market risk of foreign exchange	1,026	792
Diversification effect	(52,200)	(73,445)
	<b>253,147</b>	<b>240,210</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 62. FINANCIAL RISK MANAGEMENT (Continued)

#### (4) Market risk (Continued)

##### (b) Price risk (Continued)

#### Value at Risk ("VaR") (Continued)

Lowest

	At December 31,	
	2019	2018
Market risk of equity price	170,724	162,207
Market risk of interest rate	39,697	48,540
Market risk of commodity price	2,619	6,045
Market risk of foreign exchange	147	—
Diversification effect	(48,523)	(41,369)
	<b>164,664</b>	<b>175,423</b>

Average

	At December 31,	
	2019	2018
Market risk of equity price	200,326	221,450
Market risk of interest rate	41,331	51,221
Market risk of commodity price	6,610	7,108
Market risk of foreign exchange	642	537
Diversification effect	(42,378)	(61,484)
	<b>206,531</b>	<b>218,832</b>

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



## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 62. 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 year end and 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 December 31, 2019						
	Less than 1 month	More than 1 month but less than 3 months	More than 3 month but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
<b>Financial assets</b>							
Equity instruments at fair value through other comprehensive income	—	—	—	—	—	7,057,809	7,057,809
Debt instruments at fair value through other comprehensive income	484,154	457,366	10,287,960	28,122,253	6,382,574	—	45,734,307
Financial assets at fair value through profit or loss	2,188,318	6,166,520	46,118,538	33,153,688	12,021,687	38,497,317	138,146,068
Derivative financial assets	—	—	—	—	—	1,805,819	1,805,819
Advances to customers	6,560,080	9,733,689	38,930,850	—	—	—	55,224,619
Financial assets held under resale agreements	16,507,344	1,396,056	15,606,124	2,170,301	—	—	35,679,825
Debt instruments at amortized cost	52,782	2,937	1,048,825	783,855	—	6,237	1,894,636
Accounts and other receivables	—	—	—	—	—	763,703	763,703
Deposits with exchanges and non-bank financial institutions	4,780,890	—	—	—	—	—	4,780,890
Clearing settlement funds	12,471,616	—	—	—	—	—	12,471,616
Cash and bank balances	61,327,739	200,000	400,000	—	—	—	61,927,739
Sub-total	104,372,923	17,956,568	112,392,297	64,230,097	18,404,261	48,130,885	365,487,031
<b>Financial liabilities</b>							
Borrowings	3,082,735	2,654	1,163,289	268,610	—	—	4,517,288
Short-term debt instruments	7,091,848	19,106,627	6,900,141	—	—	—	33,098,616
Placements from banks and other financial institutions	2,501,976	505,444	4,005,779	—	—	—	7,013,199
Bonds payable	7,155,098	402,360	7,934,637	45,014,924	5,484,483	—	65,991,502
Financial assets sold under repurchase agreements	93,353,772	1,300,596	3,052,318	—	—	—	97,706,686
Derivative financial liabilities	—	—	—	—	—	2,183,222	2,183,222
Financial liabilities at fair value through profit or loss	6,945,434	—	—	—	—	3,130,952	10,076,386
Accounts payable to brokerage clients	61,724,220	—	—	—	—	—	61,724,220
Other payables and accrued charges	—	—	—	—	—	4,937,060	4,937,060
<b>Lease liabilities</b>	21,502	43,524	202,601	621,917	362,603	—	1,252,147
Sub-total	181,876,585	21,361,205	23,258,765	45,905,451	5,847,086	10,251,234	288,500,326
<b>Net position</b>	<b>(77,503,662)</b>	<b>(3,404,637)</b>	<b>89,133,532</b>	<b>18,324,646</b>	<b>12,557,175</b>	<b>37,879,651</b>	<b>76,986,705</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 62. FINANCIAL RISK MANAGEMENT (Continued)

#### (4) Market risk (Continued)

##### (c) Interest rate risk (Continued)

	At December 31, 2018						
	Less than 1 month	More than 1 month but less than 3 months	More than 3 month but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
<b>Financial assets</b>							
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 amortized cost	—	—	148,249	1,695,946	—	—	1,844,195
Accounts and other receivables	—	—	—	—	—	708,466	708,466
Deposits with 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
<b>Financial liabilities</b>							
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
<b>Net position</b>	<b>(43,383,830)</b>	<b>(4,956,174)</b>	<b>36,162,883</b>	<b>34,849,361</b>	<b>15,186,655</b>	<b>35,083,459</b>	<b>72,942,354</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 62. FINANCIAL RISK MANAGEMENT (Continued)

#### (4) Market risk (Continued)

##### (c) Interest rate risk (Continued)

#### Sensitivity analysis

The Group conducts 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

	2019	2018
<b>Change in basis points</b>		
Increase by 100bps	(1,814,227)	(1,446,493)
Decrease by 100bps	1,855,029	1,491,687

#### Sensitivity to equity

	2019	2018
<b>Change in basis points</b>		
Increase by 100bps	(2,963,149)	(2,659,049)
Decrease by 100bps	3,054,464	2,771,028

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 62. 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 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

	2019	2018
<b>Change in exchange rate</b>		
Depreciation of USD by 3%	(142,773)	(85,780)
Depreciation of HKD by 3%	(24,335)	(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 summarized into seven categories, including: internal fraud, external fraud, employee policies and workplace safety, clients, products and business activities, physical property damage, business interruption and IT system failures, execution, settlement and process management.

The Group emphasized 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 year, 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. The Group effectively improved the depth and breadth of operational risk management, through implementation of the three management tools and their continuous optimization and improvement, which are operational risk control and self-assessment, operational risk events and loss data collection and key operational risk indicators, and through focus on the industry hot issues, aimed at frequent and prone-to-occur areas of company operational risk to carry out all kinds of special comb and screening.

### 62. FINANCIAL RISK MANAGEMENT (Continued)

#### (6) Capital management

The Group's objectives of capital management are:

- To ensure the Group maintains sufficient capital strength and market competitiveness, oriented by the corporate strategy;
- Adequately manage its capital resource allocation to maximize the profit and capital return;
- To actively explore the Group's source of funding, optimize the Group's assets and liabilities structure to enhance the use of balance sheet financing;
- 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 amount of stable funds divided by required stable funds shall be no less than 100% ("Ratio 4");
- The ratio of net capital divided by net asset 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 asset divided by liabilities shall be no less than 10% ("Ratio 7");
- The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100% ("Ratio 8"); and
- The ratio of the value of non-equity securities and derivatives held divided by net capital shall not exceed 500% ("Ratio 9").

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 62. FINANCIAL RISK MANAGEMENT (Continued)

#### (6) Capital management (Continued)

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

	2019	2018
Net capital	48,651,441	52,815,746
Net assets	78,190,125	75,518,016
Sum of all venture capital provisions	20,227,307	17,090,060
Total On-Balance-Sheet and Off-Balance-Sheet Assets	309,933,814	251,421,719
Ratio 1	240.52%	309.04%
Ratio 2	13.44%	15.52%
Ratio 3	222.67%	277.30%
Ratio 4	157.77%	159.64%
Ratio 5	62.22%	69.94%
Ratio 6	22.26%	31.77%
Ratio 7	35.78%	45.42%
Ratio 8	32.50%	22.27%
Ratio 9	329.96%	246.47%

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

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

### 63. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The directors of the Company consider that the carrying amounts of the financial assets and financial liabilities not measured at fair value on a recurring basis (including financial liabilities included in the consolidated statement of financial position of the Group at amortized cost) approximate their fair values as at December 31, 2019 and 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 are not available, the observable input data that are calibrated as closely as possible to the market observable data are used for estimating the fair value. Meanwhile, the credit risk, volatility, correlation, etc. of the Group and the counterparty are estimated by the management. The changing of these factors will affect the estimated fair value of the financial instruments, therefore there were uncertainty of accounting estimation on the level 2 and level 3 of financial assets and liabilities.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 63. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Financial assets/financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2019	2018				
<b>1) Financial assets at fair value through profit or loss</b>						
<b>Bonds</b>						
– Traded on stock exchanges	5,987,935	231,419	Level 1	Quoted closing prices in an active market.	N/A	N/A
– Traded on stock exchanges	29,980,155	22,086,234	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
– Traded on stock exchanges	399,999	–	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.	Expected future cash flows. Discount rates that correspond to the expected risk level.	The higher the future cash flows, the higher the fair value. The lower the discount rate, the higher the fair value.
– Traded on interbank market	62,624,219	44,770,677	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
– Traded on interbank market	171,793	–	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.	Expected future cash flows. Discount rates that correspond to the expected risk level.	The higher the future cash flows, the higher the fair value. The lower the discount rate, the higher the fair value.
– Unlisted	70,095	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.	Expected future cash flows. Discount rates that correspond to the expected risk level.	The higher the future cash flows, the higher the fair value. The lower the discount rate, the higher the fair value.
– Unlisted	547,938	–	Level 2	Measured at fair value based on broker quoted price	N/A	N/A
<b>Equity investments</b>						
– Traded on stock exchanges	9,875,989	4,526,005	Level 1	Quoted closing prices in an active market.	N/A	N/A
– Traded on stock exchanges (inactive)	3,523	112,661	Level 2	Adjusted quoted closing prices for stocks suspended for trading.	N/A	N/A
– Traded on stock exchanges	1,031,376	1,388,589	Level 2	Adjusted market prices.	N/A	N/A
– Traded National Securities Exchange and Quotation System	319,221	402,179	Level 2	Bid prices made by market dealers.	N/A	N/A
– Traded National Securities Exchange and Quotation System	55,646	–	Level 2	Bid prices or negotiated prices.	N/A	N/A
– Traded National Securities Exchange and Quotation System	558,639	–	Level 2	Last observable transaction prices.	N/A	N/A
– Traded National Securities Exchange and Quotation System	–	82,561	Level 3	Adjusted quoted prices.	Liquidity discount.	The higher the discount, the lower the fair value.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 63. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Financial assets/financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2019	2018				
<b>1) Financial assets at fair value through profit or loss (Continued)</b>						
<b>Equity investments (Continued)</b>						
– Unlisted Equity	–	1,628,033	Level 3	Last observable transaction prices.	Liquidity discount.	The higher the discount, the lower the fair value.
– Unlisted Equity (subject to redemption option)	121,344	145,473	Level 3	The net asset value based on the fair value of the underlying investments	The fair value of underlying assets	The higher the underlying assets valuation, the higher the fair value.
– Unlisted Equity	110,345	–	Level 3	Comparable companies analysis valuation.	Liquidity discount.	The higher the discount, the lower the fair value.
– Unlisted Equity	799,968	–	Level 3	Discounted amount based on simple repurchase interest rate.	Repurchase interest rate.	The higher the interest rate, the higher the fair value.
– Unlisted Equity	208,506	–	Level 3	Backsolve method, annual multiple movement approach, price to sales ratio.	Liquidity discount.	The higher the discount, the lower the fair value.
<b>Funds</b>						
– Listed	2,155,879	543,101	Level 1	Quoted closing prices in an active market.	N/A	N/A
– Unlisted	13,969,157	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
<b>Other investment</b>						
– Wealth management and trust products and others	587,248	111,188	Level 1	Quoted closing prices in an active market.	N/A	N/A
– Wealth management and trust products and others	5,044,434	2,283,265	Level 2	Based on the net asset values of the investment, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
– Wealth management and trust products and others	1,859,786	–	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different products	Discounted rate.	The higher the discount, the lower the fair value.
– Wealth management and trust products and others	4,540	27,147	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.
– Wealth management and trust products and others	1,658,333	1,527,363	Level 3	Comparable companies analysis valuation	Liquidity discount.	The higher the discount, the lower the fair value.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 63. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Financial assets/financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2019	2018				
<b>2) Debt instruments at fair value through other comprehensive income</b>						
<b>Bonds</b>						
– Traded on stock exchanges	178,305	–	Level 1	Quoted closing prices in an active market.	N/A	N/A
– Traded on stock exchanges	21,330,163	20,790,141	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
– Traded on interbank market	24,111,636	20,852,200	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
– Unlisted	114,203	–	Level 2	Measured at fair value based on broker quoted price	N/A	N/A
<b>3) Equity instruments at fair value through other comprehensive income</b>						
– Special accounts	7,057,809	6,722,607	Level 2	Based on the net asset values of the investment, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
<b>4) Derivative financial instruments</b>						
– Interest rate swap – assets	226,180	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	232,652	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
– Equity return swap – assets	182,909	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	–	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 futures – liabilities	–	18	Level 1	Quoted closing prices in an active market.	N/A	N/A
– Treasury bond futures – liabilities	332	1,655	Level 1	Quoted closing prices in an active market.	N/A	N/A

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 63. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Financial assets/financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2019	2018				
<b>4) Derivative financial instruments (Continued)</b>						
– Commodity swap – assets	16,373	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	2,972	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 futures – assets	1,120,349	446,665	Level 1	Quoted closing prices in an active market.	N/A	N/A
– Commodity futures – liabilities	1,105,762	446,316	Level 1	Quoted closing prices in an active market.	N/A	N/A
– Option – assets	113,394	42,101	Level 1	Quoted closing prices in an active market.	N/A	N/A
– Option – liabilities	370,568	116,966	Level 1	Quoted closing prices in an active market.	N/A	N/A
– Over-the-counter option – assets	133,222	–	Level 3	Option pricing model	Historical volatility of the share prices of the securities.	The higher the historical volatility, the higher the fair value.
– Over-the-counter option – liabilities	442,105	–	Level 3	Option pricing model	Historical volatility of the share prices of the securities.	The higher the historical volatility, the higher the fair value.
– Over-the-counter option – assets	–	7,722	Level 2	Option pricing model	N/A	N/A
– Over-the-counter option – liabilities	–	49,571	Level 2	Option pricing model	N/A	N/A
– Forward contract – assets	477	–	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
– Forward contract – liabilities	1,164	1,482	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
– Commodity – assets	12,381	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	22,254	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
– Credit default swap – asset	534	–	Level 3	Discounted cash flows with future cash flows that are calculated based on the difference between discounted cash flows with future cash flows that are estimated based on unsecured rates and secured rates	Discounted cash flow with future cash flows that are estimated based on contract terms.	The higher the discount, the lower the fair value.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 63. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Financial assets/financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2019	2018				
<b>4) Derivative financial instruments (Continued)</b>						
– Credit default swap – liabilities	5,413	–	Level 3	Discounted cash flows with future cash flows that are calculated based on the difference between discounted cash flows with future cash flows that are estimated based on unsecured rates and secured rates	Discounted cash flow with future cash flows that are estimated based on contract terms.	The higher the discount, the lower the fair value.
– Credit default swap – asset	–	489	Level 2	Discounted cash flows with future cash flows that are 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	–	1,123	Level 2	Discounted cash flows with future cash flows that are 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
<b>5) Financial liabilities at fair value through profit or loss</b>						
– Designated at fair value through profit or loss	2,583,705	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	570,635	258,023	Level 1	Quoted closing prices in an active market.	N/A	N/A
– Financial liabilities held for trading	6,922,046	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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 63. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	As at December 31, 2019			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Financial assets at fair value through profit or loss	18,607,051	115,994,094	3,544,923	138,146,068
— Bonds	5,987,935	93,152,312	641,887	99,782,134
— Equity investments	9,875,989	1,968,405	1,240,163	13,084,557
— Funds	2,155,879	13,969,157	—	16,125,036
— Others	587,248	6,904,220	1,662,873	9,154,341
Derivative financial assets	1,233,743	438,320	133,756	1,805,819
Debt instruments at fair value through other comprehensive income	178,305	45,556,002	—	45,734,307
Equity instruments at fair value through other comprehensive income	—	7,057,809	—	7,057,809
<b>Total</b>	<b>20,019,099</b>	<b>169,046,225</b>	<b>3,678,679</b>	<b>192,744,003</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss	570,635	9,505,751	—	10,076,386
Derivative financial liabilities	1,476,662	259,042	447,518	2,183,222
<b>Total</b>	<b>2,047,297</b>	<b>9,764,793</b>	<b>447,518</b>	<b>12,259,608</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 63. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	As at December 31, 2018			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
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
<b>Total</b>	<b>5,900,479</b>	<b>140,277,814</b>	<b>3,461,633</b>	<b>149,639,926</b>
<b>Financial liabilities</b>				
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
<b>Total</b>	<b>822,978</b>	<b>10,011,282</b>	<b>—</b>	<b>10,834,260</b>

There was no significant transfer of financial instruments measured at fair value between the first and second levels of the Group during the year of 2019 and 2018.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 63. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

#### Reconciliation of Level 3 fair value measurements

	Financial assets	Financial liabilities
As at January 1, 2019	3,461,633	—
Gain or losses for the year	176,668	(210,825)
Additions	828,835	236,693
Sales and settlements	(250,340)	—
Transfers into level 3	—	—
Transfers out of level 3	(538,117)	—
As at December 31, 2019	3,678,679	447,518
<b>Total gains or losses for the period included in profit or loss for assets/liabilities held at the end of the reporting period</b>	<b>212,251</b>	<b>(210,825)</b>

	Financial assets	Financial liabilities
As at January 1, 2018	4,475,354	—
Gain or losses for the year	264,676	—
Additions	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	—
<b>Total gains or losses for the period included in profit or loss for assets/liabilities held at the end of the reporting period</b>	<b>220,472</b>	<b>—</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 64. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group offsets the following financial assets and financial liabilities since the Group currently has a legally enforceable right to set off the balances, and intends either to settle on a net basis, or to realize the balances simultaneously.

Type of financial assets	As at December 31, 2019					
	Gross amounts of recognize financial assets	Gross amounts of recognized financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
Advances to customers	55,224,619	—	55,224,619	(48,138,182)	(7,086,437)	—
Accounts receivable from clearing houses, brokers and dealers	1,468,716	(914,008)	554,708	(354,157)	—	200,551
Derivatives instruments	1,814,628	(8,809)	1,805,819	—	—	1,805,819
	<b>58,507,963</b>	<b>(922,817)</b>	<b>57,585,146</b>	<b>(48,492,339)</b>	<b>(7,086,437)</b>	<b>2,006,370</b>

Type of financial liabilities	As at December 31, 2019					
	Gross amounts of recognize financial liabilities	Gross amounts of recognized financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
Accounts payable to brokerage clients	(3,855,587)	914,008	(2,941,579)	354,157	—	(2,587,422)
Derivatives instruments	(2,521,279)	338,057	(2,183,222)	—	—	(2,183,222)
	<b>(6,376,866)</b>	<b>1,252,065</b>	<b>(5,124,801)</b>	<b>354,157</b>	<b>—</b>	<b>(4,770,644)</b>



## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 64. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Type of financial assets	As at December 31, 2018					
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
Advances to customers	42,976,430	—	42,976,430	(37,852,653)	(5,123,777)	—
Accounts receivable from clearing houses, brokers and dealers	5,063,182	(314,638)	4,748,544	(320,193)	(4,141,261)	287,090
Derivatives instruments	1,329,371	(179,139)	1,150,232	—	—	1,150,232
	<b>49,368,983</b>	<b>(493,777)</b>	<b>48,875,206</b>	<b>(38,172,846)</b>	<b>(9,265,038)</b>	<b>1,437,322</b>

Type of financial liabilities	As at December 31, 2018					
	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
Accounts payable to brokerage clients	(6,331,318)	(314,638)	(6,645,956)	(320,193)	—	(6,966,149)
Derivatives instruments	(1,392,576)	86,891	(1,305,685)	—	—	(1,305,685)
	<b>(7,723,894)</b>	<b>(227,747)</b>	<b>(7,951,641)</b>	<b>(320,193)</b>	<b>—</b>	<b>(8,271,834)</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 64. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

The Group has entered into master netting arrangements with counterparties for the derivative instruments, accounts receivable from dealer and broker and also with clearing house for un-settled trades.

The Group has entered into master netting arrangements with Hong Kong Securities Clearing Company Limited for un-settled trades, net receivables and payables are settled on the same settlement date as the company.

Except for the enforceable master netting arrangements and the offset-right of the financial assets under the similar agreements disclosed above, the collateral of which, such as financial assets held under resale agreement, financial assets sold under repurchase agreement, secured loan receivables and margin accounts receivable, are disclosed in the corresponding notes, which are generally not on the net basis in financial position. However, assuming the fair value of the collateral is presented on net basis, the risk exposure of the corresponding accounts will be lowered accordingly. As at December 31, 2019 and 2018, due to the fair value of the collateral is higher than the book value of the financial instruments, collateral net exposure after offsetting and net amount is considered non-significant.

### 65. CONTINGENCIES

As at December 31, 2019 and 2018, the Group was not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, the Group expects that they would materially adversely affect its financial position or results of operations.

### 66. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The following table only contains details of subsidiaries that have significant influence on the Group's performance, assets or liabilities. Unless otherwise stated, the type of shares held is ordinary share.

	As at December 31	
	2019	2018
Unlisted investments, at cost	8,832,647	8,062,647

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 66. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Type of legal entity registered	Place of incorporation/ establishment/ date of establishment	Proportion ownership interest held by the Company (As at December 31,)		Issued and fully paid share capital	Principal activities
			2019	2018		
China Merchants Securities International Company Limited <sup>(i)</sup>	Limited liability company	PRC/July 14, 1999	100%	100%	HK\$4,103,627,390	Investment holding
China Merchants Securities (HK) Co., Limited	Limited liability company	PRC/October 4, 1986	100%	100%	HK\$5,500,000,000	Securities brokerage
China Merchants Futures (HK) Co., Limited	Limited liability company	PRC/January 19, 2001	100%	100%	HK\$200,000,000	Futures brokerage
China Merchants Securities Investment Management (HK) Co., Limited	Limited liability company	PRC/September 18, 2006	100%	100%	HK\$400,000,000	Investment holding
CMS Capital (HK) Co., Limited	Limited liability company	PRC/August 1, 2003	100%	100%	HK\$5,000,000	Assets management
CMS Asset Management (HK) Co., Limited	Limited liability company	PRC/August 13, 2008	100%	100%	HK\$10,000,000	Assets management
China Merchants Futures Co., Ltd. <sup>(i)</sup>	Limited liability company	PRC/April 4, 1993	100%	100%	RMB630,000,000	Futures brokerage
China Merchants Zhiyuan Capital Investment Co., Ltd. <sup>(i)</sup>	Limited liability company	PRC/August 28, 2009	100%	100%	RMB1,800,000,000	Investment holding
Shenzhen China Merchants Zhiyuan Consultancy Services Co., Ltd.	Limited liability company	PRC/July 25, 2011	100%	100%	RMB3,000,000	Consulting services
Beijing Zhiyuan Lixin Investment Management Co., Ltd.	Limited liability company	PRC/April 23, 2013	100%	100%	RMB10,000,000	Investment management
Shenzhen China Merchants Zhiyuan Equity Investment and Funds Management Co., Ltd.	Limited liability company	PRC/May 29, 2013	70%	70%	RMB15,000,000	Investment management
Ganzhou China Merchants Zhiyuan No. 1 Fund Management Co., Ltd.	Limited liability company	PRC/June 7, 2013	100%	100%	RMB10,000,000	Investment management
Ganzhou Zhaoyuan Investment Management Co., Ltd.	Limited liability company	PRC/October 14, 2013	100%	100%	RMB10,000,000	Investment management
Anhui Traffic Control Merchants Private Equity Fund Management Co. LTD	Limited liability company	PRC/March 4, 2015	100%	100%	RMB25,000,000	Investment management
Qingdao Guoxin Merchants Private Equity Fund Investment Management Co. LTD	Limited liability company	PRC/February 6, 2015	65%	65%	RMB10,000,000	Investment management

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 66. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Type of legal entity registered	Place of incorporation/ establishment/ date of establishment	Proportion ownership interest held by the Company (As at December 31,)		Issued and fully paid share capital	Principal activities
			2019	2018		
Shenyang China Merchants Business and Development Investment Management Co., Ltd.	Limited liability company	PRC/July 10, 2015	70%	70%	RMB4,000,000	Investment management
China Merchants Securities Investment Co., Ltd. <sup>(9)</sup>	Limited liability company	PRC/December 2, 2013	100%	100%	RMB1,970,000,000	Investment holding
China Merchants Securities Asset Management Co., Ltd. <sup>(9)</sup>	Limited liability company	PRC/April 3, 2015	100%	100%	RMB1,000,000,000	Assets management
China Merchants Securities (UK) Limited	Limited liability company	UK/October 25, 2013	100%	100%	US\$22,000,000	Futures brokerage
Qingdao China Merchants Zhiyuan Investment Management Co., Ltd.	Limited liability company	PRC/January 12, 2016	100%	100%	RMB10,000,000	Investment management
Anhui Zhiyuan Smart City Fund Management Co., Ltd.	Limited liability company	PRC/March 15, 2016	100%	100%	RMB4,500,000	Equity fund management, investment advisory service, investment management, financial consultancy service
China Merchants Securities (HK) Finance Co., Limited	Limited liability company	PRC/May 14, 2016	100%	100%	HK\$500,000	Investment and financing Management
China Merchants Securities Capital Investment Co., Ltd.*	Limited liability company	PRC/August 8, 2016	100%	100%	RMB200,000,000	Financial services
Shenzhen China Merchants Zhiyuan Culture Investment Management Co., Ltd.*	Limited liability company	PRC/November 16, 2016	92.16%	92.16%	RMB10,000,000	Investment management and financial consultancy
Anhui Traffic Control China Merchants Fund Management Co., Ltd.	Limited liability company	PRC/April 6, 2017	70%	70%	RMB15,000,000	Investment management
China Merchants Securities (Korea) Co., Ltd.	Limited liability company	Korea/January 9, 2017	100%	100%	KRW8,523,900,000	Securities brokerage, futures brokerage
Chizhou Zhongan China Merchants Equity Investment Management Co., Ltd.	Limited liability company	PRC/November 4, 2015	72%	72%	RMB10,000,000	Investment management

\* English name translated is for identification purpose only.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 66. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

- (i) These subsidiaries are directly held by the Company.
- (ii) The directors of the Company considered that none of the non-wholly owned subsidiaries is having material non-controlling interests at the end of the year, therefore there are no further information presented.
- (iii) None of the subsidiaries had issued any debt securities during the current and prior year.

### 67. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	As at December 31,	
	2019	2018
<b>Non-current assets</b>		
Property and equipment	1,446,004	1,533,317
Right-of-use assets	1,440,760	
Prepaid lease payment		431,685
Other intangible assets	3,000	3,000
Investments in subsidiaries	8,832,647	8,062,647
Interests in associates	7,778,241	7,238,551
Equity instruments at fair value through other comprehensive income	7,057,809	6,722,607
Debt instruments at amortized cost	1,424,662	1,796,608
Financial assets held under resale agreements	2,170,301	5,277,749
Financial assets at fair value through profit or loss	41,710	50,000
Deferred tax assets	752,103	686,505
Other non-current assets	267,280	208,463
<b>Total non-current assets</b>	<b>31,214,517</b>	<b>32,011,132</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 67. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

	As at December 31,	
	2019	2018
<b>Current assets</b>		
Advances to customers	51,318,915	39,032,744
Current tax assets	166,124	—
Accounts and other receivables	1,036,227	1,117,785
Amount due from a subsidiary	1,202,288	1,502,860
Debt instruments at fair value through other comprehensive income	44,816,397	41,642,341
Debt instruments at amortized cost	375,372	—
Financial assets held under resale agreements	33,509,524	27,536,183
Financial assets at fair value through profit or loss	119,429,545	88,964,260
Derivative financial assets	648,870	654,938
Deposits with exchanges and non-bank financial institutions	2,244,260	1,089,030
Clearing settlement funds	11,959,758	11,849,317
Cash and bank balances	48,609,703	34,707,670
<b>Total current assets</b>	<b>315,316,983</b>	<b>248,097,128</b>
<b>Total assets</b>	<b>346,531,500</b>	<b>280,108,260</b>
<b>Current liabilities</b>		
Short-term debt instruments	33,098,616	34,850,476
Placements from banks and other financial institutions	7,013,199	3,519,000
Accounts payable to brokerage clients	49,827,013	38,339,464
Accrued staff costs	4,728,782	3,282,057
Other payables and accrued charges	3,539,200	2,029,084
Current tax liabilities	—	7,776
Financial liabilities at fair value through profit or loss	6,945,434	6,640,527
Derivative financial liabilities	1,048,823	577,866
Financial assets sold under repurchase agreements	94,035,285	60,911,667
Lease liabilities	224,986	—
Bonds payable due within one year	15,478,614	17,855,355
<b>Total current liabilities</b>	<b>215,939,952</b>	<b>168,013,272</b>
<b>Net current assets</b>	<b>99,377,031</b>	<b>80,083,856</b>
<b>Total assets less current liabilities</b>	<b>130,591,548</b>	<b>112,094,988</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 67. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

	As at December 31,	
	2019	2018
<b>Equity</b>		
Share capital	6,699,409	6,699,409
Other equity instruments	15,000,000	15,000,000
Capital reserve	27,460,042	27,460,042
Less: Treasury stock	663,954	—
Investment revaluation reserve of financial assets at fair value through other comprehensive income	541,686	302,864
General reserves	15,579,632	13,858,238
Retained profits	13,573,310	12,197,463
<b>Total equity</b>	<b>78,190,125</b>	<b>75,518,016</b>
<b>Non-current liabilities</b>		
Accrued staff costs	525,040	787,540
Deferred tax liabilities	394,322	99,961
Deferred income	122,537	125,734
Lease liabilities	846,636	
Bonds payable	50,512,888	35,563,737
<b>Total non-current liabilities</b>	<b>52,401,423</b>	<b>36,576,972</b>
<b>Total equity and non-current liabilities</b>	<b>130,591,548</b>	<b>112,094,988</b>

Note: The Company has applied IFRS 16 since January 1, 2019 in accordance with transitional provision stated in Note 2. Lease liabilities amounted to RMB 1,135,119 thousands and right-of-use assets amounted to RMB 1,065,117 thousands were recognized on initial application of IFRS 16, respectively.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 67. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

The movements in the Company's reserves are set out as below

#### Capital reserve

##### For the year ended December 31, 2019

	At the beginning of the year	Addition	At the end of the year
Capital reserve	27,460,042	—	27,460,042

##### For the year ended December 31, 2018

	At the beginning of the year	Addition	At the end of the year
Capital reserve	27,460,042	—	27,460,042

#### Investment revaluation reserve of financial assets at fair value through other comprehensive income:

	As at December 31,	
	2019	2018
At the beginning of the year	302,864	402,761
Debt instruments at fair value through other comprehensive income		
Net changes in fair value for the year	149,813	758,923
Reclassification to profit or loss	(183,740)	22,463
Income tax impact	8,482	(195,347)
Impairment of debt instruments at fair value through other comprehensive income		
Net changes in fair value for the year	1,144	(1,032)
Income tax impact	(286)	258
Equity instruments at fair value through other comprehensive income		
Net changes in fair value for the year	335,203	(913,992)
Income tax impact	(83,801)	228,498
Share of fair value gain on financial assets at fair value through other comprehensive income of associates	12,007	332
<b>At the end of the year</b>	<b>541,686</b>	<b>302,864</b>



## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 67. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

The movements in the Company's reserves are set out as below (Continued)

#### General reserves

##### For the year ended December 31, 2019

	At the beginning of the year	Addition	At the end of the year
Statutory reserve	4,662,350	573,798	5,236,148
General risk reserve	4,662,350	573,798	5,236,148
Transaction risk reserve	4,533,538	573,798	5,107,336
	<b>13,858,238</b>	<b>1,721,394</b>	<b>15,579,632</b>

##### For the year ended December 31, 2018

	At the beginning of the year	Addition	At the end of the year
Statutory reserve	4,306,384	355,966	4,662,350
General risk reserve	4,306,384	355,966	4,662,350
Transaction risk reserve	4,177,572	355,966	4,533,538
	<b>12,790,340</b>	<b>1,067,898</b>	<b>13,858,238</b>

#### Retained profits

The movements of retained profits of the Company are set out below:

	As at December 31,	
	2019	2018
At the end of prior year	12,197,463	12,898,816
Effects of initial application of IFRS 9		(73,031)
Effects of initial application of IFRS 16	(70,002)	
At the beginning of the year	12,127,461	12,825,785
Profit for the year	5,737,976	3,559,663
Appropriation to general reserves	(1,721,393)	(1,067,899)
Distribution to holders of other equity instruments	(802,090)	(802,090)
Dividends recognized as distribution	(1,768,644)	(2,317,996)
<b>At the end of the year</b>	<b>13,573,310</b>	<b>12,197,463</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2019

(Expressed in thousands of Renminbi, unless otherwise stated)

### 68. LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings	Short-term debt instruments	Bonds payable	Lease liabilities	Dividend payable	Total
At January 1, 2019 <sup>(i)</sup>	2,961,876	34,850,476	53,419,092	1,315,352	592,196	93,138,992
Cash changes						
– Cash flow from financing activities <sup>(ii)</sup>	1,331,979	(2,697,964)	9,697,427	(315,705)	—	8,015,737
– Dividends paid	—	—	—	—	(2,591,614)	(2,591,614)
– Cash flow from Operating activities	20,218	—	—	—	—	20,218
Non-cash changes						
– Financing cost incurred	117,676	946,104	2,876,964	37,418	—	3,978,162
– Dividends declared	—	—	—	—	2,591,614	2,591,614
– Additions of leases				211,835		211,835
– Disposal of leases				(2,108)		(2,108)
– Exchange differences	85,539	—	(1,981)	5,355	—	88,913
<b>At December 31, 2019</b>	<b>4,517,288</b>	<b>33,098,616</b>	<b>65,991,502</b>	<b>1,252,147</b>	<b>592,196</b>	<b>105,451,749</b>

	Borrowings	Short-term debt instruments	Bonds payable	Lease liabilities	Dividend payable	Total
At January 1, 2018 <sup>(i)</sup>	8,061,342	47,709,653	48,518,488		592,196	104,881,679
Cash changes						
– Cash flow from financing activities <sup>(ii)</sup>	(5,486,061)	(15,099,132)	2,677,936		—	(17,907,257)
– Dividends paid	—	—	—		(3,163,410)	(3,163,410)
Non-cash changes						
– Financing cost incurred	133,595	2,239,955	2,222,668		—	4,596,218
– Dividends declared	—	—	—		3,163,410	3,163,410
– Exchange differences	253,000	—	—		—	253,000
<b>At December 31, 2018</b>	<b>2,961,876</b>	<b>34,850,476</b>	<b>53,419,092</b>		<b>592,196</b>	<b>91,823,640</b>

- (i) The interest accrued on debt instrument investments of the Group is included in the carrying amounts of the corresponding financial liabilities.
- (ii) The cash flows represent the proceeds from and repayment of borrowings, short-term debt instruments, bonds payable and interest paid in the consolidated statement of cash flows.

### 69. EVENTS AFTER THE REPORTING PERIOD

#### (1) Issuance of corporate bonds

On March 11, 2020, the Company issued the first tranche of non-public corporate bonds type I named as “20CMF1” in 2020. The total principal amount of 20CMF1 is RMB 3 billion with duration of 380 days and the interest rate is 2.65% per annum.

On March 25, 2020, the Company issued the second tranche of non-public corporate bonds including type I and type II named as “20CMF3” and “20CMF4”. The total principal amount of 20CMF3 is RMB2 billion with duration of 385 days with the interest rate of 2.65% per annum. And the principal amount of 20CMF4 is RMB1.5 billion with duration of 2 years with the interest rate of 2.85% per annum.

#### (2) Issuance of offshore dollar bonds

On January 21, 2020, the Company issued a tranche of offshore dollar bonds. The total principal amount of it is USD300 million with duration of 3 years and the interest rate is 2.625% per annum.

#### (3) Profit distribution

In accordance with the 2019 profit distribution plan approved by the board of directors on March 27, 2020, the Company would not propose profit distribution or transfer capital reserve to capital for the year ended December 31, 2019. The proposal is subject to the approval of the Company’s shareholders at the forthcoming annual general meeting.

#### (4) Repurchase and placement of shares

On January 15, 2020, the first extraordinary general meeting was held by the Company to consider and approve the resolution in relation to the Company’s Employee Stock Ownership Scheme. The Company hired China Merchants Securities Asset Management Co., Ltd. (“China Merchants Asset Management”) as the management organization for this Employee Stock Ownership Scheme, and signed the Contract of China Merchants Asset Management-China Merchants Securities No.1 Employee Stock Ownership Scheme Single Asset Management Plan. On March 3, 2020, the Company completed the stock transfer formalities of the Employee Stock Ownership Scheme. The Company’s Employee Stock Ownership Scheme held 40,020,780 A shares of the Company, accounting for 0.5974% of the Company’s total share capital. The number of participants was 995. According to the “Employee Stock Ownership Scheme of China Merchants Securities Co., Ltd. (Draft)”, from the date (March 6, 2020), when the Company announced that the target stock is registered and transferred, the shares of the Company’s Employee Stock Ownership Scheme will be locked for 36 months.

#### (5) Impact of the Coronavirus Disease 2019

The outbreak of the 2019 Novel Coronavirus Disease 2019 (“COVID-19”) across the country in January 2020 may have significant impact on the business operation of various industries in certain cities including Hubei Province, as well as on the overall economy, in the short run. As a result, the financial performance and financial position of the Group, particularly the quality and the return of the credit assets and financial investments, would be affected unfavourably to a certain degree. The degree of the influence depends on the situation of the pandemic preventive measures, the duration of the pandemic and the implementation of macro-economic regulatory policies, etc.

The Group continues to pay close attention to the situation of the COVID-19, evaluate its impact on the financial status and operating results of the Group, strengthen the epidemic prevention and resume work and production actively and orderly.

## Chapter 11: Documents Available for Inspection

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

Chairman of the Board: HUO Da

Submission date approved by the Board: March 27, 2020

## Chapter 12: Information Disclosure of a Securities Company

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

No.	Issuing authority	Title	Document No.	Date of announcement
1	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of Xie Jijun as a Managerial-level Senior Management of a Securities Firm (深圳證監局關於核准謝繼軍證券公司經理層高級管理人員任職資格的批覆)	Shen Zheng Ju Xu Ke Zi [2019] No. 16 (深證局許可字[2019] 16號)	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. (關於招商證券股份有限公司開展國債期貨做市業務有關意見的覆函)	Ji Gou Bu Han [2019] No. 1024 (機構部函[2019] 1024號)	May 6, 2019
3	SASAC	Reply on Issues in Relation to Share Allotment by China Merchants Securities Co., Ltd. (關於招商證券股份有限公司配股有關問題的批覆)	Guo Zi Chan Quan [2019] No. 252 (國資產權[2019] 252號)	May 16, 2019
4	The Financial Market Department of the People's Bank of China	Notice of the Financial Market Department of the People's Bank of China on the Maximum Outstanding Balance of Short-term Financing Bonds of China Merchants Securities Co., Ltd. (中國人民銀行金融市場司關於招商證券股份有限公司短期融資券最高待償還餘額有關事項的通知)	Yin Shi Chang [2019] No. 129 (銀市場[2019] 129號)	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. (關於招商證券股份有限公司發行金融債券的監管意見書)	Ji Gou Bu Han [2019] No. 1581 (機構部函[2019]號1581號)	June 24, 2019
6	The People's Bank of China	Decisions of the People's Bank of China on Approval of Administrative License (中國人民銀行准予行政許可決定書)	Yin Shi Chang Xu Zhun Yu Zi [2019] No. 101 (銀市場准予字[2019]第101號)	June 28, 2019
7	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of Wang Wen as a Director of a Securities Firm (深圳證監局關於核准王文證券公司董事任職資格的批覆)	Shen Zheng Ju Xu Ke Zi [2019] No. 53 (深證局許可字[2019] 53號)	July 11, 2019
8	State Administration of Foreign Exchange	Approval of the State Administration of Foreign Exchange on Qualification for Foreign Exchange Settlement and Sales Business of China Merchants Securities Co., Ltd. (國家外匯管理局關於招商證券股份有限公司結售匯業務經營資格的批覆)	Hui Fu [2019] No. 30 (匯覆[2019] 30號)	September 5, 2019

## Chapter 12: Information Disclosure of a Securities Company

No.	Issuing authority	Title	Document No.	Date of announcement
9	CSRC Shenzhen Office	Approval of CSRC Shenzhen Office on the Amendments to the Important Provisions in the Articles Association of China Merchants Securities Co., Ltd. (深圳證監局關於核准招商證券股份有限公司變更公司章程重要條款的批覆)	Shen Zheng Ju Xu Ke Zi [2019] No. 84 (深證局許可字[2019] 84號)	October 9, 2019
10	CSRC	Approval for Share Allotment of Overseas Listed Foreign Shares of China Merchants Securities Co., Ltd. (關於核准招商證券股份有限公司境外上市外資股配股的批覆)	Zheng Jian Xu Ke [2019] No. 1946 (證監許可[2019] 1946號)	October 23, 2019
11	The Securities and Fund Institution Supervision Department of the CSRC	Reply to the opinions on Conducting Stock Index Options Market-making Business by China Merchants Securities Co., Ltd. (關於招商證券股份有限公司開展股指期權做市業務有關意見的覆函)	Ji Gou Bu Han [2019] No. 3049 (機構部函[2019] 3049號)	December 17, 2019

### II. Classification of the Company by the Regulatory Department

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

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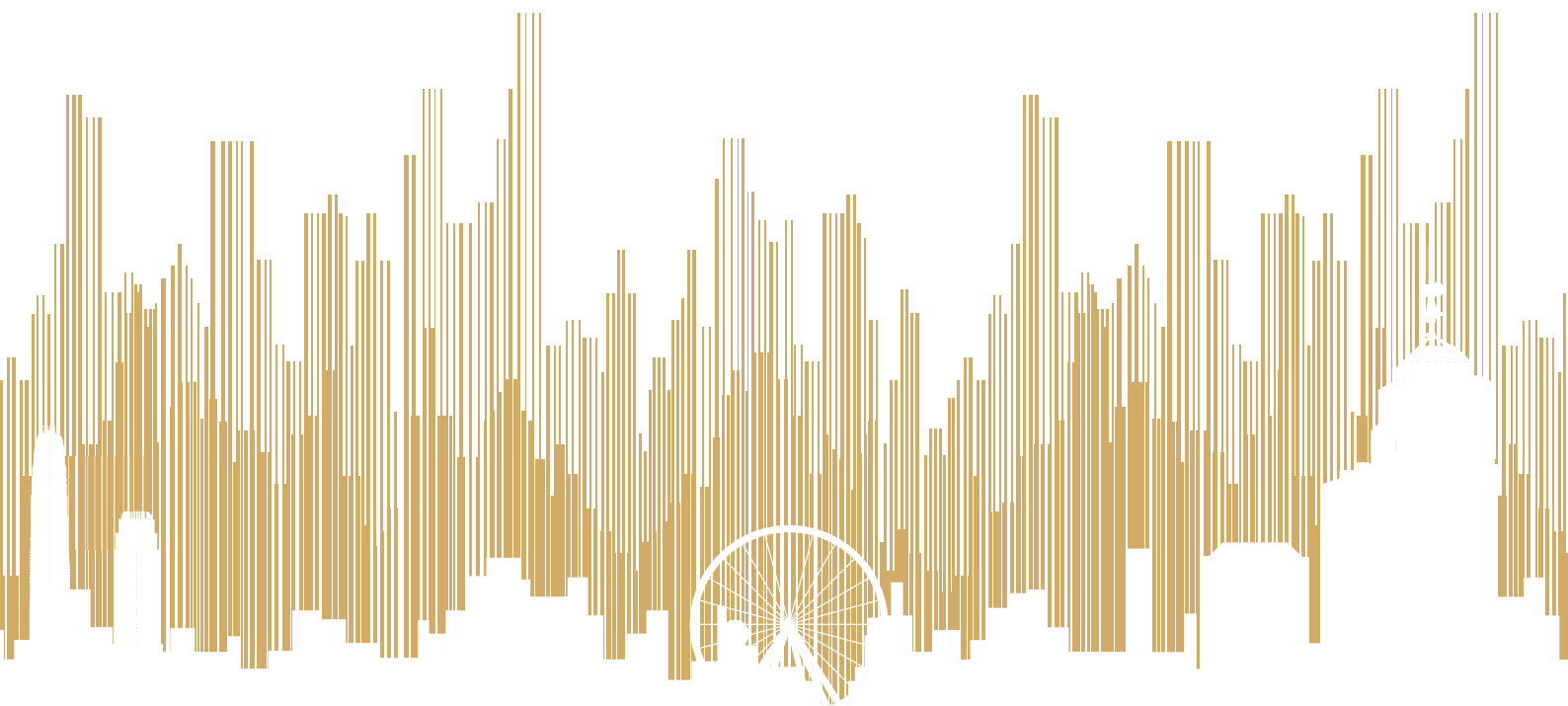
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