

2016

China Merchants Securities Co., Ltd

2016 Environmental, Social and Governance Report

CMS  **招商证券**

China Merchants Securities Co., Ltd

Address : 38-45F, Block A, Jiangsu Building, Yitian Road, Futian District,
Shenzhen, Guangdong, P.R.China

Postal Code : 518026

For further information, please contact 86-755-82943666

Hotline : +86-95565

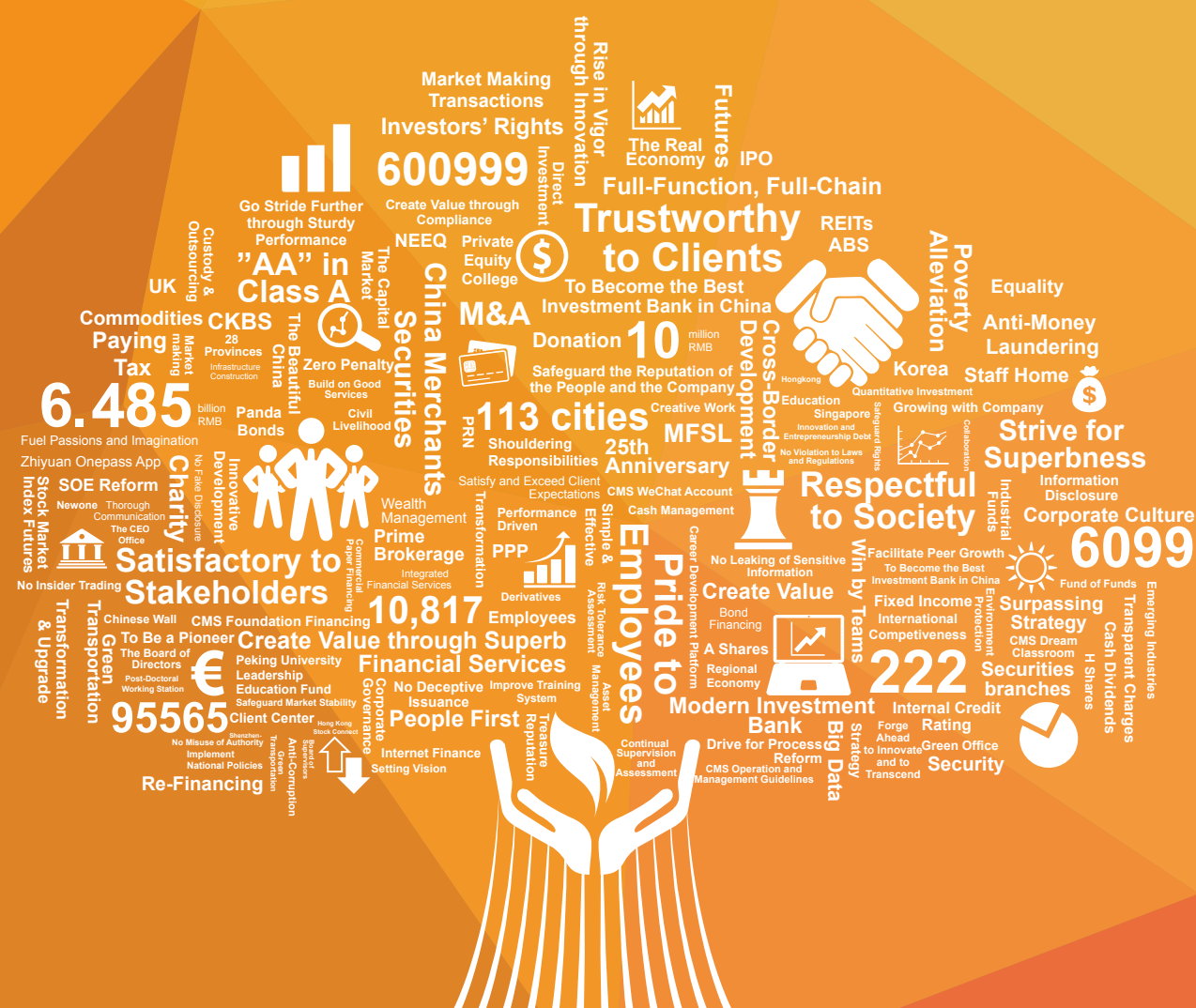
Welcome to visit CMS website : www.newone.com.cn



CMS WeChat QR code



In 2016, Shenzhen CMS Foundation
focused on education to develop talents.



We rise in vigor through innovation. We stride further through sturdy performance. Such is the belief of China Merchants Securities. With exceptional management, we strive to achieve sustainable development and strike a balance among scale, quality and profit. We promote industrial advances, and social and economic improvement with first-class capabilities in innovation. By doing so, we aim to become an exemplary corporate citizen with responsibility and integrity.

About This Report

This Report is an authentic reflection on the corporate social responsibility and sustainability performance of China Merchants Securities Co., Ltd.

Reporting Period: Contents cover the fiscal year 1 January to 31 December 2016, with moderate reflection on its past and prediction on its future prospect.

Reporting Cycle: Annually.

Report Scope: This Environment, Social and Governance (ESG) Report issued by China Merchants Securities Co., Ltd. (hereinafter referred as "China Merchants Securities", "CMS", "We", "The Company" or "Our Company") covers operations in our headquarter, 222 securities branches, 11 branches and 5 controlled subsidiaries.

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

Reporting Guidelines: This Report has been compiled with reference to the Environmental, Social and Governance Reporting Guide (ESG

Guide) issued by the Stock Exchange of Hong Kong Limited (HKEx), the internationally recognized Global Reporting Initiative sustainability reporting guidelines [Sustainability Reporting Guidelines(2006)] and implementation guidance of financial industry, as well as the China Corporate Social Responsibility reporting guidelines (CASS-CSR 2.0) issued by the China Academy of Social Science.

Reporting Data: Financial data included in this Report are collected from our 2016 Annual Report, and have been independently verified by ShineWing (HK) Certified Public Accountants. For further details of our financial performance, please refer to the China Merchants Securities Co., Ltd. Annual Report 2016.

Assurance: We undertake to be responsible for the authenticity and accountability of this Report. At present, the Report is self prepared. We will introduce third-party audit verification at appropriate timing.

Access to the Report: This Report is available in both electronic version and printed version. For the electronic one, please download it on the website of the Stock Exchange of Hong Kong Limited (www.hkex.com.hk), or on our official website (www.newone.com.cn).

All the information and data disclosed in this Report have been examined and approved by the Board of Directors of China Merchants Securities Co., Ltd.

Contents



01	2016 Responsibility Highlights	
06	Letters from the Executive Management	
<hr/>		
►	Strategic Overview	
11	Company profile	
12	CSR strategy and management	
14	Strengthen communication with stakeholders	
16	CSR performance in 2016	
<hr/>		
►	Trustworthy to Clients	
19	Continuously create value for clients	
28	Protect client interests	
34	Strengthen communication with clients, Follow through on feedback	
35	Improvement plan	
<hr/>		
►	Pride to Employees	
37	Our team	
38	Our learning and training platform	
42	Our employee rights protection system	
44	Our corporate culture	
46	Our career development platform	
47	Strengthen communication with employees, Follow through on feedback	
47	Improvement plan	
<hr/>		
►	Respectful to Society	
58	Support real economy development	
60	Devoted to charity	
62	Poverty alleviation	
68	Advocate sustainability	
70	Comply with laws and regulations	
70	Fulfill tax obligation	
71	2016 recognitions	
73	Improvement plan	
<hr/>		
►	Satisfactory to Shareholders	
49	Optimize corporate governance	
50	Enhance internal control	
53	Ensure continuous returns	
55	Strengthen communication with shareholders, Follow through on feedback	
56	Improvement plan	
<hr/>		
►	Looking Forward	
75	2017 ESG goals	
76	Improve the report	
77	Feedback form	
78	Appendix: index of Environmental, Social and Governance Reporting Guide (HKEx)	

2016 Responsibility Highlights

Net assets attributed to shareholders at the end of the year

59.826 billion

48.351 billion RMB in 2015

Revenue

18.552 billion

34.989 billion RMB in 2015

Funds raised through IPO in H Shares

10.695 billion HK\$

Highest among Chinese IPO brokerages in H Shares in 2016

AA rating in Class A

9 consecutive years

Only 2 brokerages in the industry

Direct financing for domestic companies

375.55 billion

277.398 billion RMB in 2015

Overseas direct financing

\$1.994 billion

\$3.362 billion in 2015

Asset custody and outsourcing financial services exceeded

1 trillion

624.832 billion RMB in 2015

Dividends in cash

2.161 billion

4.362 billion RMB in 2015

Nationwide branches cover

113 large and medium-sized cities

99 cities in 2015

Number of employees

10,817 staff and sales reps

10,146 in 2015

Charity donations

10 million

8.55 million RMB in 2015

Tax paid (including tax paid on behalf of other individuals)

6.485 billion

with 7.858 billion RMB in 2015

2016 Keywords ①

Poverty alleviation

CMS 2016 poverty alleviation projects overview



2016 Keywords ②

The capital market

CMS 2016 footprints in promoting healthy and sustainable development in capital market

Set example for asset custody and outsourcing financial services

CMS is the first fund outsourcing service provider in China to officially register with the government. Our business size has reached 1 trillion RMB, and ranks first in the industry.

Pioneer in asset securitization

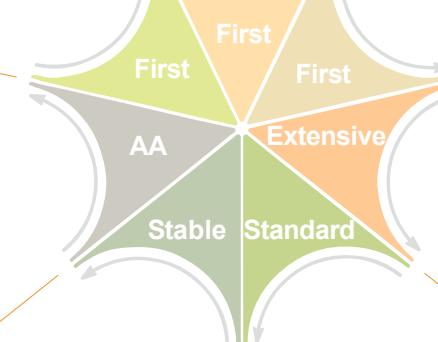
CMS ranked first in the industry in terms of the size and scope of asset securitization in 2016. Also, we are the first company to have completed multiple exemplary asset securitization projects in China.

Provided a full range of competitive institutional services

CMS's prime brokerage services have continued to expand in the industry. We ranked first in terms of stock trading volume of mutual funds.

Well managed compliance risks

CMS attach great importance to compliance. At the end of 2016, we achieved an exemplary accomplishment of receiving a "(Class A) AA" regulatory rating for 9 consecutive years.



Promoted multi-layer capital market construction

CMS has established an extensive OTC platform which covers transactions on the National Equities Exchange and Quotations, Regional Equity Exchange Market and Brokerage OTC.

Contributed to market stability

In 2015, CMS invested 9.3 billion RMB in blue chip ETFs from China Securities Finance Co., and we invested our discretionary funds in the secondary market within the scope authorized by the Board of Directors. We continued to fulfill our promise in 2016.

Contributed to industrial regulations and standards

CMS has assisted the SCRC, stock exchanges, People's Bank of China, Association of Securities Dealers and Asset Management Association of China to establish multiple industry standards or regulations, and drafted Regulations on Compliance Management of Securities and Futures and Other documents.

2016 Keywords ③

The real economy

► Our key projects to support the real economy in 2016



2016 Keywords ④

Beautiful China

► Our key projects to build a Beautiful China in 2016

Ten-billion corporate bonds to promote the new energy industry

The primary business of HUANENG Power International Inc. and China Datang Corporation involves wind power generation, hydroelectric power and other new energy business supported by the government. In 2016, we underwrote 16 Huaneng 01, 16 Huanneng 02, 16 Datang 01, 16 Datang 02 at a total amount of 11.2 billion RMB to support financing in the new energy industry.

Ten-billion green bond to build national grid

In 2016, the green bond issued by State Grid Corporation of China raised 10 billion RMB in its first phase, of which 5 billion RMB was spent on the Ximeng-Shandong 1000KV UHV AC power transmission project, Mengxi-Tianjin South 1,000 kV UHV AC power transmission project, Ningxia Ningdong-Zhejiang Shaoxing ± 800 kV UHV DC power transmission project, and Jiuquan-Hunan ± 800 kV UHVDC project. The other 5 billion RMB was used as supplementary working capital.

Issued the first "Green Finance ABS" in China

Xingyin 2016 Green Finance ABS was the first green credit asset backed security in China in 2016. Its pool of underlying assets came from 42 loans of 29 borrowers, covering pollution remediation, energy-saving reconstruction, resource recycling, environmental equipment manufacturing, public facility management and other environment friendly areas. The liberated fund will be reused in key ecological areas specified in the Green Bond Projects Category published by the People's Bank of China, and the standards of green credit set by the China Banking Regulatory Commission.

Financed 170 million RMB for environment friendly companies on National Equities Exchange and Quotations

Shenzhen EIT Environmental Development Co., Ltd.
Financed 25.08 million RMB
Hunan Jinlv Environmental Protection Co., Ltd.
Financed 56.28 million RMB
Rongcheng Qingmu Hi-tech Material Co., Ltd
Financed 30 million RMB
Jinhong Gas Co., Ltd
Financed 66.25 million RMB





Advancing with the times, to become the best investment bank in China with international competitiveness

We are in an unprecedented era, where diversity is the core of development, and where economies, cultures and technologies from different countries break through the barrier of borders. As a result, we have witnessed improvement in productivity, breakthroughs in business modes, and continuous reconstruction of the social order. At our 25th anniversary conference, Mr. Li Jianhong, Chairman of China Merchants Group expressed his sincere wish that CMS would become "the best investment bank in China with international competitiveness". With the emphasis on "international competitiveness", his speech not only coincided with current development, but also set higher standards on our future performance.

To advance with the times, we need strong comprehensive strength. At present, China's economy is still faced with daunting challenges. It is urgently needed for courageous and responsible companies, especially state-owned enterprises, to come forward to lead the market. However, to secure this leadership, a company needs to lay a solid foundation with its strong comprehensive strengths at the very core. Only with strong capital power and profound industry influence, can a company seize industrial opportunities for self-development, maintain market order at crucial times and lead industrial reforms. Being a subsidiary of China Merchants Group with a century-old heritage, China Merchants Securities is devoted to promoting industrial and social development. Faced with new circumstances, we proudly set our goals to become "the best investment bank in China with international competitiveness". We hope to see steady growth in our comprehensive strengths and will shoulder the responsibility of promoting industrial and social development.

To advance with the times, we need continual innovation. With the trend of informationalization, financialization and virtualization, we are required to think out of the box and be more innovative. We rise in vigor through innovation. We stride further through sturdy performance. Such is the belief of China Merchants Securities. We endeavor to be a client-oriented company, and follow a systematic approach to encourage innovation in our system, business model, interdisciplinary integration and application of financial technology. In 2016, we made a pioneering move in the securitization of non-performing assets and Panda bonds, leveraging the capital market to resolve the systematic risks involved in economic operation and to support the healthy development of the economy. This innovative approach was well recognized. In the future, we need to seize development opportunities, and meet the needs of our clients, the industry, and society through continual innovation. Also, we need to optimize our strategies, integrate our resources, improve our service efficiency, and innovate in our product designs, so that we can create a one-stop integrated financial service platform that serves all functions and the entire value chain, achieving win-win solutions for the company, our clients, the industry, and society.

To advance with the times, we need to see the bigger picture. In an economy that advocates openness, interactivity and inclusiveness, we shall define our situation, our direction and our development opportunities from a holistic perspective. We shall see the big picture, focus on the details, and think in the long term on higher ground and with a broader mind. We shall keep a firm stance in the domestic market while aiming for the overseas market. We shall engage in the internationalization of Chinese companies, by offering comprehensive, diversified and professional financial services, to devote ourselves to the development of the Chinese capital market and the economic globalization.

Speed and efficiency are the themes of the era, where uncertainty arises and competition intensifies, challenging our perspective and wisdom. It is not only our responsibility to advance with the times, but also our endless pursuit of perfection. We will continue to fight for the goal of becoming "the best investment bank in China with international competitiveness", and make contributions to our clients, our employees, our shareholders, and society.

Openness, innovation, and conformity- - building a sturdy and efficient service platform for the capital market

Last year, China Merchants Securities ushered in its exciting 25th anniversary, witnessed the H Shares being successfully issued and listed, and achieved the second-best revenue and net profit in history. "With big powers comes big responsibility." Beyond its success, China Merchants Securities has carried forward the century-old heritage from China Merchants Group and shares its strong sense of social responsibility. By taking advantage of our full-function and full-chain platform, we will persist in building an extensive, innovative and standardized platform for the capital market, to provide more systematic and efficient services for society to meet its increasingly complex demands in investment and financing, wealth management and risk management, contributing to the advancement of securities industry, the capital market and the real economy in China.

We need to build an open platform to allocate resources and provide services for the real economy. As the China capital market further develops, the user base on securities platforms is expanding both in scale and diversity. In the meantime, the market is in urgent need of quality financial services to enhance communications between and bring mutual benefits to different parties to address the often intricate demands on securities platforms because they are inter-related and supplementary to each other. China Merchants Securities, a company with an extensive and diversified client network, shall take on an active role in bridging different parties, allocating resources, and improving investment efficiency. With open attitudes, strategic overview, and professional skills, we shall launch more products to address people's needs in wealth management, direct funding effectively to help the capital market, and serve the real economy.

We need to establish an innovative platform to improve service quality and contribute to the development of the industry. The transforming real economy in the capital market expects new development and breakthrough. Being at the center of the capital market, securities companies enjoy proximity to clients and quick access to information. It is securities companies' responsibility and to their benefit to diversify client-oriented financial innovations, so that they can meet the market's needs with higher quality and efficiency. In recent years, China Merchants Securities has seized the opportunity to launch various pioneering products such as the prime brokerage services and the securitization of non-performing assets, which were widely recognized by our clients. With the boom in start-ups and innovations, China Merchants Securities will continue to build on its strength in innovation, and launch more products to lead the financial innovation and advancement of the industry.

We need to establish a standardized platform to avoid financial risks and ensure our future development. In 2016, China Merchants Securities fought hard to win the most difficult relegation battle in the history of rating, and became one of only two securities firms in the industry to receive the "AA" regulatory rating for nine consecutive years. It is our strict standards that draw information, clients, and products to naturally emerge on CMS's platform, and form an interactive community. In 2017, in response to the government's guidelines to seek improvement on a steady footing, prevent financial risks and contain asset bubbles, CMS will uphold compliance standards in our business operation and services, fulfill responsibilities as an underwriter and sponsor and remain a vigilant goal keeper to ensure integrity in the industry and to promote steadfast development of the capital market.

Looking onwards to 2017, we still see much uncertainty in the global economy. With the steady growth of China's economy, it is expected that the economic transformation will bring more concrete outcomes to the capital market in China. Striving to become "the best investment bank in China with international competitiveness", CMS will answer the call of the times and society with quality services and courage, and create win-win solutions for different parties in society.



Executive Director, President and Chief Executive Officer
of China Merchants Securities Co., Ltd.





Strategic Overview

Develop through transformation and innovation. Promote cross-border development.
Strive to become the best investment bank in China with international competitiveness.

China Merchants Securities is committed to providing full-function and full-chain integrated financial services for clients at home and abroad. Highly focused on clients' value proposition, we continuously create value through innovative products and services in the capital market, and a leading business management philosophy and practices. In the meantime, we promote progress in the capital market and securities industry, make our employees proud, satisfy our shareholders, and gain social recognition.

▶ Company profile

China Merchants Securities has carried forward the century-old heritage of China Merchants Group. After 25 years of development, the Company has become a first-class securities trader with full license. On November 17, 2009, the Company was publicly listed on the Shanghai Stock Exchange (code: 600999). On October 7, 2016, the Company was listed on the main board of the Stock Exchange of Hong Kong Limited (code: 6099).

The Company trades stocks, funds, bonds, futures, commodities, 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. We have built a comprehensive securities service platform through controlling China Merchants Securities International Company Limited., China Merchants Futures Co., Limited., China Merchants Zhiyuan Capital Investment Co., Ltd., China Merchants Securities Investment Co., Ltd., and China Merchants Securities Asset Management Co., Ltd., and holding equity interest in Bosera Asset Management Co., Limited, China Merchants Fund Management Co., Ltd., and Guangdong Equity Exchange Co., Ltd., China Merchants Securities is building a comprehensive securities service platform. Head-quartering in Shenzhen, the Company now has 222 securities branches and 11 branches in 113 Chinese cities. Thanks to CMS international, China Merchants Securities also has subsidiaries in Hong Kong, the United Kingdom and Korea.

The Company set up the first domestic multimedia client service center and the first domestic self-founded securities trading site, and also provides a mobile platform, tablet platform, and WeChat platform. The Company has a team of professional, high-quality talents that excell at product designing, investment management, underwriting, and mergers and acquisitions. Having established a brand advantage in intermediary service, and with its multi-function platform and efficient resources allocation, CMS has taken a leading role in brokerage services and ranks first in outsourcing financial services. Fully leveraging its influence among medium and small businesses and its superb services to key clients, its competence in specialized industry and its ability in underwriting, our investment banking business continues to grow and accounts for the largest market share in asset backed securities (ABS). With premium service and convenient trading operation, our retail brokerage business has seen a steady

increase in value and market share. Our asset management business has led the industry for years thanks to our innovation capabilities and sound investment performance. Our research and development function is leading in food and beverage, banking, environment protection, communication, paper and printing, electronics, and the macro economy. We have been acknowledged as the "Best Domestic Research Team" by the magazine New Fortune for years. Our internal control is well functioning. We have established an advanced organizational structure, risk management system and sound policies to ensure risks are identified, evaluated, monitored, controlled, and fed back in all processes. The governmental supervisory departments gave high praise to our internal control system. As of the end of 2016, CMS received "(Class A) AA" supervisory rating for the ninth consecutive year.

"We rise in vigor through innovation. We stride further through sturdy performance." Bearing this belief, we aim to become China's best investment bank through creating value with superb financial services.

We have built an image of "integrity, sturdiness, professionalism, and innovation" through compliance with laws and regulations, and continuous improvement in professional services. Upholding the spirit of fairness and justice, we fulfill our social responsibilities to address the needs of our stakeholders. We have won "The Best Employer in China", Guangdong Province "Top 100 Tax Payers", Shenzhen City "Law Abiding Tax Payer", "Labor Law Model Company", "Charitable Company", "Top 10 Branded Company" and many other honors.





CSR strategy and management

CSR strategy

Our CSR goal: Create value with superb financial services. Strive to become the best investment bank in China and fulfill more social responsibilities through better business performance.

Our CSR path: Adhering to scientific, innovative, harmonious and sustainable development, we leverage our experiences through practice and implement our strategy from a holistic perspective, to promote the value of responsibility and to reinforce our commitment. We innovate and transcend. We strengthen our capabilities to ensure smooth and compliant operation. We persist in continuous improvement to optimize our management approach. We rise in vigor through innovation, and we stride further through sturdy performance to achieve balanced development of scale, quality and efficiency.

Our CSR principle: We balance the interests of different stakeholders through the principle of fairness and justice. We aim to set an example through proactive actions. We align our responsibilities with actions and translate them into daily operation. We persist in continuous improvement to drive company growth through CSR.

Our CSR focus: We contribute to progress in the securities industry through maintaining a harmonious relationship with society and co-development with the capital market. Deriving from the capital market, we demonstrate our commitment to the capital market through our contributions to the industry, which showcases our value to the advancement of society.



Trustworthy to clients: Clients are our priority. We create continuous value for them through trustworthy services.

Pride to employees: We provide a first-class career development platform for every employee. By creating a fair and liberal working environment, we encourage our employees to grow with the Company.

Satisfactory to shareholders: We have built a modernized company governance structure as the foundation for sturdy business performance and scientific management, to ensure continual investment return for our shareholders.

Respectful to society: We optimize social resource allocation to promote social and economic progresses. We engage in social activities and focus on civil topics to fulfill corporate social responsibilities.

CSR management approach

Our key CSR topics derive from the focus of our CSR strategy. Being a significant player in the capital market both as a trading intermediary and a listed company, our responsibilities to shareholders, clients, and employees are closely related to

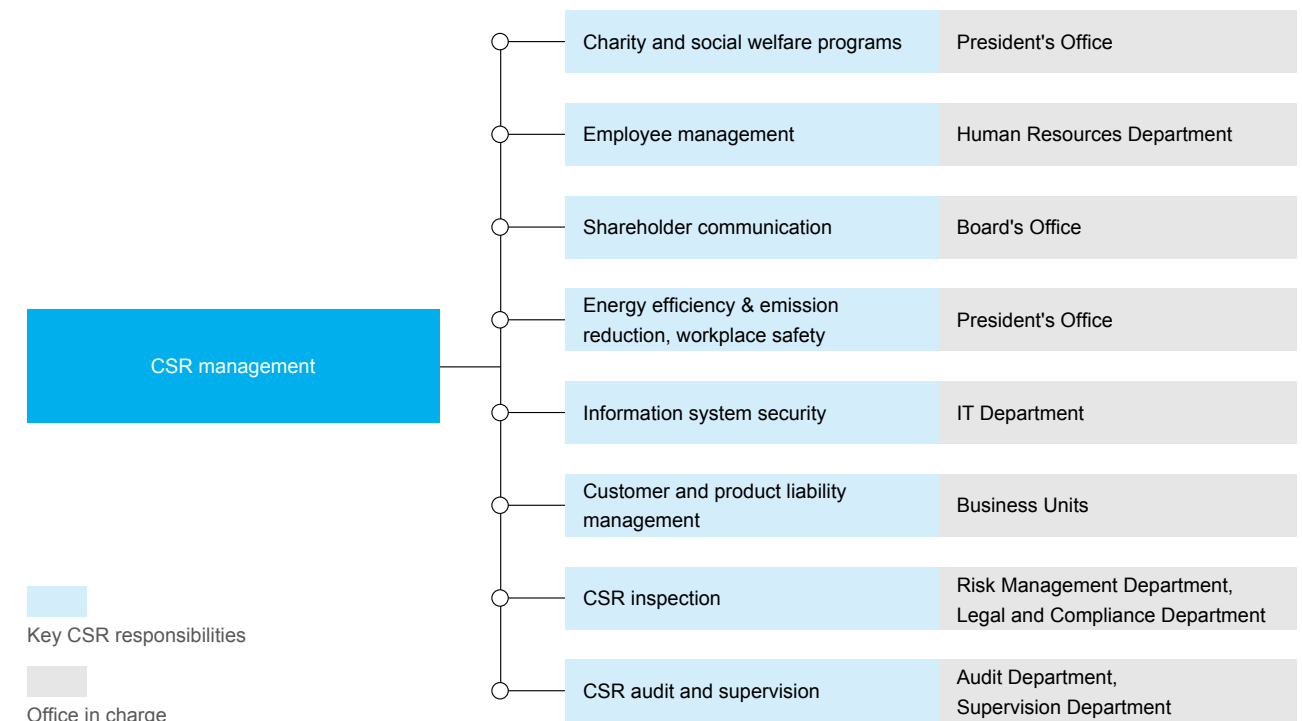
the development of the capital market. We integrate key issues in the current development of the capital market and the securities industry with our strategic priorities. We formulate our annual work plan based on the latest development of the capital market and industry regulations.

In CSR deployment, we follow the guideline of "aligned leadership, unit execution, strategic supervision, and systematic review". The executive management provides leadership while the CEO Office oversees the promotion of CSR, energy efficiency and emissions reduction, workplace safety, charity, and social welfare programs. The Human Resources Department oversees employee management while the Board's Office is responsible for shareholder communication. The business units handle daily work related to clients and product liability. The IT Department is responsible for Information System Security. The Risk Management Department and the Legal and Compliance Department run checks while the Audit Department and Supervision Department oversee CSR audits and supervision. The Strategy Department formulates CSR plans and sets relevant KPIs,

while the functional departments and business units are expected to follow through. We use the Balanced Scorecard to map out our annual strategic goals and plans. We create an annual CSR work plan and objectives, which are subject to annual review. We are also introducing third party audit to ensure the quality of CSR deployment.

Our CSR management is cascaded to each department and unit. Relevant policies are integrated into our internal policy system. The Legal and Compliance Department takes charge of the policy system and the set-up, assessment, issuance, and abolition of a certain policies. We have adopted the ISO9001 Client Service Quality Management System to standardize the documentation of all policies and to ensure their implementation and optimization. All policies are clearly categorized in the Knowledge Management Center empowered by the office automation system. The Training Center organizes online training and exams for all important policies.

Roles and responsibilities for CSR deployment



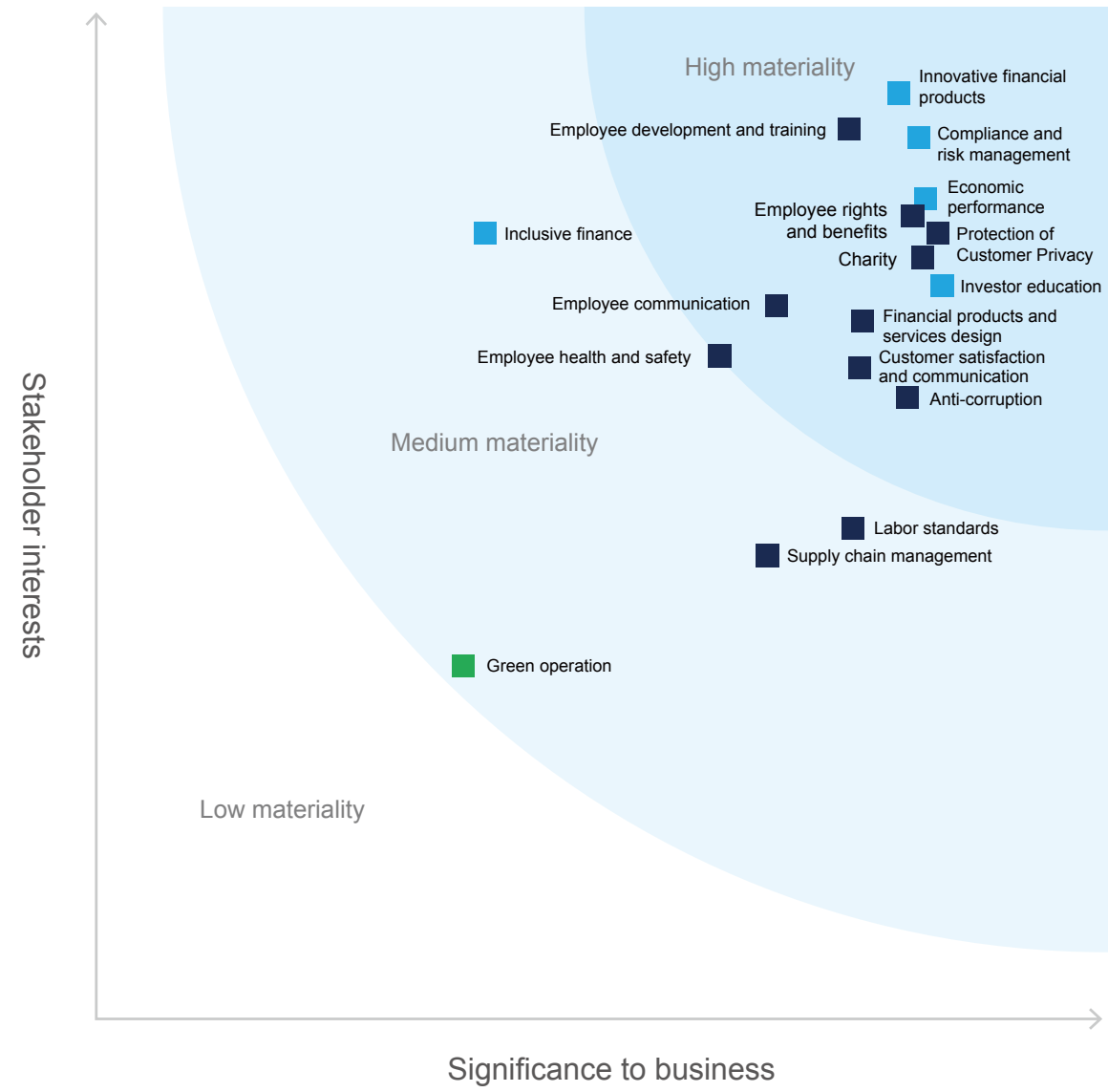
CSR model

Committed to providing extraordinary integrated financial services to clients at home and abroad, we create continuous value and drive for progress in the capital market and securities industry through our four focuses:



During the preparation of this environmental, social and governance report, we actively consulted the views of different stakeholders, to understand their perspectives on China Merchants Securities in terms of environment, society, and governance, which serves as an importance reference for our future strategies and policies. Meanwhile, according to the relevant principles specified in HKEX's Environmental, Social and Governance Reporting Guide, the internationally recognized Global Reporting Initiative sustainability reporting guidelines [Sustainability Reporting Guidelines(2006)], and implementation guidance of the financial industry, as well as the China Corporate Social Responsibility reporting guidelines (CASS-CSR 2.0) issued by the China Academy of Social Science, we communicated with our stakeholders on various factors. After classifying, ranking, and filtering stakeholder opinions by their significance to our business and their impacts on our stakeholders' interests, we selected the issues with the highest materiality to our stakeholders to disclose in this report.

China Merchants Securities ESG materiality matrix



Strengthen communication with stakeholders

Communication with stakeholders

Stakeholder	Stakeholders' concern	Communication channels
Shareholders	<ul style="list-style-type: none">Public information disclosureSound corporate governanceAdvanced internal control system	<ul style="list-style-type: none">Exchange websites and other media channelsShareholder meetingsShareholder relationship on official website
Clients	<ul style="list-style-type: none">Enhanced client service experienceImproved service qualityConvenient communication channelProduct Innovation	<ul style="list-style-type: none">95565 hotlinesThemed surveysResearch on product and client needsCustomer satisfaction surveyOfficial website, official microblog, Zhiyuan Onepass financial service platform (PC, mobile) and other channelsInvestment strategy meetings/ "CM Securities Board Secretary School"Email/telephone communicationClient visits
Employees	<ul style="list-style-type: none">Convenient, efficient and smooth work channelsTraining and development path	<ul style="list-style-type: none">WeChat accountOffice mobile AppOA platformE-learning platformDiversified employee training
Partners	<ul style="list-style-type: none">Professional products and servicesPromoting industrial progressSharing latest industry informationMechanism for regular communicationLasting and friendly cooperation mechanismWin-win partnershipPromoting industry informationization	<ul style="list-style-type: none">Official microblogSeminars and training provided by the government and regulatory departmentsResearch and communication among exchanges and industry associationsCooperation, communication and research with peers



CSR performance in 2016

2016 was the 25th anniversary of CMS. From 1991 to 2016, we grew with China's capital market, and realized the significance of our responsibility for the development of China's security industry. In 2016, we utilized our professional capacity and leveraged our resources to actively fulfill social responsibilities. We contributed to poverty alleviation, capital market advancement, development of the industry and real economy, and the construction of a beautiful China. 2016 was a historic year in the capital market. Worldwide, unforeseen events impacted international politics and economics. Nationwide, the stock market hit its internal circuit breaker at the

beginning of the year, while the stock market, currency exchange market, and bond market all plummeted towards the end of the year. Despite the complexity of the situation, we carried out our responsibilities and withstood the test. Both our revenue and net profit achieved the with second best results in history. The H Shares of the Company were successfully issued and listed on the Main Board of the Hong Kong Stock Exchange. We received "(Class A) AA" regulatory rating for nine consecutive years, setting an industrial example in compliance. All these successes were a great tribute to the 25th anniversary of the Company.

Donation ceremony of college student employment fund



"Create value with superb financial services" is the mission of CMS. Clients, employees, shareholders, and society are our four focuses. In 2016, we followed through on our mission and completed relevant work in the four identified focuses.

Trustworthy to clients

In 2016, guided by our client-oriented thinking, we proactively promoted product and service innovation based on clients' needs. In the report year, we were one of the first securities companies authorized to trade under the Shenzhen-Hong Kong Stock Connect. In institutional client business, the Company was the first in the industry to develop mutual FOF fund custody business and became the first custody outsourcing firm with assets over RMB1 trillion under its custody. In investment banking, the Company acted as the lead underwriter for the National Bank of Canada Panda Financial Bonds, the first public issuance of Panda bonds in China by an overseas non-sovereign institution. Since launching the first non-performing ABS product in the industry, the Company underwrote 11 non-performing ABS products as the lead underwriter or joint underwriter during the year, accounting for 79% of such transactions in the industry. In asset management, the Company was the first in the industry to dispose of non-performing assets via a municipal-level asset management company, and to launch a collective wealth management product series linked to gold and cross-border crude oil futures contracts. Moreover, the Company participated in the establishment and trial operation of the Shanghai Commercial Paper Exchange as one of the first three securities firms selected for trial. We have successfully established an all-round commodity trading system.

Pride to employees

In 2016, we successfully built a collaborative and efficient talent team. We encourage our employees to grow with the Company through creating a harmonious and liberal working environment, emphasizing talent recruitment and spending 600,000 hours on career development and training. We provide our employees with competitive benefits and compensation packages. We care about the development of each employee, especially women, the disadvantage and retirees. We have organized a series of activities to celebrate our 25th anniversary with our people under theme "grow together, embracing our common future".

Satisfactory to shareholders

In 2016, facing a complex and competitive market environment, we

survived and achieved impressive results. Both our revenue and net profit achieved the second best results in history. We were one of two brokerages in the industry to receive the "(Class A) AA" regulatory rating for nine consecutive years since 2008. In 2016, our annual revenue hit RMB 18.552 billion. Net profit attributable to the parent company and shareholders reached RMB 5.403 billion while equity attributable to the parent company reached RMB 59.826 billion. We highly emphasize return of investment for our shareholders. Since November 2009, we have distributed cash dividends 9 times, and 1.076 billion of share capital was converted from capital reserve. By mid 2016, the total cash dividends amounted to RMB 11.914 billion.

The Company completed its initial public offering and listing of its H Shares on the Main Board of the Hong Kong Stock Exchange, raising HK\$10.695 billion, marking the IPO with the highest oversubscription rate and largest scale in the capital market of Hong Kong in 2016 for a Chinese securities firm.

Respectful to society

In 2016, we moved on to a new stage of public charity. We set up the "Shenzhen CMS Charity Foundation" and donated RMB 10 million to develop welfare projects in humanitarian aid, education, people's livelihood and poverty alleviation.

Within the report year, we paired with Neixiang County in Nanyang of Henan Province and Shitai County in Chizhou of Anhui Province to launch poverty alleviation programs through measures such as boosting consumption needs, improving education and providing financing support. We supported many underdeveloped counties in Shanxi, Xinjiang, Neimeng, Yunnan, Zhejiang, Guangdong, Sichuan, Guizhou, Chongqing, and Jiangxi to alleviate poverty. We complied with law and paid RMB 6.485 billion in tax in 2016.

Meanwhile, we received over 30 awards from the Shanghai Stock Exchange, China Securities Depository & Clearing Corporation Limited, Zhengzhou Commodity Exchange, China Data Center, New Fortune, Securities Times, China Securities Journal, 21st Century Economic Report, Sina Media, and other media.

Looking forward to 2017, guided by the strategy "become the best investment bank in China with international competitiveness", we will meet our responsibilities towards industry development, standardize our management system, and build on our strengths to prepare ourselves to compete with other top investment banks in the global market.



Trustworthy to Clients

Client first. Create continuous value for clients.

Win client trust and loyalty with extraordinary services.

Clients are our priority. We provide professional and premium financial services to our clients via continuously optimizing our business model and organizational operation, and enhancing service quality.

In 2016, aiming to build a full-function platform and a full-chain service model, we continuously updated our business for individuals, companies, and institutions, shifting our business development from product-oriented to client-oriented. We win over clients with extraordinary services through improving our sustainability.

▶ Rise in vigor through innovation Continuously create value for clients

“Client-oriented innovation policy and mechanism

In 2016, while continuing to encourage securities companies to innovate based on client and market demands, regulators strengthened industry innovation norms and guidance to ensure sustainable and healthy development of the securities industry. Within the report year, we followed through on our the innovation and development strategy. In response to the restructuring and transformation of the Chinese economy, capital market construction, and the increasingly diversified and individualized needs of our clients, we improved our innovation management system and provided in-depth and professional guidance, support, and services, enabling a platform for innovation. Adhering to “client-oriented” thinking, we extended the innovation management chain to cover innovation guidance, tracking, assessment, and motivation. We conducted annual research on strategy focuses and industry trends, to elevate the tracking and monitoring mechanism of industry innovation, and to strengthen innovation guidance for each department. We continuously improved our innovation evaluation system and set up a review process to enhance motivation to all departments. We held an

“Innovation Talents” contest, and established “top down” and “bottom up” mutual communication channels for the innovation mechanism. We launched the Innovation Lab to incubate frontier innovation programs. Setting foot in product innovation, we introduced product life-cycle services and product fullprocess management. A multi-layer product capacity evaluation and analysis system was built, an efficient and flexible product expert operation demonstration platform was set up, and a product center construction project was founded to drive big data and continuously promote the Company’s product management system. Within the report year, we initiated various innovation award campaigns to motivate employees. Some of the best programs were selected to participate in external competitions. In 2016, the Company’s “China Merchants Securities Intellectual Quantitative Investment Products” entered the second round review of the 2016 Shenzhen Financial Innovation Award. The “National Bank of Canada Panda Financial Bonds” won the third prize of the 2016 China Merchants Group Innovative Unit.



Innovation achievement in 2016

Prime brokerage services

The Company was the first in the industry to develop mutual FOF fund custody business to assist the fund manager to launch the first private monetary fund. The Company developed an online private FOF fund performance evaluation and risk management system. It also provides custody and settlement services for mutual funds under the Shanghai-Hong Kong Stock Connect and an efficient trading system for strategic institutional clients for bulk trading. As of end of 2016, the Company had over 2,200 custody clients and over 11,300 custody products. The Company became the first custody outsourcing firm with assets over RMB1 trillion under its custody.

Comprehensive commodity trading system

The Company has established a comprehensive commodity trading system for commodity arbitrage, commodity over-the-counter derivatives, commodity fund market making, commodity exchange-traded option market-making, and other innovative business systems and trading strategies, promoting the innovative development of commodity trading.

Internet finance

The Company continued to explore various internet based financial services. The customized mobile account opening platform and "Zhiyuan Onepass" internetbased comprehensive wealth management platform were launched to provide clients with a customized experience and tailor-made services to support the development of wealth management business.

Commercial paper business

The Company participated in the establishment and trial operation of the Shanghai Commercial Paper Exchange as one of the first three securities firms selected for trial. This trial contributed to commercial paper business innovation and enlarging our business scope.

Innovative asset management and OTC products

The Company was the first in the industry to launch a collective wealth management product series under "Zhao Jin Niu" linked to gold and cross-border crude oil futures contracts, and the MOM product series which provided customized asset allocation services for institutional clients. Adhering to clients' needs, the Company issued new products including CTA strategic products and overseas investment and financing products, non-standard products, and mid-term to long-term stock investment and financing products to enrich its wealth management product line. We boosted innovation of OTC products and released equity-linked notes, which will be linked to gold, silver, crude oil, and foreign exchange to satisfy clients' investment needs.

Asset securitization

Since launching the first non-performing ABS product in the industry, the Company underwrote 11 non-performing ABS products as the lead underwriter or joint underwriter in 2016, accounting for 79% of such transactions in the industry. The underlying assets included non-performing corporate loans, non-performing credit card personal consumption assets, non-performing small and micro enterprise loans and non-performing residential mortgage. The Company was also the first to introduce innovative asset securitization products, expanding the underlying assets for securitization to include pledged loans, internet consumption finance, long-term vehicle leasing, supply-chain finance, and commercial properties.

Shenzhen-Hong Kong Stock Connect

The Company was one of the first securities companies authorized to trade under the Shenzhen-Hong Kong Stock Connect.

Investment banking services

The Company acted as the lead underwriter for the National Bank of Canada Panda Financial Bonds, the first public issuance of Panda bonds in China by an overseas non-sovereign institution. Additionally, the Company underwrote the bond of Huiyuan Juice, marking the first issuance of Panda bonds in the Shenzhen Stock Exchange.

Non-performing assets disposal

Through Qingdao Asset Management Co., Ltd., an associated company of our subsidiary, China Merchants Securities Investment Co., Ltd., we were the first securities firm to engage in NPA disposal through a municipal-level AMC. We will fully utilize debt restructuring, asset consolidation and other diverse disposal means through asset securitization and non-performing assets. With these measures, we will actively resolve local nonperforming asset funds, enhance our disposal capacity, and contribute to Qingdao's economic restructuring.

Product innovation for individual clients

Launched innovative financial products

Affected by the intense fluctuations in the stock market in 2015, clients tended to take a neutral investment strategy and opt for hedge assets in 2016. The Company launched products in accordance with clients' needs, including quantitative investment products with stable track records and CTA strategy private funds, MOM and FOF product series to diversify risks, and the first structured investment product linked to gold in the industry, and "Zhao Jin Niu" (招金牛) series linked to crude oil contracts.

Provided diverse OTC products and services

We set up a professional team to coordinate over-the-counter transactions, providing private placement, stock transferring, mergers and acquisitions, counter products, and other multilevel OTC products and value-added services.

In 2016, we encouraged qualified investors to open accounts on the NEEQ, accumulating 9,800 clients till the end of 2016. We maintained good relationships with approximately 1,000 companies involved in NEEQ investment and potential institutional investors. Moreover, we signed strategic cooperation agreements with over 200 institutions.

Provided product customization services

In 2016, aligning with our "client-oriented" business thinking, we selected a public fund company to provide customized products and customized services for high net worth clients through a comprehensive research and objective evaluation. Within the year, the sales of our private equity fund products exceeded RMB 3 billion, RMB 200 million from structured products, and RMB 290 million from JT Taifu (定制公募九泰泰富).

Optimized MFSL services

In 2016, we significantly improved the efficiency of the margin financing and securities lending business. We saved clients processing time by simplifying the business process under the premise of business compliance and rigid risk control. Meanwhile, to protect the interests of our clients and the Company, we revised the MFSL contract, margin calls, mandatory liquidation implementation standards, and implementation procedures, and strengthened credit account concentration control. To ensure our clients fully understand the terms and contents in the contract, the Company released the Announcement on the Terms and Conditions of the Contract for MFSL of China Merchants Securities Co., Ltd. online for one and a half months. In addition, detailed explanations of adjusted contents were available to ensure thorough communication with our clients.

At the beginning of 2016, faced with massive losses for some clients incurred by the circuit breaker, the Company actively adopted a key client tracking approach and the MFSL counter-cyclical adjustment mechanism, to contain business risks. In 2016, we vigorously promoted the development of stock pledge business.

The pending repurchase balance of stock pledge consecutively exceeded RMB 30 billion and RMB 40 billion. The robust performance met our clients' middle and long-term financing needs and effectively supported the real economy.

Promoted innovative tools for stock option

Considering the hedging effect of stock options, we promoted this innovative financial instrument to individual and institutional clients during the report year. In 2016, there were 10,939 new stock option clients, including 277 institutional clients. Since the issuance of stock options, our number of accounts reached 13,352, ranking top five in the industry.

We also put forward our options strategy in conjunction with the market condition. To address the need for risk hedging due to subscription of new shares, the Company developed a special course on realizing risk hedging by using stock and options. The related options strategy helped clients reduce impacts on their stock values despite market fluctuations and stabilize their positions, strengthening their confidence and willingness in buying new shares to a certain degree.

Product innovation for institutional clients

Provided one-stop service for prime brokerages

Our prime brokerage services are designed to provide one-stop integrated financial services, such as centralized custody, IT support, strategy research, leveraged finance, securities lending, capital referral, and fund raising.

In product design, the prime brokerage platform provides clients with comprehensive and quality product formations and solutions. For custody and outsourcing services, asset custody, liquidation, share registration, valuation, performance evaluation, and other back office services are provided for private fund products. Investment research and financial engineering services are delivered to clients in need to assist them develop customized trading strategies or products. In terms of platform construction, we recruited IT talents to build a leading trading platform and to provide strong service support for clients.

Set benchmark for custody and outsourcing services

We are the first fund outsourcing service institution recorded in China (record number: A00001). Also, we are the first to obtain ISAE3402 international certification. We constructed the policy framework and operation system of financial service outsourcing business, constructed a "self-development and financial service outsourcing" structure, standardized and guided the development of investment management institutions, and became the benchmark in the industry. By the end of 2016, the Company provided asset custody and financial outsourcing services to over 2,200 fund managers and 11,368 products. Our service scale exceeded RMB1 trillion, ranking first in the industry.

Initiated outsourcing of public funds, promoted WFOE business in China

In 2016, we were the first service institution to initiate the qualification process for public fund outsourcing. We have already conversed with a number of newly established public funds on potential cooperation. We actively participated in the cooperation on WFOE private funds with a renowned overseas AMC, promoting WFOE business in China. By the end of 2016, our custody business covered nearly 30 WFOE institutions in Beijing, Shanghai, and Shenzhen. Leveraging our the momentum and the Company's platform, we will expand our international business. In the meantime, we will actively cooperate with insurance asset management institutions to explore the feasibility of insurance outsourcing.

Delivered "Private Equity College" exclusive services to start-up PEs

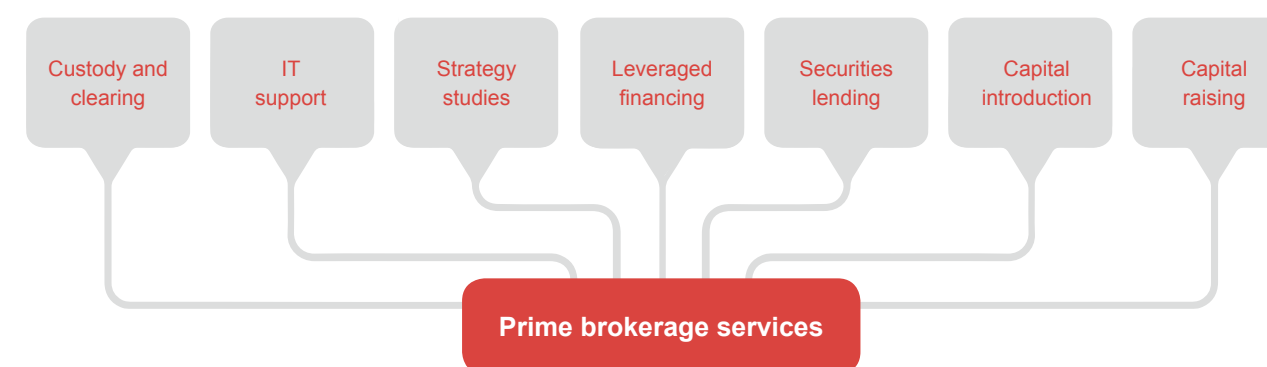
From 2015 onwards, we started to deliver convenient, professional, standardized, and one-stop "Private Equity College" (the College) services to small and medium PEs at the start-up stage. In 2016, we launched a full-scale upgrade on the service and process of the College. We actively put forward product filing, performance attribution analysis during product operation, invest

ment research services, performance evaluation, seed fund incubation and many other services. Since August 2015, we have served 290 clients and completed launching and operation of over 180 contractual products.

Created structured notes and other featured OTC products

We persistently enriched our OTC counter product system by optimizing system functions, and creating structured notes and other featured products. We provided numerous non-standardized and customized investment tools to meet the investors' needs in characteristic asset allocation and integrated wealth management. During the report year, our OTC business delivered a series of innovations in the field of fixed-rate structured notes. The regular window for redemption met the investment needs of certain bank clients. Throughout the year, we issued 66 structured notes, raising RMB 19.996 billion in fund scale and RMB 20.782 billion in product balance through counter market, and forming a sound system for product pricing and distribution. In addition, we sold 55 private funds with an issue size of RMB 3.279 billion on a consignment basis via counter market.

► CMS Prime brokerage integrated financial services



Product innovation for corporate clients

Innovated stock/debt financing schemes

Taking legal compliance, business development strategy, and market condition into full consideration, we developed innovative schemes for equity and financing to meet companies' financing needs. By seizing market opportunities, we helped corporate clients enhance their value.

In stocks, we helped Shandong Heda (山東赫達 code 002810) to be successfully listed on the SME Board of the Shenzhen Stock Exchange. It was the first successful IPO of a private placement company in China's capital market over the past decade, setting

a precedence for the local government to successfully solve similar historic problems. Additionally, we helped Qilu Bank to issue the first preferred stock of a non-listed city commercial bank in China, and assisted Xinghuai Water Co., Ltd. (興淮水務有限公司) in Huai'an to issue the first PRN underwritten by a securities company.

In debts, we achieved significant breakthroughs in commercial real estate CMBS, commercial real estate REITs, PPP ABS, central enterprise receivables ABS, exchangeable debt products and many benchmark projects in the industry.

Leading industry innovation - outstanding CMS financing projects

Panda financial bonds of National Bank of Canada

It is the first public issuance of Panda bonds in China from a non-mutual recognized region. Also, the National Bank of Canada is the very first bank in the Americas to issue Panda bonds. This successful project was highly recognized by both governments. It was considered as an important achievement in the Canada-China trade relationship during the exchange visit of the two prime ministers. The project effectively enhanced the international reputation of CMS by creating a strong impact on the international financial market.

Jinmao Kaichen (金茂凯晨) CMBS

This is China's first CMBS. It is of great significance in improving commercial real estate financing efficiency, reducing financing costs, and enriching the ABS product line for real estate enterprises. The real estate industry and other companies swiftly adapted after the product was released on the Shanghai Stock Exchange in August 2016. The product has won the Best Asset Award in China Asset Securitization 2016 REITs and Commercial Real Estate Mortgage ABS.

Zhongyu NPL 2017-1 (中譽壹期)

It is the first non-performing institutional bank loan ABS since China rekindled the business in 2016. It has broadened the channels for disposal of non-performing assets by banks, accelerated the decrease in bank non-performing rates, and elevated institutions' professionalism, standardization, and capital utilization in disposing of non-performing loans. Meanwhile, it has introduced a variety of investors such as banks, funds, brokers, asset management companies and foreign institutions to expand the sources of funds, to improve the digestion and capacity of capacity of non-performing assets, to reduce and decentralize systemic risks of the banking industry, and to enrich China's domestic credit ABS portfolio, contributing to an orderly and diversified securitization market.

Non-public corporate bond of China Huiyuan Juice Group Ltd. (中國匯源果汁集團有限公司)

The project is the first Panda debt on the Shenzhen Stock Exchange since the issuance of Panda debt in the interbank market was approved in 2005. Additionally, it is a significant financial innovation derived from our close cooperation with the Shenzhen Stock Exchange since China Merchants Group signed an agreement on strategic cooperation with the exchange on April 11, 2016.

BOCGI Kaiheng (中銀凱恆) REIT

The transaction contains an innovative mezzanine tranche with both stock and bond features, offering a less costly approach to the realization of commercial real estate assets. In the future, it can be replicated in many real estate or non-real estate companies for light asset operations and improving profit statements.

China Unicom Mobile communication fee ABS

It is the first securitization transaction for mobile communication fee in China. Leveraging our full-chain advantages, we provide corporate bonds, REITs, supply chain finance and other integrated financial services for China Unicom Mobile.

Leading industry innovation -- CMS pioneer financing projects in 2016

Zhongyu NPL 2016-1	First institutional non-performing bank loan ABS in China since the restart of non-performing asset securitization in 2016.
China Unicom Mobile communication fee ABS	First mobile communication fee ABS in China
BOCGI Kaiheng REIT	Creatively designed a mezzanine tranche with both stock and bond features
Jianxin RMBS NPL 2016-2 (建鑫二期)	First commercial mortgage-backed securities in China
Jinmao Kaichen CMBS	First CMBS in China
Huai'an Xianghuai Water Co., Ltd. income notes 2016-1	First PRN primarily underwritten by a securities trader in China
Huifu-Fuhua-Jinbao Building ABS (匯富富華金寶大廈)	First commercial real estate mortgage ABS in China
Private placement preference shares of Qilu Bank Co., Ltd.	First preferred stock of a non-listed city commercial bank in China
Hecui non-performing ABS 2016-2 (和萃2016年第二期)	First non-performing small micro loan ABS in China
Hecui non-performing ABS 2016-1 (和萃2016年第一期)	First non-performing personal credit card ABS in China
Heheng individual consumption loan ABS 2016-I	First ABS with revolving purchases and true sale in China
Ping An Orange Bank certified mortgage loan securitization trust ABS 2016-1	First certified mortgage loan securitization trust ABS in China

Led in asset securitization

We accelerated the development of ABS products in recent years. We rank first in ABS underwriting volume while we continuously innovate our business model.

Strengthened M&A services

We focused on strengthening mergers and acquisitions services, enriching professional teams, and offering advice on transformation and long-term development for corporate clients. For example, we helped Haoxiangni (好想你002582.SZ) to implement 100% stake acquisition of BaicaoWei (百草味), and concurrently raised RMB 960 million. It is the first acquisition of an Internet snack business. We brought in an IT audit team to address the large amount of transaction data and low unit price. "Haoxiangni Employee Stock Ownership Plan", managed by China Merchants Securities Asset Management Co., Ltd. (招商證券資產管理公司), engaged in the private placement. Additionally, we assisted Kaiyuan Instrument (開元儀器300338.SZ), a listed company producing coal quality testing equipment, to transform their business model and to purchase assets in the vocational education industry, completing the first M&A for the vocational education industry in the A Share Market. The M&A allowed Kaiyuan to conduct business in vocational education training and

become the first listed company with major business in vocational education in the A Share Market. Moreover, combining the need of JAMG (晉煤集團) to go public and the need of its listed companies to restructure, we came up with an innovative restructuring plan, which was appreciated by our clients.

Expanded OTC listing, financing, and market-making business

In 2016, we delivered 98 underwriting services for NEEQ companies at a total amount of RMB 5.954 billion, ranking sixth in the industry. We provided listing services for 145 companies, ranking eighth in the industry. We provided market-making business for 205 companies. We also had more than 400 clients seeking listing on NEEQ and other integrated financial services. At the beginning of 2016, we completed the financing plan of RMB 1.27 billion ahead of time for Huaqiang Culture (華強文化), a very influential company in the NEEQ market. We helped finance RMB 380 million in two weeks for Tiandi No.1 Beverage INC. (天地壹號).

Enhanced capacity of overseas equity underwriting

In 2016, we continued to enhance our capacity of underwriting overseas equity financing projects, completing a number of model

cases. On September 28, 2016, our Hong Kong subsidiary helped Postal Savings Bank of China to be successfully listed on the Main Board of the Stock Exchange of Hong Kong as a joint global coordinator, joint book-runner and joint lead manager. Before green shoe option, we raised \$7.4 billion. This IPO was not only the largest in the global market since 2014, but also the largest in the Hong Kong market for the past six years.

We assisted China Cinda Asset Management Co., Ltd. to issue a \$3.2 billion preferred stock outside of China, marking the first preferred stock offered overseas by a Chinese non-bank issuer, and the first non-core tier one capital instrument issued by a Chinese AMC.

Developed underwriting of overseas bonds

In 2016, we excelled at overseas bond underwriting. We assisted HNA Group to issue a \$100 million private placement bond as an

exclusive lead manager, which is the first overseas private bond underwritten by our HK subsidiary, enhancing the diversity of our underwriting portfolio.

Promoted "innovation and entrepreneurship debt"

To innovative startups, "innovation and entrepreneurship debt" sheds new light on solving financing problem through participating in bond market. It enables the financial industry to serve the real economy. In 2016, we set up an "innovation and entrepreneurship debt" working group. We vigorously promoted this innovative business through internal training and identifying client needs.

Product innovation for asset management in the new era

In 2016, we accelerated the development of financial products. We kept close watch on the market for emerging opportunities. We focused on customized services for institutions to meet their investment needs. Through the year, we continued providing clients with a variety of financial investment options via developing a series of popular products, such as fixed income products

with quoted price, guaranteed capital products, index products, quantified hedging products, quantified arbitrage products, quantified multi-shorting products, MOM products, NEEQ products, private placement products, supply-side reform related equity products, and pharmaceutical health related equity products.

CMS model products in 2016

Yestock ABS 2016-2

"Yestock ABS 2016-2" was issued on December 1, 2016. It is a 3-year scheme and raised RMB 360 million. It is the second long-term leasing car ABS of Yestock Rental Car (深圳市贏時通汽車服務有限公司), which improved their brand image as well. Securitization of car leases is significant for car rental companies to revitalize their stock of assets and improve their efficiency of financial resources allocation. As it is difficult for non-state-owned and non-listed companies to obtain financing support in the open market, "Yestock ABS 2016-2" sheds light on a new financing channel for other companies.

Hanhua microloan ABS No. 1

"Hanhua microloan ABS No.1" was issued on May 26, 2016. It is an 18-month scheme and raised RMB 350 million. The microloan company affiliated to Hanhua (瀚華) activated assets via asset transferring through microcredit ABS products, significantly enhancing its market performance and profitability.

CMSAM No.1-YHDIC Qusheng highway vehicle toll earnings ABS

"CMSAM No.1-YHDIC Qusheng highway vehicle toll earnings ABS" was issued on January 22, 2016, raising RMB 3.5 billion. It created a record by winning the most institution investment as a single scheme and the lowest interest rate in the CSIC (China Securities Internet System Co., Ltd) quotation system. It was awarded the "2016 Annual Asset Securitization Jiepu Award: The Largest Scale Product in Fee as Underlying Asset". Effectively promoting Western China traffic construction, the scheme represented new financing tools in Yunnan to boost infrastructure construction and played an exemplary role in supporting southwest highway construction.

CMSAM No.2-YHDIC-CMB-CMBC-Rong Ju Yuyuan highway vehicle toll earnings

"CMSAM No.2 - YHDIC-CMB-CMBC-Rong Ju Yuyuan highway vehicle toll earnings ABS" was issued on October 27, 2016. It is a 14-year scheme and raised RMB 5 billion. While maintaining a low interest rate compared to similar products in the same period, its issue size is the biggest in asset securitization products of China's domestic infrastructure. The scheme helped YHDIC activate the existing assets, optimize capital structure, and obtain cash flow. The scheme represents a new way for financial institutions to support provincial key project construction and launch innovative financial products for the "One Belt One Road" strategy.

CMSAM-SZQHYF-Hengrong ABS 2016-1

"CMSAM-SZQHYF-Heng Rong ABS 2016-1" is a shelf registration with nine offerings and a total offering size of RMB 10 billion. Schemes 1, 2 and 3 were issued in August, September and November respectively, with a total issuance of RMB 3.225 billion and a maximum duration of no more than one year. This issuance set an example for the real estate industry and companies with satisfactory performance in other industries to improve their supply chain financing model. On one hand, shelf registration ensures more flexibility for companies to handle accounts payable and cash flow management. On the other hand, the asset securitization provides an effective way to activate upstream suppliers' incremental accounts receivable, while showing a reproducible financing model for other high-quality AAA assets in the market.

On December 15, 2016,
CMS (Hong Kong) successfully
raised funds of \$630 million as a co-
sponsor for the HK IPO of Meitu.

The IPO of Meitu Company was the largest technology IPO of the decade in Hong Kong. To ensure the project would complete pre-IPO financing in April 2016, and be listed in December 2016, the investment banking team and direct investment team of China Merchants Securities Hong Kong conducted in-depth research on China's mobile and internet industry development. This "Direct Investment + Sponsor" case set a precedence for large-scale technology companies to be listed in the Hong Kong capital market before turning profits. It has also laid a solid foundation for China Merchants Securities (HK) to explore the banking business for emerging industry.

HK IPO of Meitu Company

Stride further through sturdy performance

Protect client interests

Comprehensive introduction of products and services

We offer a comprehensive introduction of our products and services. In 2016, we provided clients with information on product consignorers, investment managers, product structures, risks, liquidity arrangement, suitability management requirements and subscription processes. Additionally, we invited investment managers to introduce products through seminars and teleconferences.

We conduct rigorous review of our promotional materials. We monitor marketing materials used and promotional activities in the consignment banks, Internet platforms, and other distribution channels to prevent exaggerated, false, and vague advertisements, protecting client interests.

We have expanded our product promotion channels. We present information to clients via face to face visits, phone communication, SMS, e-mail, official website, official WeChat account, and Zhiyuan Onepass financial services platform. Following the trend of internet applications, we strengthened the development and operation of our official WeChat account to create a strong marketing and sales platform. We lawfully utilize WeChat's advantages in fast broadcasting, wide coverage, and good interaction for our business. In 2016, our WeChat service not only covered brokerage, investment banking, asset management, OTC market, institutional services, securities research, and other business, but also excelled at client service, products sales, innovative business promotion, branding, and various aspects.

Comparing to mutual funds, FOF allows private placement. Relevant regulatory requirements explicitly prohibit promoting specific products via public media. While complying with laws and regulations, we delivered substantial introduction of our products and business to investors by various means, so that investors can learn more about our qualifications, business operations, product features, and risk attributions, equipping them with full knowledge for sound decisions.

We invited experts from the Shanghai Stock Exchange (SSE) to deliver "Option Lectures" to our clients. They could choose to take a quiz during the training. The training effectively enhanced clients' knowledge level and optimized our service quality. In 2016, we held 12 large-scale training sessions for options investors. Nearly 2,000 clients took part in the training.

Comprehensive product information disclosure



Persist in tariff transparency and improve the risk alert system

The Company persists in tariff transparency. Clients can look up product and service charges via our official website, WeChat account, microblog, phone, SMS, fax, e-mail, securities branches, and on-line client service channels. We notify investors of websites displaying product information through venue announcements, websites, text messages, e-mails, and phone calls to facilitate their queries and vetting. A reminder that all financial products have been displayed is placed at a prominent position of the display page. Investors can file a report to us if any product bought is not displayed. Meanwhile, we assess the risk rating of stated financial products

based on their own characteristics, with an explanation of each risk level and the scope of applicable investors.

In early November 2016, China Merchants Securities Asset Management Co., Ltd. published the Notice on Legitimate Sales of CMSAM Products, that corporate clients should be notified of the display channels for approved consigned products via announcements in the securities branches, TGA text messages, e-mails, and phone calls, to facilitate their queries and vetting on tariff information. Marketing personnel should remind corporate investors of the display websites for our on-sale products during daily client services and product recommendations.

We continuously optimize the processes for clients to obtain the latest tariff information by improving the internal roles and responsibilities, procedures, and timing of risk alerts. Dedicated to client service quality, we make tariff transparency and risk alerts the priorities in client service mechanism improvement. By doing so, we make investor interests the core of client service, and formulate the principle of "smooth communication channels, proper handling, timely feedback, continuous improvement" to provide investors with all-round services, safeguarding their legitimate rights.

Emphasize risk tolerance assessment

We provide risk tolerance assessment to every client. Clients have access to the Risk the Tolerance Assessment Questionnaire via securities branches, "risk tolerance assessment" column on www.newone.com.cn (Newone), fast-trading track on Newone, Zhiyuan Onepass financial service platform, mobile securities, PAD securities, and other channels. The questionnaire evaluates clients' risk tolerance based on their financial condition, investment knowledge, investment experience, investment objectives, risk appetite, and other aspects. The assessment scores group clients into different categories. The risk tolerance level ranges from low to high, the categories correspondingly include conservative, moderate, balanced, growth, and aggressive. Clients who fail to complete the assessment cannot purchase the Company's financial products.

After completing the initial risk tolerance assessment, clients need to update in time to reflect their dynamics so that we can match their tolerance with the right products or services. Based on product features and risk characteristics, we differentiate the product knowledge level and risk tolerance of the investors, define each category, and set a post-assessment evaluation policy, so that we can stay in sync with investors' latest investment preferences and risk tolerance.

Strengthen suitability management of product sales

In 2016, following the announcement of Opinions on Further Strengthening the Protection of Legal Rights and Interests of Medium and Small Investors in the Capital Market (the Opinions) by the State Council, we organized all staff to learn the Investor Suitability Policy through onsite and online training. We stressed the importance of a sound Investor Suitability Policy and reiterated strict adherence to the criteria of investor suitability management in client service through establishing classification criteria for small and medium-sized investors, risk levels, and improving rules and policies for market service.

We follow through on investor suitability management to protect investor interests. Having understood the credit status, trading habits, securities investment experience, and risk appetite of a client, we offer suitability selling and related services based on the risk tolerance assessment result and product characteristics. The Company has established client identification methods and policies related to investor suitability, and has been following through. Meanwhile, the Company communicates with its agencies to understand their progress in and urge them to build a suitability management system. The Company has defined its client classification criteria and evaluation mechanism, and the matching criteria of client categories with product risk level. In terms of client classification, the Company divides investors into Class A professional investors, Class B professional investors, and general investors based on their securities market knowledge, investment experience, and risk tolerance. Specific protection policies for investor suitability are available to match the different level of risk tolerance.

We have set up a risk level system for asset management products and services with five levels ranging from low to high, to determine the risk level of a product before issuing. We make it clear that we should not sell any client a product with risk level significantly over his/her tolerance level. Selling of a financial product must go through client identification verification, risk notifications, risk tolerance assessment and matching, product risk disclosure, contract signing, and related management processes. A client must sign a "voluntary participation statement" if he/she insists on buying a high-risk product beyond his/her tolerance level after having been fully informed.

Build a "client-oriented" marketing service model

We endeavor to build a "client-oriented" marketing service system so that we can better address client needs and enhance the client experience. We tighten our client relationship with timely services through applying information technology, optimizing business processes, and upgrading marketing service.

In the first half of 2016, we reached consensus on the goals of marketing service system upgrading for individual, institutional,

and corporate clients through consultation with third-party consultants. We focus on people, operations, processes and systems to realize goals at a steady pace, enhancing our service capabilities in wealth management for high-net-worth clients, in prime broker business for institutional clients, and our industry insight and professional collaboration for corporate clients.

Enhance service quality

Upgraded Internet services

We continue to improve the construction of internet platforms. In 2016, we completed more than 200 upgrades of service systems, including launching Zhiyuan Onepass App (智远一户通App) and an online business system, and optimizing important platforms such as the Tian Tian Li (天添利) portal, structured fund platform, internetization of wealth management, new shares one-key subscription, advisor for smart investment (including popular stock reviews, stock diagnosis, and stock classification), big data platforms, and H5 account trading platforms.

We forge ahead to expand Internet channels, covering Tencent, Baidu, 360, Sogou, telecommunications, and bank O2O.

We optimized our online sales and marketing. We activated and revitalized retail brokerage clients via Internet marketing planning and financial product selection, expanding our client base.

Launched Apps for marketing services

In 2016, we improved the efficiency of service staff through new system functions and integrated internal information. We developed and launched a mobile marketing service platform App for service personnel. It assists them to respond to client needs and keeps them updated with business information any time anywhere. We launched the MOT (Moment Of Truth) key time point management system on the service staff working platform to remind our employees of critical time points in business. Drawing from our R&D capacity and product schedule, we release Fortune Asset Allocation Management Monthly to service staff for their reference to recommend the right product sets to clients of different risk tolerance levels.

Launched Apps for options on mobile

In response to the changes in transaction habits of the market and the clients, we released Apps for options trading for iPhone and Android mobiles in February 2016. Being the first in the industry to introduce two smart-phone trading terminals at the same time, the Company offers great convenience for clients in options trading. Since launching, the number of clients carrying out options trading via App continued to grow. Throughout the year, the transaction volume completed via mobile App was close to 15%. In the future, we will continue to improve options trading channels and provide more convenient services to clients.

Carried out NEEQ seminars

In 2016, we held a number of NEEQ market and strategy seminars, with over 150 investment institutions and nearly 10 NEEQ (to be) listed companies participating. We facilitated analysis and discussion on the NEEQ market from the perspectives of regulators, buyers, sellers, brokers, and other intermediary market participants, bringing the clients diverse viewpoints of the NEEQ.

Built a three-tier system for the market making stock pool

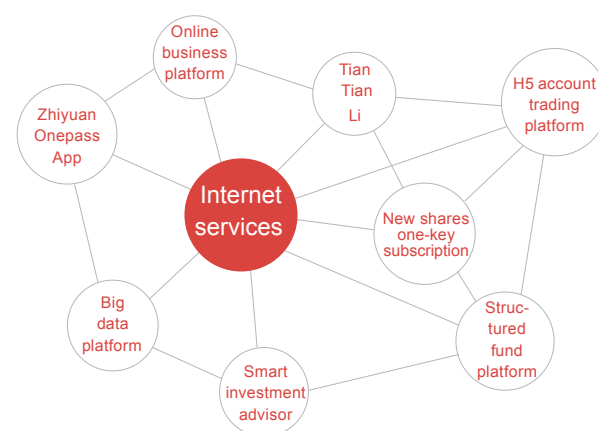
Based on our studies on valuation, we further improved the system and criteria for the market making stock pool in our OTC business. The NEEQ stock analysis system focuses on six industrial chains, including finance, consumption, TMT, energy saving, bio-medicine, and smart city. Other industries are also taken into consideration. This provides strong support on research and pricing for issuing on NEEQ and market making business.

Emphasized continual supervision and assessment

At the end of 2016, the Company sponsored over 300 NEEQ listed companies. To better serve the listed companies that are growing in number, the OTC Business Department further strengthened its continual supervision, and built and improved a series of continual supervision systems and policies. The measures not only ensure localized and efficient supervision services to the listed company, but also urge them to fully disclose accurate information in time, protecting investor interests.

Lowered service charges

In 2016, we adjusted fees for "Zhiyuan Finance Wealth Management Plan (智遠理財財富管理計劃)". We lowered client fees by an average of 25% so that a wider range of clients can enjoy our high-quality information products.



Our OTC services

One-stop service for Huasu Technology

On September 1, 2016, Shenzhou Information announced a 96.03% stake acquisition of Nanjing Huasu Technology Co., Ltd. (sponsored, listed, and supervised by CMS). The Audit Committee for Listed Company M&A of China Securities Regulatory Commission granted unconditional approval, indicating that the Company sponsored by CMS had completed the full process of listing, private placement market making, management equity incentive, and acquisition. It is the first ever in the market.

CM Securities Board Secretary School

From September to December 2016, we held 20 sessions of the "CM Securities Board Secretary School". We not only provided professional training and detailed regulation interpretations for board secretaries, but also created a platform for secretaries, investors, and listed and to be listed companies. This facilitated corporate investment and financing, and the sharing of information, knowledge, and resources; and enhanced communication between companies, investors and board secretaries, and between companies and brokers, achieving win-win solutions through mutual learning.

Expanded service channels, improved service environment

In 2016, the Company established 22 new securities branches. At the end of the year, we had 11 branches and 222 securities branches, covering 28 provinces and 113 large and medium-sized cities.

We continue to optimize the construction of our business outlets. We are determined to create a tidy, standardized, comfortable, and convenient environment for our clients. Through relocating or renovating existing securities branches, we effectively improved the service environment and further enhanced client experience.

During the year, we relocated the securities branches of Shenzhen Jian'an (深建安), Shenzhen Jinrong (深金融), Zhuzhou, Yulin, Ningbo, and Nanchang Huoju, and renovated the securities branches of Beijing Zhichunli (知春里) and Beijing Summer Palace (京颐和园), further expanding the coverage of service channels.

In addition, we standardized the service environment and brand image in all securities branches, offering clients the same comfortable service environment in any of our securities branches.

▶ New securities branches in 2016

No.	Region	Number of new securities branches	City	New securities branches by city
1	Beijing	4	Beijing	4
2	Guangdong	6	Shenzhen	6
3	Shanghai	2	Shanghai	2
4	Shandong	1	Qingdao	1
5	Hubei	1	Xiangyang	1
6	Gansu	1	Lanzhou	1
7	Shaanxi	1	Xianyang	1
8	Liaoning	1	Dalian	1
9	Henan	1	Anyang	1
10	Liaoning	1	Shenyang	1
11	Heilongjiang	1	Ha'erbin	1
12	Hunan	2	Xiangtan	1
13			Hengyang	1
14	Jiangxi	2	Jiujiang	1
15			Shangrao	1
16	Sichuan	1	Chengdu	1
17	Zhejiang	1	Wenzhou	1
Total		26		26

Enhanced IT capacity in services

In 2016, adhering to the guideline of "maintain high quality, strive for development and seek breakthroughs", our IT Center forged on a comprehensive transformation in information technology, achieved a great leap in risk management, operational support, and independent research and development capabilities.

We significantly increased our influence on the industry. We won the "Outstanding Contribution Award" from the Shenzhen Stock Exchange for reforming and switching to a new trading system. Our new data center won the "Excellent Financial Data Center Award" in the China Data Center Standardization Project. Our mobile big data platform was recognized as an "Innovative Case of Global Cloud Computing" by Microsoft Corporation, being the only winner in China's securities industry, and was promoted on Microsoft's official website. "Zhiyuan Onepass App" was recognized as a "Top Ten Broker App" by Sina 2015, ranking first in both security management and power consumption. Moreover, the UI design of our stock market quotes interface was granted an intellectual property certificate by the National Copyright Administration. Our Integrated Custody Services platform won the "Greatest Achievement Award" in "Information Technology Application of Securities Industry" by China Computer Users Association.

Our independent research and development capabilities continued to improve. The indicators of our X-Speed Trading System reached first class in the industry. The internal delay of the system was reduced to one-sixth of the average level the concurrent transactions processing increased to 8 times the average, and the amount of clients that one single node can support is 200 times more than that of similar products. We built the Trade Master brand and established an institutional client service system, supporting a quadruple growth of institutional business scale. We innovatively achieved product life cycle management through the Fund Management Institutes Service Platform and new-generation TA system, enabling the scale of our custody business to exceed RMB

1 trillion. We built a comprehensive wealth management platform through financial consultant APP and broker App. We were the first in the industry to achieve straight-through transaction settlement and unified management of capital positions through our FICC Transaction and Settlement Platform. It also made us the first to successfully implement external capital flows and internal trading instructions reconciliation mechanism, improving service efficiency by 3 times. We are one of only two securities firms granted direct access to the China Foreign Exchange Trade Center System and the only broker in the industry that can obtain all real-time transaction data of consulting service clients through the Forex Center CSTP interface.

Our risk management and operational support capacities have significantly improved. Our systems ran smoothly throughout the year without any security incidents. We built an industry-leading IT risk management and internal control system, gradually setting up an effective before-during-after risk management system. We established an automated operation and maintenance platform, enabling unified operational management focusing on configuration, incidents, and operation management, enhancing risk identification capabilities.

Ensured security for clients

Client privacy

We prevent clients' passwords from being illegally tested. To ensure the security of clients' capital, we apply an irreversible encryption algorithm on client trade passwords and capital passwords and deploy a database audit system. When error log-in attempts reach the limit, the client account will be automatically frozen to prevent illegal actions.

Our trade system defines permissions for different teller roles to minimize tellers' access. Tellers can only conduct search and operation on authorized clients to prevent cross-access to client data, ensuring the security of clients' information.

We record teller operation history. For critical business, we conduct and record double confirmation by different tellers.

We record data exportation from counter to prevent client information leakage.

Online trading security

To protect client assets and ensure information security, we actively innovate and continuously improve to provide clients with secure, thoughtful and convenient online trading services.

Tamper proof. We added a tamper-proof, intrusion prevention, and anti-DDOS attack system to our site server to effectively defend against incidents such as hacking and page falsification.

Strong verification. We developed strong identification verification measures such as dynamic token and UKEY digital certificate to strengthen client software security and protect clients' passwords in online transactions.

High protection. Risks of tampering and trojan attacks may occur when client software is being stored on or downloaded from a

server. Thus, we have added the md5 code detection mechanism to prevent risks. After downloading software, clients can distinguish whether the trade software is being tampered through md5 code comparison. Meanwhile, the server monitoring program automatically checks md5 code and alerts when a mismatch is detected.

Cracking proof. We added an anti-tracking mechanism for online transactions to prevent hackers from attacking client software through program cracking.

Enhanced encryption. We applied encryption technology and encryption strength recognized by the national authority on our client data transmission system to protect data security.

Security components. We added security components to online trade software to secure account passwords from trojans or viruses.

Provide pre-set information verification services. In case of criminal fraud, we provide pre-set information verification services for web channels and client software to help clients identify counterfeit trade software.

Investor education

In 2016, we followed through on the guidance from the Shanghai Stock Exchange, Shenzhen Stock Exchange and other governing bodies. We reinforced investor education, fulfilled the responsibilities of investor education and protected investors' legitimate rights by organizing the Blue Sky Investor Protection Campaign and Rational Investor Campaign, and promotion of investor protection and other innovative business.

We organized the Blue Sky Investor Protection Campaign to enhance investors' abilities in identifying risks, to combat market violations, and to build a healthy market. We optimized the existing suitability management system, carried out suitability management training, strengthened public notification of consignment products, implemented "double recording" of consigned financial products, and improved systems for complaint handling and training.

In 2016, we carried out a series of activities such as the "Chief Economist Lecture", "My Investment Story Sharing" essay contest, and Internet financial fraud vigilance video promotion, and visited listed companies to guide investors towards rational investment. We promoted investor protection among employees and investors. We enhanced the promotion impacts via the WeChat account of the supervisory authority. We designed investment education products and organized diverse investor protection campaigns. In addition, we communicated innovative products and security trading risks in time through our securities branches, company website, WeChat account, microblog, trading systems, text messages, and phone calls to protect investor interests, staying compliant with laws and regulations and fulfilling our social responsibilities.

Enhance client satisfaction

In 2016, we carried out a client satisfaction survey to gain feedback from different types of clients. We communicated with new clients,

In 2016, our WeChat account became one of the most influential broker self-media, with over 500,000 followers and more than 110,000 binding clients. Our amounts of followers, clicks and activity all ranked high in the industry.

During the year, we added an intelligent client service function to our official microblog, launched Tian Tian Li and developed functions for withdrawal, and reminders for new shares wins and product expiration. In 2016, through our official microblog, the Company published 126 articles, gaining 1.48 million hits, 4,777 cumulative thumb-ups and 4,100 new accounts. We also published 16,630 messages for new shares wins and 1,556 reminders of product expiration.



Built a multi-level investor education system "Zhisheng Forum(智胜讲坛)"

Futures are an indispensable measure for asset allocation in wealth management. Recognizing investor education as an important task, China Merchants Futures Co., Ltd. (CMF) has built a multi-level investor education system "Zhisheng Forum" through a series of effective activities, including product strategy seminars, market research seminars, trading skill training, and industry and other forms of forums, enabling investors to understand futures trading rules and futures trading strategy, keep abreast of market research and recommendations and learn about quantitative transactions.

In 2016, CMF held 60 sessions of the "Zhisheng Forum" in 10 large and medium-sized cities, covering 80% of CMS securities branches and 4,500 people throughout the country. Investors thought highly of the forum due to its rich contents, professional lecturers, various forms, reasonable agenda, and updated market information. "Zhisheng Forum" not only enhanced investors' risk prevention awareness and risk control ability, but also enabled investors to better understand the futures market and futures trading, helping them to grow into mature investors in the risk investment market.

MFSL clients, other existing clients, and clients maintained by sales via phone, SMS, and many other ways to learn about their feedback and suggestions for our continuous improvement in service quality. In response to suggestions on more professional financial information from our sales staff, more diverse service platforms such as SMS, telephone, e-mail, and WeChat, continuously improving our transaction software and providing training on new business and recent technologies, we made the following improvements:

- ♦ Enriched SMS information content and strengthened wealth management promotion;
- ♦ Constantly developed new service patterns, optimized trading software, and improved information delivery from the mobile end

and WeChat service;

- ♦ Continuously optimized our transaction software Zhiyuan Onepass, improved the stability of mobile Apps, added technical indicators, and updated relevant data;
- ♦ Carried out communication and training of new business and investment skills among clients at headquarters and securities branches to enhance investor education and service promotion. In 2016, the Company conducted return-visits to 1,974,000 clients opening accounts off-site. The results of these return-visits showed that clients were highly satisfied with our services. Their satisfaction rate (the number of clients very satisfied or satisfied among all clients surveyed) was 99.52%, 0.2% higher than 2015.

Strengthen communication with clients, follow through on feedback

Client relationship management system

The market went through a downturn in 2016. Orthodox mentalities in the securities market suffered adverse impacts from the rapid development of internet finance. We took advantages of the Internet

by launching an on-line intelligent client service system on our mobile Apps, official website, and official WeChat and other channels. Through intelligent client services of "robot self-service + online query", the Company enlarged service coverage and enhanced client stickiness.

In addition, our 95565 hotline continuously explored new service alternatives to ensure best service quality. In 2016, the 95565 call center faced a serious challenge with nearly 80% of the workforce being new employees. In response, we adjusted the training procedures to focus on skills, mental readiness and knowledge base through one-on-one counselling and many-to-one checks to help employees enhance their personal business skills and communication skills rapidly, achieving a client satisfaction rate of 98.34%, 0.5% higher than 2015.

Client complaint and dispute settlement mechanism

Our client complaint handling mechanism consists of four aspects, including organizational structure, system, work flow, and electronic system for handling client complaints. In 2016, following relevant requirements from the regulatory authorities, we optimized the electronic system for handling client complaints and added department approval and other nodes in the working process. We ensure that all types of complaints are solved in a timely and reasonable manner through leveraging guidance from departments in charge.

In addition, we conducted training for client complaint handling to relevant personnel. Focusing on the current situation and existing problems, the Company proposed improvement measures and follow-up requirements. We employed third parties for complaints needing further mediation to improve the client complaint resolution rate.

Complaints and accident response principles

In 2016, we revised our client complaint channels and procedures, which were accessible via our official website and securities branches, guiding investors to provide feedback on problems and suggestions.

Meanwhile, the launch of the intelligent client service system improved the channels for clients to place complaints. We have

set up various channels such as telephone hotlines, counters, and intelligent client service to ensure that client complaints are effectively addressed.

Upon receiving a client complaint, we promptly assign the relevant department to follow up. We track the progress on an irregular basis, provide timely feedback on the handling result, and carry out internal rectification and accountability review. For typical client complaints, we irregularly summarize the cases, conduct legal and regulatory analysis, reflect on the learning, educate the investors of safe investment and risk management with vivid and complete cases, and provide handling suggestions to all departments to prevent similar complaints.

In 2016, the number of complaints decreased by 97% compared with 2015. Our response rate in 2016 was 100%, and the resolution rate was 82%.

Client feedback and follow-up mechanism

During client consultations, client complaints and client call visits, our client service staff record client feedback, which is sent to relevant departments to help them fine-tune their client service and compliance management. Through feedback on the handling results or progresses from relevant departments, the Company achieves a closed-loop management of client feedback and follow-up.

Through return visits to clients opening accounts off-site, return visits to abnormal transactions and risk client screening, delisting or suspended debt to stock notification, return visits on standardized practices, satisfaction surveys and other themed return visits, and return visits on consignment of financial products, GEM, MFSL, financial products, and Shanghai-Hong Kong Stock Connect, the Client Center proactively carries out suitability management and investor education in all business processes, including client cultivation, market entering, risk notifying, sales, transactions, continuous tracking, after-sales service, and exit.

In 2016, the Client Center revisited 1,176,300 clients, 22.25% higher than the 962,200 in 2015. 616,600 of the clients were revisited via telephone, increasing by 74.90% compared to the 353,800 in 2015.

Improvement plan

With the development of China's capital market, the demand for financial products is becoming increasingly diversified. Only with a full range of products and services, can a company improve client loyalty. Our investment banking services need to make full use of the Company's resources to provide clients with all kinds of products that they need, including refinancing, bonds, mergers and acquisitions, wealth management, stock pledged repurchase,

industry funds, so that we can meet clients' financial needs and enhance client stickiness. Our OTC market services will also introduce new products and play a new role. Through financing services, product customization, and tendering mergers and acquisitions, we will provide "life cycle service", helping clients to achieve their integrated demand for financing, investment and M&A.



pride to employees

We provide the best career opportunities for our people.

We aim at growing together in a fair and harmonious environment.

We seek out top-tier talents with excellent skills and ethics. In order to attract and retain our talents, we fully respect each employee's personality, contributions, and growth needs. Also, we have been striving to build a fair career development platform and efficient training system for our people, so they can grow together with the Company.

People are the key to our company. We comply with the law and maintain steady growth to provide a first-class career development platform and a working environment with fairness and harmony. We recruit talents with great abilities and a high standard of morality, and show fully respect our employees' personalities, contributions and growth needs. We have been building a comprehensive human resources management system featuring the requirements of modern investment banks.

In 2016, our human resources management was deployed closely around our strategic targets. We endeavored to build a

comprehensive professional HR management system as well as a united and efficient team. On one hand, we improved all the HR management mechanisms and optimized the procedures, to support our business development and lay a solid foundation for HR management development. On the other hand, we are making increasing efforts to bring in talents. Core mechanisms including position management, talent allocation, performance management, and salary incentives are continuously improved, so we can better achieve the goal of introducing, developing, and motivating talents and support the Company's strategy implementation.

► Our team

An excellent team is the foundation for building the best investment bank in China. By the end of 2016, there were 5,064 nonsales and 5,753 sales employees with 10,817 employees in total in our company (including subsidiaries and stockbrokers), increased by 671 people. Our team is getting younger and more professional with higher quality.

Age - our team is young and energetic, 81.46% of the non-sales staff are aged under 40, and 78.97% of the sales staff are aged under 30.

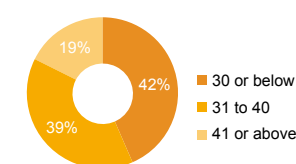
Educational background - 95.20% of non-sales staff hold a bachelor degree or above, 1.54% have PhDs, 44.83% are master degree-holders and 49.05% have bachelor degrees. For the sales

team, 1.69% have a master degree, 59.10% a bachelor degree, and 39.21% other degrees.

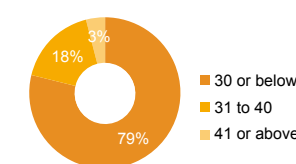
Gender - 56.24% of non-sales staff were males and 43.76% were females. The gender ratio was about 1.29:1. Among the sales team, males accounted for 60.37% and females 39.63%.

Ethnicity - more than 90% were Han Chinese, and some other staff were from minority groups including Hui, Manchu, Mongol, Uyghur, Yi, Zhuang, Buyi and Korean.

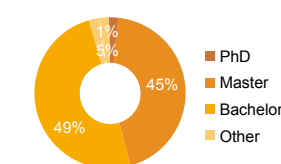
Working location - 31.41% of staff worked in the Shenzhen head-quarter.



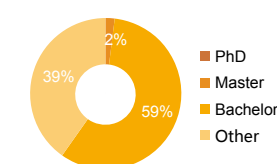
► Share of ages:
Non-sales staff



► Share of ages:
Sales team



► Share of education:
Non-sales staff



► Share of education:
Sales team

Our learning and training platform

We adhere to talent-based value and regard employees as our key assets. Employee development is part of our strategy. Each employee is expected to receive a series of professional training sessions throughout his/her career at CMS. Apart from designing a personalized all-round training scheme for our employees, we also continuously update our courses so that the training can support the rapid development of our company. In 2016, we proactively implemented our surpassing strategy,

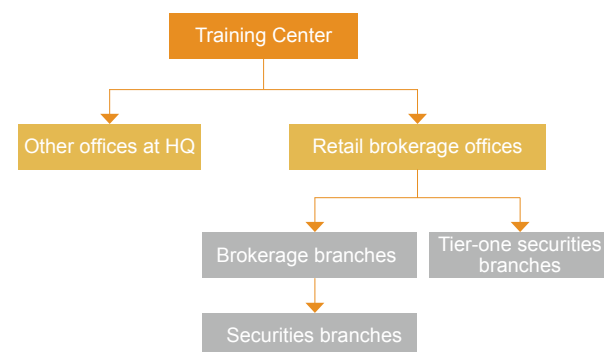
followed the latest trends in the securities industry, and continuously strengthened our training. We innovated in the content and methods of training, especially focusing on refined operation. Employees at all levels were provided unique training programs. The professional skills and qualities of our employees were further improved through the programs, so they can work more efficiently and create higher greater value to society, the Company, and themselves.

Training system

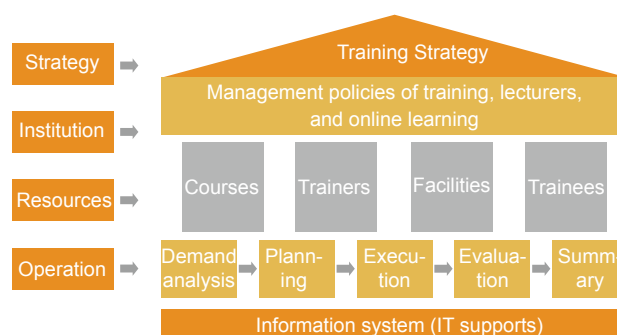
At the end of 2007, we established a training center as tier-one department to support our internal training.

We set up our training system based on our corporate strategy and talent development plan. Its implementation is supported by five elements: training strategy, policies, resources, operation, and supports.

In 2016, we strictly executed a mechanism that binds employees' annual training hours with position qualification. It greatly motivated our people to complete training programs. The Company's learning culture was promoted and the training plan was successfully implemented, reflecting the emphasis and support from the Company leaders.



Relationships between Training Center and departments

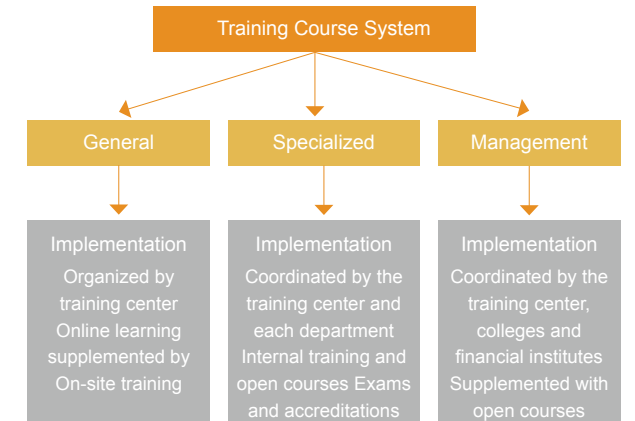


Training system

Training system

Build a differentiated training system

Based on the requirements of different positions, we have built a three-column differentiated training system, which consists of specialized courses, management courses and general courses. We design specific courses for different positions. Training plans are accordingly scheduled and implemented. We continuously improve the courses in diverse ways, including introducing training-based and non-training based methods and developing training guides for specific jobs. Therefore, our training programs become more suitable for capabilities required by the securities market and business development, boosting the career growth of our people. We design a series of targeted training projects and courses according to the training system. Our people think highly of the diverse types of training including internal and external study, and online courses.



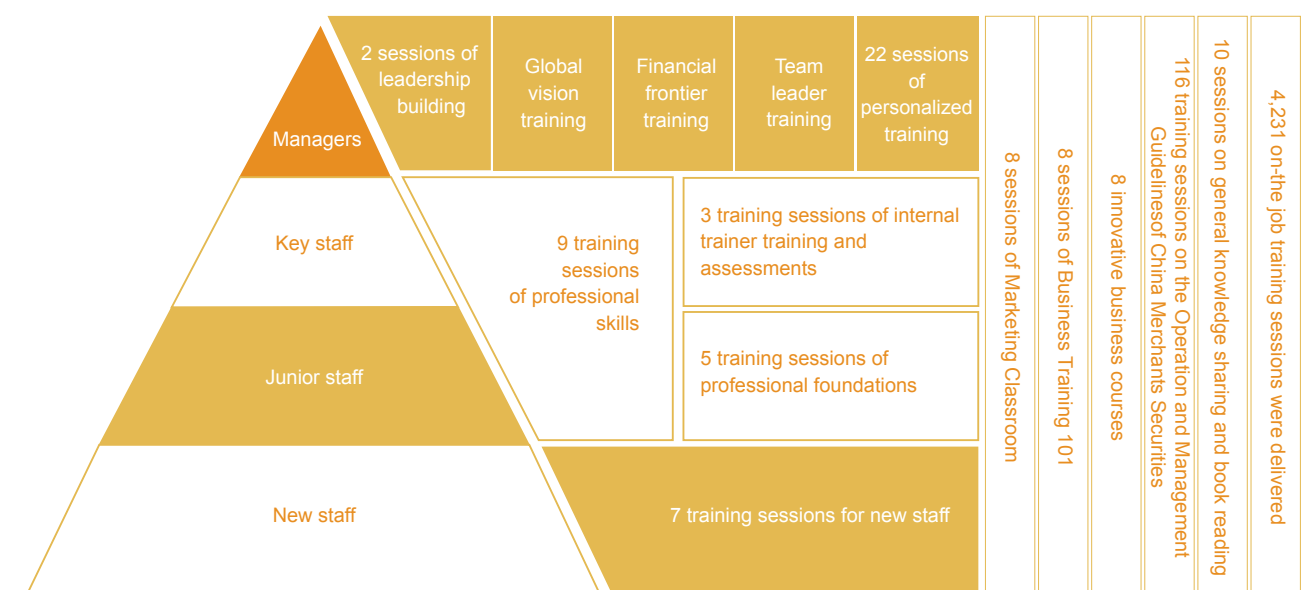
Training system diagram

Build a professional trainer team

We have built an internal team of part-time trainers, with independent abilities to develop and deliver training, and kept encouraging more people to join.

In 2016, we organized recruitments and training for internal trainers, aiming to strengthen the team and enrich the training

resources. 91 accredited trainers were trained for the head-quarters and the securities branches. 26 training sessions were delivered by the internal trainers, accounting for 42.6% of the corporate level training. The top executives also participated in teaching activities and shared their knowledge with employees.



Training structure for employees at different levels

Training efforts

Diverse training paths

We strive to meet employees' different training needs by creating diverse training paths based on our industry. In order to learn from overseas peers and further support our corporate strategy, we invited experts from home and abroad as lecturers, which was highly appreciated by our employees.

Sufficient capital investment

In our company, training is considered a long-term investment in intelligence, which generates long-term benefits and intellectual wealth for the Company and our employees. It keeps the Company vibrant and energetic. Therefore, we consistently value and invest in training activities, supporting the implementation of our people strategy.

Strong IT support

We have built the E-learning system, an online-learning system, to enable distance learning for our people. It not only greatly improves the volume and efficiency of training, but also solves the problems of geographically distributed training.

In 2016, we improved the E-learning system. A more user-friendly and convenient interface, clearer modules, and a more manageable system were presented. We also kept updating our courses and introducing new ones to meet employees' urgent needs. By the end of 2016, 496 specialized, management, and general courses were available. The standard course hours reached 584, 72% of which were specialized courses.

Course category	Number	Standard hours
Specialized	356	423
Management	10	8
General	121	144
Exams	9	9
Total	496	584

► Online training courses (by the end of 2016)

Training outcomes

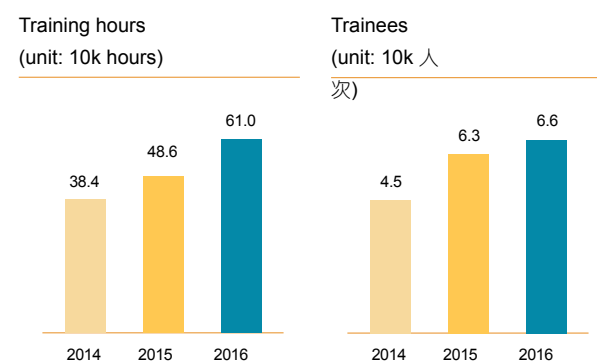
With support from the organizational structure, training system, investment, and technologies, we have implemented diverse training programs via multiple channels to cover all employees. Training KPIs keep improving. We carry out annual key training programs to upgrade our people's skills, knowledge, and adaptability to the rapid development of the Company.

In 2016, we launched a series of different training programs based on the Company's situation and the need to boost the Eight Core Competencies. More on-site and online training was conducted with higher coverage. The total training hours in 2016 exceeded 600 thousand hours, increased by an annualized 30%. Courses were delivered to more than 65,000 trainees, increased by 23%.

"Marketing Classroom" to support the annual work plan

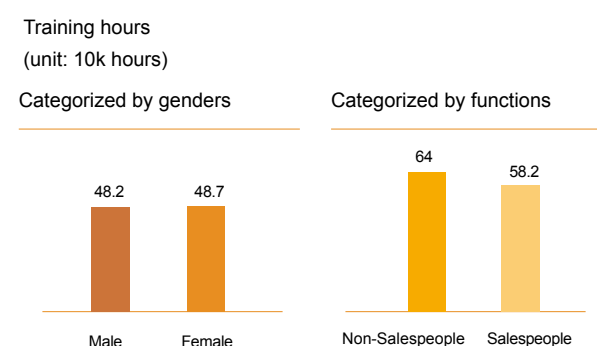
The Training Center designed and implemented 8 sessions of Marketing Classroom, in response to the Company's Marketing Year work plan and the need to provide better service to core clients.

We tailored the marketing service training courses according to



► Total training hours

► Number of trainees



► Average training hours per person in 2016

different clients "Practical Marketing Skills for Financial Products" was designed for retail clients. "Practical Marketing Skills for Hightnetworth Clients" were also designed by the Company. "Business Development Methods and Skills" was designed for institutional clients. A number of experienced experts were selected as lecturers, who shared practical experience to our staff. The sharing was first kicked off in Beijing, Shanghai, and Shenzhen and expanded to other major cities in China, and was highly appreciated by our people.

Business Training 101, addressing business needs

We organized eight sessions of innovative business training in eight cities, to accelerate the transformation to integrated operation. On the foundation of 2015 when nine sessions were delivered, we managed to cover all branches and tier-one securities branches. The courses emphasize new businesses and are tailored to the specific needs of brokerages. The contents include asset management, custody and outsourcing, equity and bond financing, financial products sales, direct investment, OTC business, and derivatives. We encouraged communication between lecturers, branches, and clients after class, which promoted knowledge sharing. It also helps the application of training contents, meets the needs of different regions, and reinforces the practicability of the courses.

Innovation training programs to accelerate business transformation

In 2016, we strengthened our cooperation with the Shanghai Stock Exchange and HKEx, introduced experts from the exchanges and organized eight training sessions on stock options, ABS and Shenzhen-Hong Kong Stock Connect, to accelerate business

Post-doctoral working station

We applied for setting up a post-doctoral working station through the government, to support building teams of extraordinary talents. Since 2010 when the station was approved, it has been working on the establishment of regulations and attracting high-level PhDs. We cooperate with famous universities in China such as Tsinghua University, Renmin University, and Xiamen University. Four PhDs were recruited to conduct research at the station.

The station selects research topics that address the integration of production, study, and research. Five papers were published in CSSCI and more than 50 internal reports were delivered by the four PhDs at the station. Also, the post-docs oversaw a number of important research topics and delivered high quality output. For example, they directed the Simplification and Differentiation of Information Disclosure of Listed Company, cooperating with the Shanghai Stock Exchange. Another directed project Accounting Transparency, Institutional Investors Behavior and the Pricing of Accruals won the Second Grade Sponsorship from China Post-Doctoral Fund Science Foundation. Some other research projects were selected as Annual Excellent Projects by the Securities Association of China. The research projects have generated considerable benefits for the Company and the industry.

transformation. The stock options training was conducted in a one-stop service manner, where training and certification were combined. This training cultivated professional talents that help the Company seize market share. The ABS and Shenzhen-Hong Kong Stock Connect training sessions discussed topical issues and were delivered by lecturers from supervision departments, so the contents were up-to-date and were highly praised by staff.

Cultivate cadres with top-tier colleges

Cadres are the backbone to ensure corporate performance. We organized management training in assorted topics, to improve our cadres' abilities in management, strategy, and innovation. We cooperated with top-tier universities for the training. For example, Leadership Improvement with Guanghua Management School, Peking University, International Perspective with the Chinese University of Hong Kong and Finance Frontier with Tsinghua PBCSF were held. Besides lectures, we innovated on-site visits to exemplary companies. We took our cadres to Baidu to learn about the deployment and development of IT companies in the finance industry. We visited JD Finance to understand the impacts from big data and the Internet. We went to Tencent Head-quarter to experience the youthful energy of IT companies. Our cadres thought highly of these visits.

Upgrade core skills, enhance career potentials

We highly value developing our employees' core skills. We organized nine sessions of O-series training for office skills and S-series training for soft skills development in 2016, helping our people improve their professionalism and efficiency. For new staff, we organized five orientations and two boot camps for wealth consultants in brokerages. Also, events such as reading clubs and external lectures were held and favored by our staff.





Our employee rights protection system

Nurture harmonious labor relationships

We strictly comply with the regulations in China and have established an equal employment scheme. On the basis of equality, willingness and consensus, labor contracts are signed, rights and obligations of both parties are defined and the labor relationship is legally established. legally. We value the standardized management of all forms of employment. According to regulations, we sign employment contracts with sales people. Through labor agents, our dispatch service workers are managed in a unified manner. Lawful rights of staff in different employment relationships are protected.

In 2016, our labor relationships were further improved through the following efforts: strengthened labor relationship management, timely communication with all departments, optimization of the processes of non-competition responsibilities, proceeding with the signing and renewal of labor contracts and providing consulting services for labor contract management. We process any labor disputes in a timely manner to enhance harmonious employee relations. We pursued calls for violation penalty for noncompetition agreement and actively responded to suits related to labor disputes, strengthening the execution of company policies and protecting the Company's legitimate rights. We formulated "Dispatch Workers Management Measures" to standardize the hiring process, promote harmonious employment relations and enhance communication with the third party service providers.

We continued to standardize the legal person governance. Currently three employees are on the supervisory board, accounting for one-third of all members, to exercise the right of supervision on behalf of other staff.

We have established and continued to improve our human resources management system to safeguard the lawful rights and interests of our employees. We organize introduction training for labor relationship management and explanation sessions for HR polices to enhance transparency. In 2016, we drafted or revised four sets of policies, including Long-term Service Incentives, analyzed HR related processes and organized explanation sessions of eligibility management, performance management, and supplementary medical insurance and health check, further improving the transparency and standardization of our HR management, work efficiency, and employee satisfaction.

Improve the benefit system

We have built up and kept improving the benefit system, ensuring competitive benefits to our employees.

A benefit system that matches the the Company's performance is in place to guarantee the competitiveness of our benefit packages and to promote business development. We optimize the remuneration structure and strengthen the bridge between bonus and performance with stronger incentives. We have designed a differentiated incentive system to meet the requirements of various business units and enhance incentives to core talents and key talents. We take employees' interests into consideration when designing payment schemes to best motivate them. We actively participate in industrial remuneration surveys to stay updated with the latest trends. We review the competitiveness of our benefit packages and make timely adjustments. In 2016, we continued to adopt a market-oriented benefit system to ensure it was competitive and matched our performance. We further developed the market-oriented remuneration system and recruited talents for key businesses and managerial positions, to boost our business development.

We have established a multilevel endowment insurance system. Social insurance, including basic endowment insurance, basic medical insurance, local medical insurance, work injury insurance, and unemployment insurance is purchased for all employees. Supplementary insurance, including group accident insurance, critical illness insurance and generic health insurance, is also purchased. We set up corporate pension plan that prepares pensions for those with certain length of service to enhance employees' loyalty and to share the Company's success with them. The social and commercial insurance as well as the corporate pension constitute a comprehensive benefit system, supporting the employees' daily lives during their service and after retirement.

Execute the dual-track management for marketing personnel

In 2016, we continued to deploy dual-track management for stock brokers and account managers. While maintaining our work arrangement with stock brokers, the qualified brokers can choose to sign labor contracts as account managers. During the execution

of dual-track management, pre-job training is organized by the Company. We have unified our supporting system, inquiry system, client review system, abnormal transaction and operation monitoring system, complaint system, and documentation system, to ensure coordinated management of the sales force and effective control of risks through a three-tier internal control including selfcontrol at the business departments and branches, risk control at the Legal and Compliance Department, and inspection at the Audit Department. We strictly follow the management policies of stock brokers and account managers to ensure comprehensive and standardized management in human resources, contracts, post certificates, attendance policies and remuneration schemes.

In other legal aspects, we purchase commercial insurance for stock brokers that have signed consignment contracts. Brokers that have met certain requirements are entitled to insurance subsidy. We purchase social insurance for account managers that have signed labor contracts. Festival bonuses, communication fees and annual health checks are provided to qualified employees.

Build friendly working environment

We strive to build a comfortable and harmonious working environment for our staff to ensure their health and safety so they can work happily. We hire professional companies for security, cleaning, and greenery to provide a safe and clean work place for our people.

We comply with labor laws and regulations and guarantee employees' rights to rest and paid leave to maintain their positive work attitudes and work-life balance. We reinforce labor protection to prevent occupational diseases and relevant hazards.

We organize an annual health check which covers all staff. Various recreational events and health talks are held for staff.

Labor Union-Staff Home

The Labor Union was established on the founding of the Company, representing the benefits of all employees. Meanwhile, union groups were set up at each department and branch. Currently, all our staff have joined the union. It works as a Staff Home to address staff's needs and difficulties. Greetings are sent to staff at festivals such as the Lantern Festival, Dragon Boat Festival and Mid-Autumn Festival, as well as birthdays. Networking events are held for young staff. Representatives are sent to visit sick staff or pregnant colleagues.

To strengthen the primary-level democracy at the Company and to safeguard our employees' rights to participate in democratic decision making, in 2016, the Worker's Congress was established thanks to the proactive support from the union, showcasing a leap forward for the democratic improvement of the Company.

The union consists of clubs for soccer, basketball, badminton, tennis, Go, singing, photography and other recreational activities.

Events are regularly held to enrich staff's leisure life and cultivate rapport.

In 2016, badminton, soccer, basketball, poker, and other activity events were held, attracting over 600 staff from 32 units in Guangdong, Shenzhen, and Hong Kong to join.

We won a number of awards from the Shenzhen Federal of Trade Unions and other associations, including the 2013 Outstanding Award for Trade Union Financial Performance, 2011-2013 Advanced Collectives for Union Finance and 2014 & 2015 Outstanding Award for Union Fee Collection.

Care for special groups

We care about the growth and development of every staff, especially women, colleagues with illnesses and retirees.

We care about women. For female employees that are pregnant or in the maternity period, their rights to leave and welfare are ensured. Pregnant women enjoy priority in canteens. Representatives are sent to visit female staff after parturition.

We care about our staff's health. Critical disease insurance and group accident insurance are purchased for all staff. For those suffering from serious illness, social insurance and supplementary medical insurance cover most of the medical costs. Also, financial aids can be applied for, and the Company organize fund-raising to support those in need. In 2016, 13 staff suffering from serious illnesses received aid from the union.

We care about retirees. Group accident insurance and critical illness insurance are purchased for all retirees. We arrange health checks, sightseeing trips, and Spring Festival parties for retirees, so that they can share the benefits of the Company's development.

Employee satisfaction and turnover rate

In light of employee satisfaction, we focus on improving management and staff services to ensure that relevant policies can cover all modules of human resources management. Measures such as communication sessions and OA message board are employed to promote policies, helping to improve the transparency and standardization of human resources management as well as employee satisfaction. On the aspect of staff service, we continuously improve the processes and standardization of human resources service. In 2016, we optimized the IT system for human resources. The EHR system enabled approval functions on mobile devices, greatly increasing the efficiency of HR management. Processes for sorting Hukou settlement, application for residence and other accreditation issues were accelerated and employee satisfaction improved as a result.

In 2016, the overall staff turnover rate was lower than the average level of the industry.



Our corporate culture

1991

Clients: 55
Securities branch: 1

1996

Clients: 280k
Securities branches: 16

2001

Clients: 1.03m
Securities branches: 25

2006

Clients: 1.45m
Securities branches: 54

2011

Clients: 3.58m
Securities branches: 91

2016

Clients: 6m
Securities branches: 222

Promoted our quest to “Grow together, Win the Future”

We held a conference with the theme “Grow Together, Win the Future” for our 25th anniversary. We shared experiences and our outlook on the future in a cheerful atmosphere. We made a video and photo album highlighting “Grow Together, Win the Future” and held a “Pioneer” essay contest. Meanwhile, a series of events such as client appreciation, charity, and other cultural and sports events were organized to promote our brand and to share the appeal of “Grow Together, Win the Future” with employees, clients, shareholders, and society.



► On July 8, 2016, CMS celebrated its 25th anniversary with the theme of “Grow Together, Win the Future”. Above is the 25th anniversary photo album.

Urged all staff to implement the spirit of the Guidelines

We launched the “Operation and Management Guidelines of China Merchants Securities” (the Guidelines) in 2016. To promote the spirit of the Guidelines in an in-depth, accurate, and systematic way, we spent three months developing unified courseware and relevant supplementary materials. We set up a trainer team with 50 people to deliver training to all staff and brokers in China. The spirit of the Guidelines and the on-going transformation of the Company were delivered to all staff in an in-depth, systematic, and comprehensive way, which translated the spirit into action. Meanwhile, we organized a speech contest “To Be an Excellent Banker” and an essay contest “Best Investment Bank in My Mind”, to reflect on the guideline training.



► In January 2016, the CMS Operation Management Outline was officially published.

Drove for corporate transformation and upgrading

In the Marketing Year, we built a marketing system and improved our capabilities in client services. We organized a promotion week which engaged all staff and took place in 100 cities, creating an upsurge in the Company. We organized an Innovative Talent campaign to collect and incubate innovative projects. At the end of 2016, we awarded certain marketing campaigns the Marketing Breakthrough Contribution Award, and held seminars to share outstanding examples.



► On November 8th, 2016, CMS organized the final speech contest “To Be an Excellent Investment Bank”.

“

We believe that companies with a keen sense of social responsibility contribute to social progress through their great professional services as well as their great corporate cultures. 2016 was the 25th anniversary of CMS, and the middle year of the 2nd Three-Year Plan of Building the Best Investment Bank in China. In such a critical year, we kept “Grow Together, Win the Future” in mind. While celebrating the anniversary and launching the “Operation and Management Guidelines of China Merchants Securities”, we promoted the marketing transformation and deployed our strategies into daily activities.

”



▶ Our career development platform

Career development path

We persist in "promotion and demotion based on capabilities" and hierarchy management when building career development paths. We keep optimizing our team structure and reinforcing the management of key talents to maintain our competitiveness, through establishing the position ranking scheme, qualification management, headcount management and contribution assessments. The Policy on Position Ranking defines the career path for staff in different business units, so that they can be promoted based on their professional capabilities and performance.

Qualification system

Our company continuously reinforces the building of qualification management that helps our staff to grow. By constantly improving the management system and the relevant settings including training, performance, and remuneration, we have improved the matching degree between staff and positions, and optimized the team structure of professional talents.

In 2016, we further utilized the review output of employees' contributions to their positions. After defining the roles and responsibilities of each position, we organized each department to conduct employee performance appraisals, the output of which was uploaded to and maintained in the HR IT system, ensuring an efficient and standardized position management system. Also, an employee's contribution to a certain position became an evaluation factor for promotion. The continual improvement of the position management system provides evidence for HR management decisions and makes them more standardized.

Training system

We constantly improve our training system. We utilize resources from the Company, departments, and staff. The Company

leads the direction, the departments cascade deployment, and our people steer their own development, creating an enabling environment for talent development.

In 2016, we adjusted our talent plan based on the staff performance review in 2015 to support future talent recruitment, and consolidated data for talent development and formed a preliminary plan for youth cadre development. At the same time, we reinforced the orientation processes. The HR department keeps track of the schedule and actual implementation of each department, as well as the monthly new staff meetings, strengthening development of new employees.

In 2016, our company further improved cadre management. We analyzed the current situation of the cadre teams and further standardized processes for appointing, dismissal, assessment, and development. Improvement plans were made to provide organizational support for the corporate goal. We have included more hiring methods for cadres, such as open and internal recruiting other than appointment by leaders. We also encourage cadres to compete for positions. We focus on performance and management behaviors in cadre assessment, and appointment decisions are drawn on the assessment results. We have standardized the procedures for appointing and dismissing cadres, including pre-assessment, announcement, and communication. In 2016, the training center organized five training sessions on topics such as global acumen, innovation, teamwork, and leading experience of the international finance industry for departmental GM assistants and above and senior managers.

Recruitment and allocation

While bringing in talents through various channels, we also encourage internal recruitment. The job descriptions are accessible to all staff and published on the OA platform. We have built communication channels between the head-quarters, departments, and branches as well as exchange channels between departments, motivating our staff to devote their passions and creativity to their work. In 2016, approximately 210 internal allocations were made.

▶ Strengthen communication with employees, follow through on feedback

We encourage open communication, to enhance interaction between management and the general staff, and to cultivate a culture of openness and harmony.

- ♦ We apply flat management structure to reduce management rankings, enabling vertical communication and reducing communication costs.
- ♦ We have built a horizontal communication mechanism, where requesters can clearly understand the progression of issues and evaluate the attitude and service quality of service providers, via the online system.
- ♦ We have established an announcement mechanism for policies. Policies relating to employees' key interests must be published and sent to all staff. After the announcement, the department in charge should revise the draft based on feedback. Significant disagreements that are not adopted should be stated and explained when the draft is submitted for approval.
- ♦ We offer diverse communication channels, including daily operation meetings, seminars or department meetings, and published

documents, announcements, and business briefings, to protect employees' rights to knowledge and participation in management. Employees can communicate with colleagues and leaders conveniently via BBS and email.

♦ The Labor Union has also set up a Staff Home mailbox, to which staff can report on issues or provide suggestions related to labor relations or daily work. The union has designated personnel to review the letters. The reported issues would be coordinated by the union committee after verification. Cultural exchange is another important approach for communication channel. Various activities are organized and spread through the CMS monthly journal, E-journals and BBS, delivering the corporate values, corporate cultures, and employees' voices, and promoting communication among employees and with the Company.

♦ Every year, we organize award campaigns, including the Innovation Award, Coordination Award, and Management and Service Support Award, to motivate innovation, promote a culture of inclusiveness and strengthen effective services and support.

▶ Improvement plan

In 2017, we will focus on talent recruitment and analysis on our existing talent pool, improve the internal career path, and implement management measures such as account managers for business departments, and promotion, demotion, and motivation based on abilities, accelerating the establishment of a sizeable

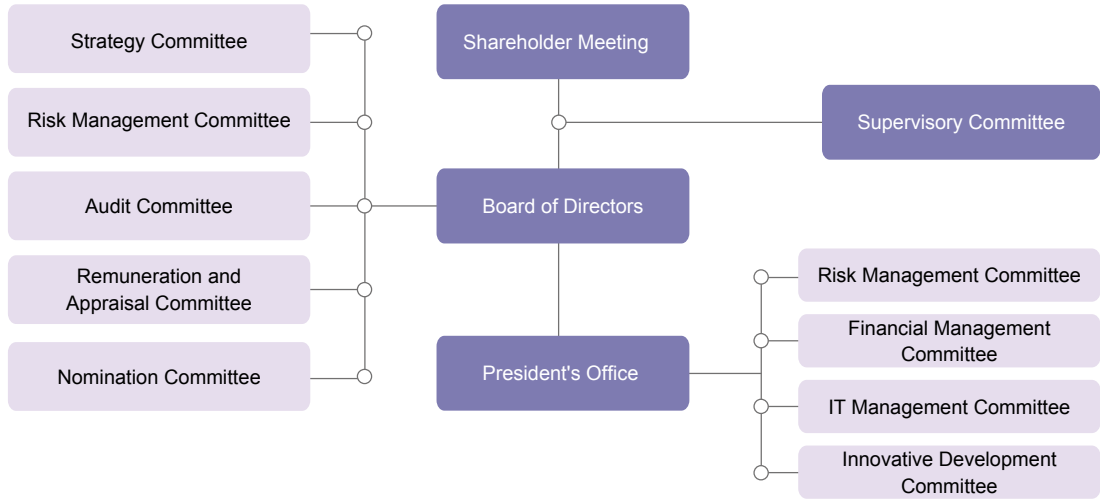
professional team with outstanding integrated service capabilities. Meanwhile, we will enhance our HR functions to enable a transparent system with efficient processes, and to support our business growth with good services, clear management, and a professional team.



We understand that our shareholders invest in us because of their trust and support to our management and employees. It is our responsibility to realize long-term values for our shareholders, and address their demands for maintenance and appreciation of assets. In the 25 years of our development, we have returned our shareholders' trust with persistence on ensuring steady growth and standardized operation through continuously optimizing our corporate governance, minimizing risks, protecting shareholders' assets, and striving for better operational performance.

Optimize corporate governance

Corporate governance structure



Satisfactory to Shareholders

We are committed establishing a standardized modern corporate governance structure. With sturdy operation and scientific management, we hope to provide continual returns to our shareholders by ensuring steady growth in our asset value.

In 2016, the Company issued overseas-listed foreign shares (H Shares) for listing and trading on the main board of the Hong Kong Stock Exchange. In order to meet the corporate governance requirements in Shanghai and Hong Kong, we further improved our corporate governance structure with reference to Hong Kong-China cross border regulatory standards. We maintained our original "3+1" structure of Shareholders' meeting, Board of Directors, and Supervisory Committee working together with our management team. Combined with our independent director policies, we managed to strike a check and balance among the authority, decision makers, supervisors, and the management team, ensuring their coordinated and standardized performance. We have also set five committees, covering risk management, strategy, audit, remuneration, and nomination, under the charge of the

Board of Directors. The percentage of independent directors remains at one-third of the Board.

- ◆ We held three shareholders' meetings, and discussed 17 motions. In order to help shareholders exercise their right to vote, all the polls in the meetings were conducted both on-site and online.
- ◆ We held 14 board meetings, and discussed 51 motions.
- ◆ We held five Supervision Committee meetings, and discussed 14 motions.
- ◆ The committees under the charge of the Board held 16 meetings, among which four were held by the Risk Management Committee, six by the Audit Committee, one by the Strategy Committee, three by the Remuneration and Appraisal Committee, and two by the Nomination Committee, to review and discuss various critical issues.

Protect investors' interests

We now have five independent directors on the Board of Directors that protect our shareholders' rights independently and objectively, and ensure effective checks and balances during the decision making process.

The independent directors actively participate in shareholders' meetings, listen to investors, especially medium-sized and small investors, and enhance communication with them. They care about investors' needs and try to protect their interests as much as possible. We have upgraded the Chinese and English version of our investor relationship website with a reference to international practices. Through the online interactive platform of the Shanghai Stock Exchange, we disclose detailed information of the Company and respond to investors' questions and advice. We also reach out to small and medium-sized investors through emails, helping them

form reasonable investment perspectives and expectations towards our company.

By end of 2016, the Company's market value ranked 15th in global investment banks, and 8th in domestic investment banks. Among the 18 Chinese securities firms listed in Hong Kong, the market value of the Company's H shares ranked fifth. Also, our H shares IPO enjoyed the highest oversubscribing rate and the largest scale among all Chinese securities firms listed in Hong Kong in 2016. The Company maintains excellent performance on compliance and risk management, and has not committed material violation of regulations. Moreover, the Company is one of only two securities firms in the industry to receive the "AA" regulatory rating for nine consecutive years, and one of eight securities firms to receive the "AA" regulatory rating in 2016.

Enhance internal control

Internal control structure

Drawing on the COSO Enterprise Risk Management Framework, and the management practices from our internal control departments such as Risk Management, Legal and Compliance, Audit and Supervision, we have established an independent and professional risk management process that enables continual risk detection and review, monitor and measure, control and response, and report and feedback. For common internal control issues such as inadequate diligence in front departments and late involvement in back office departments, we have installed three internal control firewalls in each core business to ensure the Company's steady development.

- ◆ We improved our risk limit indicators system in various aspects including risk appetite, risk tolerance indicators, economic capital, and business authorization.
- ◆ We conducted a considerable amount of risk assessment, review, and monitoring work to guarantee the Company's asset quality.
- ◆ We strengthened our efforts in risk management tools, methods, and systems through improving our internal credit rating system, the market risk management data center and related quantitative models, and the specific inspection on operational risk.

Economic capital management

Drawing on our development strategy in 2016 and in response to the profit fluctuation, increasing operating leverage, and development of different sectors, we allocated economic capital in accordance with our risk appetite and risk tolerance. We hope to control risks in different sectors with economic capital limits, and make timely adjustments to the allocation of economic capital based on development of each sector. Also, to maximize our shareholders' earnings, we increase the flexibility on self-conducting business in risk management limits, direct resources to business with higher risk-benefit ratios, and balance the risk and benefit undertaken by the Company.

In 2016, the Company maintained steady growth in different business sectors, matching with the Board of Directors' risk appetite. The overall risks were measurable, controllable, and bearable. We effectively controlled risks in different business sectors, and witnessed no material risk events.

Comprehensive risk management system

We have established a comprehensive risk management system in accordance with our development strategy, and formed a sound risk management organization structure and system, a quantifiable risk limit indicator system, a professional risk management talent team, a reliable risk management information system, and an effective risk assessment, review and monitoring system.

In 2016, we continued managing risks in a steady and forward-looking and proactive way. We improved our risk management framework and professional capability in the following six aspects:

- ◆ We established and modified policies to improve the policies and framework concerning market, credit, and operational and liquidity risks.
- ◆ We continued to optimize the decision-making scope of the Risk Management Committee and improve the decision-making efficiency.

Compliance management

In 2016, the CSRC required securities and futures business operating institutions to improve compliance and risk management. In the conference and training sessions, the CSRC emphasized comprehensive and strict regulations, and focused on risk prevention and compliance. We continued to follow the regulation trend, implement regulatory requirements, and persist on our compliance culture. We strengthened our internal control through various solutions to prevent compliance risks and facilitate compliance management. We strengthened the suitability management of investors and compliance promotion beforehand to ensure compliance by all staff. We strengthened compliance alert and promoted legal compliance. Through the closed-loop compliance management, we gave timely and effective support to our business development. The Company is one of only two securities firms in the industry to receive the "AA" regulatory rating for nine consecutive years since 2008.

Chinese Wall management

In terms of Chinese Wall management, the Company has specifically expanded the information segregation list and the cross-wall management range to debt underwriting and OTC NEEQ listing business, so as to address the rapid development of OTC NEEQ listing business and corporate bonds and prevent potential undue flow and usage of sensitive information. Also, we strived to assist the business departments to establish their internal Chinese Wall managementsystem to strengthen firsthand control in the business. Meanwhile, we managed to complete monitoring tasks with high quality despite a substantial increase in monitoring workload in inside and sensitive information and monitoring, conflict of interest investigation, list management, cross-wall management, and e-mail monitoring, providing continuous support to the Company's business development and fulfillment of corporate social responsibility.

Internal credit rating system

The Company has developed an internal credit rating system to improve its risk identification capability for clients. In 2016, after research of industry practices the Company set up an internal credit rating system, which includes model configuration, rating calculation, process management, rating analysis, and other functions. It has been applied in client access, risk monitoring and warning, and other practices in credit risk management. With the internal credit rating system, we have significantly enhanced the Company's credit risk management capabilities and reduced the investment in and credit risk exposure of high-risk clients.

Internal audit

In 2016, based on the analysis of the changes in the regulatory

environment and the characteristics of the market risk and the business development trend, we fine-tuned our work focus and business risk points according to the regulatory environment and corporate strategy. We continually optimized our computer audit methods, setting "big data" analysis as the core, and constantly improved our auditing ability to ensure breadth of the project coverage, depth in auditing, and adequate efforts paid in internal control. We conducted internal audits in all business departments and a targeted audit of the important functional management areas such as bidding management, human resources management, major decision-making, and settlement. While we strived to cover all branches with regular audits, we conducted a multisector joint inspection on 30 branches. The audits greatly facilitated the research on firsthand information, strengthened frontline control, optimized the information system, improved the Company's regulations, moved forward the internal control port, and promoted a compliance culture.

We have continued to improve the data model of the audit analysis system, added or optimized a number of business analysis indicators, and integrated external interbank market data and information system data based on the Company's internal trading system data, to expand data coverage and analysis dimensions. We have also initiated the drawing and application of the audit knowledge map, realized the transformation of individual knowledge to corporate knowledge, and promoted the accumulation of audit knowledge and the overall internal audit ability. We are risk-oriented. We conducted specific audits on key business areas and high-risk business to check the implementation of rules and policies. We are also observant. Based on the observation of management and control system design, we put forward systematic and specific audit recommendations to address the deficiencies and eliminate risks at an early stage. Also, we sorted out the key business risk control matrix, doubled the inspection efforts of the effectiveness of the internal control on all risk control points, and rectified the deficiencies immediately. As of the end of 2016, the average rectification rate of the audit problems over the years reached 97.8%. Through the "Two Strengthenings, Two Containments" overall self-examination and the drafting of "Internal Control Responsibility", we urged the business departments to strengthen internal self-control, to curb illegal management, and to integrate key internal audit points into the internal control responsibility and therefore enhanced the internal control ability of the front-line departments. Also, we studied the requirements of the Hong Kong regulatory authorities for the establishment and implementation of the internal control system of H-share listed companies, and proceeded to improve the evaluation of A+H shares company's internal control effectiveness. According to the internal audits in 2016, there were no significant loose ends in our internal control. All sectors developed smoothly in accordance with external regulations and internal system requirements. The Company continued to maintain a clear record of no significant risk events, reflecting the overall effectiveness of the internal control mechanism.

Consolidated risk supervision

Consolidated risk supervision is an important means of effective supervision of financial groups. CSRC will start a pilot consolidated supervision in 2017. The Company has applied to be in the first batch to participate in this supervision. We would like to take advantage of this opportunity to improve the Company's comprehensive risk management system, and support the establishment of rules for consolidated supervision in the industry.

In 2016, the Company set up a team to coordinate and supervise the pilot consolidated supervision. The team actively participated in the research and establishment of the rules and regulations in consolidated supervision and enhanced rationality of the calculation of consolidated risk control indicators. Also, they sorted out the properties and business that were covered in the range of consolidated supervision, and covered the calculation of consolidated risk control indicators on all sectors in the Company. Moreover, they started to construct the monitoring system of consolidated risk control indicators, to achieve dynamic monitoring.

Anti-corruption

In 2016, we organized a series of anti-corruption activities, including:

- ♦ Anti-corruption conference, arranging anti-corruption work throughout the year.
- ♦ Signing the "Anti-Corruption Objectives and Responsibility Book", implementing the "Two Responsibilities."
- ♦ Reviewing and rectifying behaviors related to formalism, bureaucracy, hedonism and extravagant lifestyles.
- ♦ Self-review and inspection on the "Eight Provisions" and nine key measures.
- ♦ Integrity risk assessment and inspection.

Through the in-depth integrity and anti-corruption promotion, we effectively helped the Company improve its performance, and prevent the reoccurrence of adverse behaviors.

Anti-money laundering management

In 2016, we fully complied with regulatory requirements and further improved the internal control system to follow through on our "risk based" anti-money laundering guideline, enhancing our foundation.

- ♦ In accordance with the Shenzhen People's Bank of China's "Guidance on Strengthening the Risk Prevention of Money Laundering in Shenzhen Securities Institutions", the Company sharpened its focus in non-broker business and established the "Anti-Money Laundering Workflow for Financing Business" and "Anti-Money Laundering Workflow for Internet Finance Business" to further improve the Company's internal control system.
- ♦ The Company carried out client identification verification and classification of client risk level. When establishing a new business relationship with a client, the Company would conduct due

diligence on the client, verify the client's valid identity documents to prove his or her identification, register the client's basic information and retain a copy or scan of the valid identity documents. When changes occur in a client's basic information, we would re-identify the client through continuous identification measures. We would remind clients of expired identification documents to update their documents at the counter, and take restrictive measures to on clients who fail to update their expired identification documents in three months. According to the "Anti-Money Laundering Client Risk Classification Management Approaches", we classify clients' risk levels with the help of the anti-money-laundering monitoring system. For clients that we have recently established business relationships with, the Company would file them into the matching risk level within 10 working days after the establishment of the business relationship. We also have different audit procedures for clients of different risk levels. Clients or accounts with higher risk levels would need to go through stricter audit procedures compared to clients or accounts with lower risk levels.

- ♦ In accordance with the requirements of the regulatory policies, the Company continues to report on large transactions under the single client multi-bank service. Following the requirements of the China Securities Industry Association, the Company supervises the transfer of funds under the specific target threshold and submits large transaction reports to the China Anti-Money Laundering Monitoring and Analysis Center on time. At the same time, the Company also reports on custom suspicious transactions. The Company has built a set of abnormal transaction monitoring index systems that fit its own business scale and characteristics, and established an anti-money laundering monitoring report system. In 2016, the Company enhanced the quality of suspicious transaction analysis and detection through training, compliance tips, daily communication, and other measures.
- ♦ The Company carried out anti-money laundering inspection or internal audits on eight securities branches to check loopholes and improve their anti-money laundering performance.

- ♦ The Company organized a variety of promotion and training activities on anti-money laundering. 2016 is the tenth anniversary of the promulgation of the "Anti-Money Laundering Law". The Company made September and October as antimoney laundering promotion months in 2016, and issued a special notice for implementation. We put up posters on the Company's anti-money laundering anniversary on our official website, and distributed printed materials promoting the tenth anniversary of anti-money laundering. In accordance with local and corporate requirements, the branches actively carried out various anti-money-laundering activities, such as promoting antimoney laundering through putting up banners in the securities branches, writing Op-eds, establishing consultation desks, distributing brochures, and educating clients in investment strategy conferences. In addition, the branches launched over 200 themed campaigns. In 2016, the Company organized over 300 sessions of anti-money laundering training, covering relevant laws and regulations, system requirements, specific practices, and daily skills.

- ♦ The Company actively cooperated with the policy research of the regulatory departments, provided comments to the "Financial Institutions' Large-Scale Transactions and Suspicious Transaction Reports Management Approaches" draft, and participated in "The Anti-Money-Laundering Investigation Implementation Details of People's Bank of China (Trial)" as required. We actively contributed our advice and suggestions based on the actual situation of the industry and the Company.

Securities practitioners education

The Company has always laid great emphasis on practitioner education. We enhance our promotion in practitioner compliance education in various ways to raise their compliance awareness. In 2016, the Company organized various forms of training and educational activities that covered all staff, enhancing the compliance culture and the awareness of harsh punishment in case of violation. We hope our practitioners can have a deeper understanding of compliance culture, and consciously practice according to the standards. In 2016, the Company carried out 33 training courses, covering 14

lines of business such as corporate brokers, investment banking, institution business, fixed income, securities and investments, credit, sponsorship, OTC market, research, information technology, and direct investment. We also carried out specific training courses in terms of eight important legal compliances, such as Chinese Wall list management, cross-wall procedures, client complaint handling, contract management, non-brokerage business anti-money-laundering, anti-money laundering practices, and corporate bankruptcy-related legal practice. Operation directors, wealth consultants (the first boot camp), and new employees recruited in Phase 1 to 5 in 2016 were required to participate in compliance training sessions, to help them understand relevant legal requirements as soon as possible, and practice according to the law. The Company also carried out a series of educational activities to strengthen compliance and social responsibility awareness under themes such as securities practitioners' moral standards, corporate social responsibility, and company's compliance culture. Additionally, we developed the course "China Merchants Securities Educational Curriculum on Strengthening Compliance and Social Responsibility Awareness", which explains the code of conduct and requirements of practitioners in securities companies in an explicit way.

Compliance related books compiled in 2016 by China Merchants Securities



China Merchants Securities strives to strengthen compliance Guidance and promote compliance practice, and lays great emphasis on reflection of working methods and cases. In 2016, we summarized the key points and regulatory priorities of the legal compliance management in our business, and compiled a set of booklets. We printed the "Handbook on the Practice of the NEEQ", the "Handbook on Suitability Compliance for Investors in Brokerage Business", and the "Handbook on Letters and Complaints Management and Mediation" to guide the front-line staff's compliant behaviors.

Ensure continuous returns

Strategies and development in 2016

From 2015 to 2017, the Company has adhered to the long-term strategic goal "become the best investment bank in China with international competitiveness" and the idea of "transformative development, innovative development and cross-border development". We focused on our "Surpassing Strategy", which means to boost the business with leading capital strength, to direct the business with comprehensive competition, innovation, and coordination. We endeavored to catch up with competitors, and to surpass them in both scale and service capabilities. We have transformed to a modern investment bank with full-chain service capabilities, laying a solid foundation to realize our goal of

becoming "the best investment bank in China with international competitiveness".

In 2016, the Company adhered to its annual objectives of facilitating capital-based transformation through improvement in sales and capabilities, and put forward various measures to overcome the unfavorable operating conditions in 2016, hoping to consolidate our progress in surpassing. Our main solutions were as follows:

Enhancing capital strength to provide revenue for long-term development. The Company successfully listed its H shares on the Main Board of the Hong Kong Stock Exchange, raising a total of HK\$ 10.695 billion. We became the seventh securities

firm that had listed its A + H Shares, and embarked on a new journey towards becoming the best investment bank in China with international competitiveness. Our successfully IPO listing of H shares had the highest over-subscription rate and largest scale in the capital market of Hong Kong in 2016 for a Chinese securities firm. The success fully demonstrated that our development strategies, corporate culture, overall competitiveness, and prospects were highly recognized by investors.

Accelerating transformation and upgrade to develop high quality and sustainable growth. The Company improved the marketing system, to push for transformation for corporate clients, institutional clients, and individual clients. We also worked on constructing a product center and quick response mechanism. With improvements on our product expert operating mechanism, we hope to continually upgrade the entire process and standardized level of the product management. Additionally, we put significant efforts in developing Internet finance and an intelligent robot service system, proceeding to create a new business model of “Internet + Securities”. We also strove to build a collaborative operating system and a concentrated and integrated operating platform. We bought shares of Qingdao Asset Management Co. Ltd., and became the first securities firm in the industry owning large shares of a municipal asset management company, actively engaging in pan finance and establishing differentiated competitive advantage.

Fully enhancing marketing capabilities. The Company focused on improving the professionalism and preciseness of our marketing and services toward institutions, to enhance our advantage in institutional business. We built a multi-level, full-function private marketing

platform. Using the comprehensive marketing advantage of our fullservice investment bank platform, we continuously improved our marketing services toward major clients, projects, and industries.

Continually enhancing management capabilities. The enhancement covers legal compliance management, risk management ability, strategic control ability, team and mechanism construction, support and assurance toward financial clearing, construction of the data center, and IT independent research and development capability.

Operational performance and market position

In 2016, faced with an industry that was complicated and under strict supervision from the regulatory bodies, as well as increasingly fierce competition, the Company managed to overcome the challenge and achieved the second highest operating income and net profit in history. In 2016, our annual operating income and net profit attributable to the parent company amounted to RMB 18.522 billion and RMB 5.403 billion. The equity attributable to shareholders of the parent company amounted to RMB 59.826 billion.

The Company has a strong capital strength. By the end of 2016, the total assets of the Company amounted to RMB 243.058 billion, net assets attributable to the shareholders of the listed company amounted to RMB 59.826 billion, and the net capital of the parent company amounted to RMB 45.524 billion.

In the stricter regulatory environment, the Company continued to comply with the requirements and operated its business at a steady pace. No significant risk or compliance issues occurred in

2016. We were also well recognized by the market with our steady internal control, and became one of only two securities firms in the industry to receive the “AA” regulatory rating for nine consecutive years from 2008 to 2016.

Returns for shareholders

While striving to achieve sustainable growth and development, the Company also attaches much importance to providing reasonable, steady, and constant returns to investors. Since listed in A Shares in 2009, the Company distributed cash dividends nine times and converted capital reserve into 1.076 billion share

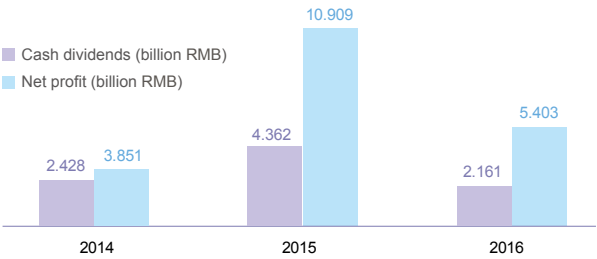


On October 7, 2016, China Merchants Securities was listed in Hong Kong. The Chairman of China Merchants Group, Li Jianhong, and the Chairman of China Merchants Securities, Gong Shaolin, struck the ceremonial gong together.

capital. As of mid-2016, cash dividends over the years amounted to RMB 11.914 billion, ensuring our investors can fully enjoy the Company's development progress. Based on our analysis of the industry and the market as well as our strategic planning, in the future, the Company's capital needs will concentrate on margin financing and securities lending, securities-backed lending, innovative proprietary investment and other asset-intensive business. Considering the Company's development stage and its need for major capital expenditure arrangements, we set returns for shareholders at the lowest proportion for cash dividend in profit distribution.

Dividends in recent three years

	2014	2015	2016 (Distributed dividends and dividends plan)
Cash dividends	2.428	4.362	2.161
Net consolidated profit attributable to holders of ordinary shares of the company	3.851	10.909	5.403
Percentage of dividends to net profit	63%	40%	40%



Company's rankings of competitiveness indicators in 2016

Core business indicators	2016	2015	Variation	Source
Number of private equity funds for hosting and outsourcing services	1	1		Asset Management Association of ChinaWind
Mutual fund commission income	1	2	+1	Wind
ABS underwritten amount	1	1		Wind
Scale of underwritten bonds (note)	4	3	-1	Wind
Market share of the trading volume of stock and funds	8	8		Shanghai and Shenzhen Stock Exchanges
Balance of securities-backed lending	7	10	+3	Shanghai and Shenzhen Stock Exchanges
Balance of margin financing and securities lending	6	6		Shanghai and Shenzhen Stock Exchanges
Number of NEEQ listed companies	6	8	+2	Wind
NEEQ underwritten amount	6	8	+2	Wind
Hong Kong stock market underwritten amount	9	12	+3	Bloomberg

Note: Scale of underwritten bonds includes CP, MTN, corporate bonds, financial bonds, government supported institutional bonds, ABS, and PPN.

Strengthen communication with shareholders, follow through on feedback

Investor relation management

In 2016, the capital market and securities industry focused more on the real economy, and the regulatory authorities began to lay more emphasis on legal, strict, and comprehensive regulation. Under this background, the Company continued to work hard despite difficulties and tried to seize opportunities. We with

stood the “circuit breaker” impact at the beginning of the year and the plummeting stock market, foreign exchange market, and bond market towards the end of the year and we managed to maintain relatively stable overall competitiveness and rankings in operating income and net profits among listed securities firms. Taking advantage of the issuance and listing of H Shares, the Company managed to overcome the fluctuating

performance of the securities industry, and adjusted the focus of investor relation management to strengthen the communication with domestic and foreign investors and analysts. We conducted following investor relation activities:

Strengthened interaction with different parties: We communicated with 39 batches of 296 local and international institutional investors through "one to one" and "one to many" investment strategy conferences with different securities firms from home and abroad, forums, and hosting institutional investors. We communicated with over 122 investors through emails, phone calls, and shareholder meetings. The Company's investor relation management team and the investors fully exchanged ideas on the progress of the Company's H shares IPO, monthly performance, PB business, proprietary business investment performance, and the impact of the increase in commitment for net assets guarantee in favour of the Asset Management Subsidiary. Faced with the intense fluctuation in the global capital market, we introduced our unique investment highlights to over 100 well-known investors in Asia, Europe, the United States, and the Middle East through face-to-face interactions in three rounds of global non-trading roadshows and official roadshows. It not only deepened our global investors' understanding towards the Company, but also attracted 11 high-quality cornerstone investors including PICC Life, People's Life, Hong Kong Cheng Yu-tung family's flagship investment Chow Tai Fook, China Life, and the founder and chairman of Tencent Mr. Ma Huateng. Since issuing its H-share prospectus on September 27, the Company has been actively communicating with analysts and investors about the Company's future internationalization strategy and the corporate governance in line with international standards, fully demonstrating our investment value.

Our investment value was recognized. Well-known brokerage analysts including Essence, Soochow, Huatai, CICC, Haitong, Guangfa, Shenwanhongyuan, Industrial, Sinolink and Changjing published over 30 research reports to recommend the investment value of our company. International investment banks including HSBC, Morgan Stanley, JPMorgan Chase, Merrill Lynch, and Credit Suisse also published five research reports on the investment value of our H shares. With detailed analysis on the Company's investment value, we received increasing attention from the market, and better understanding and recognition from our institutional investors on both the seller and buyer sides.

The directors, supervisors, and senior executives of the Company publicly communicated with investors in various occasions such as the H share analyst conference, press conferences, shareholders' meetings and so on. They also exchanged ideas on the necessity and feasibility of the Company's issuance of H shares, the Company's development strategy, the Company's future overseas business development plan, and other key issues.

Optimized information disclosure

In 2016, we issued 39 H-share information disclosure documents, including periodic reports, monthly operating data, meeting materials and resolutions, H shares IPO, debt financing, significant transactions, changes in equity, important policies, changes in directors, supervisors, and senior executives, monthly statements of shares, regulatory approval, announcements of profit distribution, investor protection reports, and various types of intermediary agencies reports.

We were rated A for information disclosure in 2015 by the Shanghai Stock Exchange in September 2016.



Improvement plan

Although we terminated the subscription of H Shares by management and key employees of the Company through asset management plans because the regulatory authorities did not grant approval, we still strive to promote the establishment of a long-term incentive mechanism to realize substantial breakthroughs. With this mechanism,

we will be able to balance and coordinate the interests of large, medium-sized, and small shareholders, management and most employees, and to better promote the implementation of the Company's "Surpassing Strategy".

Respectful to Society

We strive to improve the efficiency of the allocation of social resources, promote economic and social progresses, and engage in the community focusing on people's livelihood. We have always actively fulfilled the Company's obligations as a corporate citizen.

China Merchants Securities believes that companies should not only shoulder both economic responsibility and legal responsibility, and create transparent profits in accordance with the law and tax regulations, but also firmly shoulder their responsibilities in morality and charity. It is important for the Company to implement its core values through poverty alleviation, education aid, community building, resources conservation, environment protection, and other charity activities, and consequently exert efforts in wealth creation and healthy development of society.

► Support real economy development

Facilitated SOE reform

China Merchants Securities has always been committed to creating value with superb financial services, leveraging the power of the capital market to support the development of the real economy. In 2016, reform of state-owned enterprises became imminent. At this key moment, professional capability as an intermediary in the capital market is of vital importance. In 2016, China Merchants

Securities took part in multiple major state-owned enterprises integration projects such as Xiangtan Electric Manufacturing, Zhengzhou Coal Mining Machinery Group, Shanxi Blue Flame Holding Company Limited, Beibu Gulf Port, and Henan Pinggao Electric, and played a significant role in promoting the enterprises' development.

Restructuring of Zhengzhou Coal Mining Machinery Group Co., Ltd

It is a listed company of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) in Henan Province, and a reform pioneer in state-owned enterprises in Henan. It is an experimental field for mixing market-oriented elements into state-owned enterprises. We supported the completion of Zhengzhou Coal Mining Machinery's major asset restructuring. The performance of the acquired company is stable, with an increase of 10-15% per year in the industry. After the acquisition, the dual-business model of Zhengzhou Coal Mining Machinery as a state-owned enterprise has become an important signal of reform. At the same time, the project also helped create a tight bond between the interests of the company and the employees by promoting an employee stock ownership plan of no more than RMB 57.36 million.

Restructuring of Shanxi Blue Flame Holding Company Limited

The company is controlled by Shanxi SASAC, and entrusted to JAMG, one of the five largest coal enterprises in Shanxi Province. Considering the continuous loss in the shares of Shanxi Blue Flame and its risk of delisting, we put forward the restructuring of Shanxi Blue Flame and JAMG's coal bed methane sector. We effectively overcame various technical difficulties with our leading professional capabilities, and finally had our plan be recognized and approved by regulatory authorities.

Assisted domestic enterprises to "go global"

With the continuous fluctuation in the global capital market in 2016, the Chinese economy faces downward pressure. The Hong Kong stock market also became more cautious, which demotivated mainland companies to be listed in Hong Kong. Despite the depressed market environment, we managed to complete a number of well-known stock financing and bond financing projects, providing quality overseas financing services for Chinese domestic enterprises to implement their "Go Global" strategy. In 2016, we completed 35 projects for overseas investment banking business, and achieved a direct financing amount of HK\$ 14.1 billion in foreign markets for various enterprises.

Fostered emerging industry

We chose companies in line with the national policies as main target clients. As of the end of 2016, we sponsored 309 companies to be listed on the NEEQ, including 18 energy-saving environmental protection companies, 6 eco-agriculture companies, 6 biotechnology companies, 4 new energy companies, 27 new materials companies, 10 medical and health care companies, 12 cultural media companies and 56 software and Internet companies, with lump assets of RMB 48 billion. Taking advantage of our full-chain service platform, we continued to provide follow-up services for listed companies, including 74 sessions of targeted private placement services, and marketing making services for another 15 companies.

Solved financing difficulties for small and micro businesses

In order to solve financing problems specific to small and micro businesses, the government encourages financial institutions to increase their credit support toward small and micro businesses and improve their financing environment. In 2016, we underwrote small and micro business' loan financing projects such as 16 Huishang Bank 01 and 16 Huishang Bank 02 for Huishang Bank, with a total amount of RMB 10 billion for the issuance of small and micro business loans. It not only helped enhance the credit support for small and micro businesses, but also promote their rapid and healthy development.

Invested in The regional economy

In 2016, through China Merchants Zhiyuan Capital Investment Co., Ltd., we cooperated with several local governments, and were committed to investing in local industries and boosting the local economy. Meanwhile, we responded to the call of government policies by supporting the development of growth-oriented companies, and by providing support for emerging industries, especially the high-end manufacturing industry, environmental protection industry, and modern service industry. We combined investor needs and industry characteristics to provide diversified financial products and services and excellent returns on investment for all parties in the market.

Rooted in Anhui

In 2016, we continued our strategy of "rooted in Anhui" by integrating our full-service resources to support the real economy's development in Anhui. After establishing Zhongan China Merchants Investment Fund and China Merchants High-Tech Investment Fund in 2015 with Anhui investment platforms, we set up China Merchants Zhiyuan High-Tech Smart City Fund and the Anhui Traffic Control Industry Fund in 2016, focusing on strategic emerging industries such as the new energy, new materials, electronic information, biomedicine, and robots, and anticyclical industries such as pharmaceuticals, medical care, culture, media, consumption, and modern services, as well as modern manufacturing industries that benefit from the "micro-stimulus" policy. We also paid special attention to the application of Internet finance and big data.

Assisted Shandong

In response to the call for supporting the local economy and entrepreneurial innovation, during 2016, we also explored the Shandong market, and set up the Qingdao Guoyunzhiyuan NEEQ Fund and Qingdao Dachuang Fund of Funds. We explored and participated in the reform of state-owned mixed ownership and the disposal of non-performing assets, set emerging industries, small and medium-sized companies as the main investment targets, and supported their development to further promote industrial restructuring and upgrade.

Started from Shenzhen

We strengthened our cooperation with the cultural industry leader Fantawild, headquartered in Shenzhen. With the introduction of the Shenzhen VC fund, we set up a China Merchants-Fantawild Cultural Industry Fund in Shenzhen Qianhai to promote the development of cultural industries.

Devoted to charity

After all, the sole goal of charity is to stimulate hope in the aided person, and let him/her paddle his/her own canoe.

—— China Merchants Securities Foundation



On the road of charity, China Merchants Securities has always actively innovated in project operation mode and explored a more open and transparent operational mechanism to ensure professional execution and that the right needs are met. As of December 31, 2016, China Merchants Securities had donated over RMB 63 million to society through the "China Red Cross • China Merchants Securities Fraternity Fund" and "Shenzhen Merchants Securities Foundation".

New platform for a new chapter in charity

In 2016, China Merchants Securities turned to a new chapter in charity. We officially launched the "Shenzhen Merchants Securities Foundation", which would be a primary platform for us to promote charity projects in education, people's well-being and poverty alleviation. It is a non-public foundation with exclusive funding, approved by Shenzhen Bureau of Civil Affairs at the end of 2015. In 2016, China Merchants Securities donated another RMB 10 million to the foundation to support its development. In 2016, the foundation set its focus on education. It carried out charity projects to address different social needs at different education stages, covering nine years of compulsory education, high school education, higher education and other fields. We included both outstanding students and poverty-stricken students as candidates for sponsorship, hoping to help them receive continuous education and seize the opportunities of comprehensive development.

RMB 5 million "College Student Employment Fund" to tackle unemployment

In 2015, the Company and the Peking University Education Foundation set up "Future Leadership Education Fund", a permanent fund financed in the proportion of 1:1 with unchanged principal. It enables outstanding students to fully develop with investment income, making a meaningful attempt at the new mode of school-enterprise cooperation.

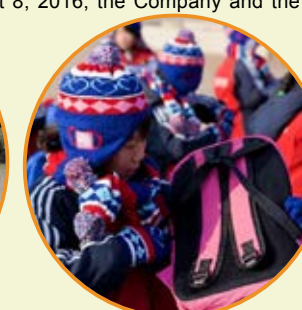
In 2016, the Company continued to explore new modes of charity in the field of higher education. Given that college graduates have faced employment pressure and structural contradiction in recent years, college student employment has become a tough task for society. China Merchants Securities, a member of the intelligence-intensive securities industry, fully understands the importance of talent. On August 8, 2016, the Company and the

China Youth Venture Foundation initiated the joint movement "One Thousand Schools, Ten Thousand Jobs" to help with college students employment. We also donated RMB 5 million through the Shenzhen Merchants Securities Foundation to the China Youth Venture Foundation, and established the "China Merchants Securities College Students Employment Special Fund" for college graduates to carry out activities related to financial knowledge, employment skill training, and overseas exchanges.

Continuous innovation to win social recognition

In recent years, we have been contributing to society through acts of kindness, promoting charity, and enhancing public awareness of charity. We hope to create a harmonious environment for all individuals, families, societies, and the entire world. In 2008, together with China Red Cross Society, the Company set up China's first securities firm charity fund -- "China Merchants Securities-Red Cross Fraternity Fund". In 2010 and 2011, we launched a large-scale charity activity called "China Merchants Securities Elite Movement" in universities nationwide for two consecutive years. In 2011 and 2012, we donated RMB 7.6 million for the CCTV reality show "Dream Choir", and sponsored 16 projects. In 2015 and 2016, we set foot in higher education along the way, we stay true to our original self.

The Company's practice of corporate social responsibility not only led to the participation of the surrounding social forces, but also drew attention and recognition. In 2008, we were recognized as the "Most Charitable Chinese Company" in the China Charity Awards promulgated by the Ministry of Civil Affairs. Also, given our outstanding contribution in earthquake relief, we were awarded "The First Pengcheng Charity Award" and "Special Award for Earthquake Relief Donation", and recognized as a "Charitable Company". In 2009, Yicai gave us the "Best Charity Award". In 2010, we entered the "Board of Chinese Companies" of "Golden Bee Corporate Social Responsibility Award". In 2012 we received the "2012 China Charity Award" from the committee of the Second China Charity Festival, and "The New Great Wall Special Achievement Award" in the 10th-year anniversary of the New Great Wall Project from the China Foundation for Poverty Alleviation. In 2013, China Red Cross Society awarded us the "China Red Cross Fraternity Medal". In 2016, we received Shenzhen's "The Third Pengcheng Charity Award – Silver Medal for Pengcheng Corporate Charity Donation".



Donated a total of over
RMB **63** million
to society



Poverty alleviation

For the securities industry, poverty alleviation is a brand-new task. We believe that "a man shall be taught how to fish instead of being given a fish". In the new era of poverty alleviation, we need to go beyond simple donations, to help impoverished areas rebuild their own growth momentum and strengths through assistance in the development of industry and finance.

In 2016, we actively responded to the government's appeal towards helping impoverished areas and ensured effective implementation. On November 9, we held an internal poverty alleviation working conference, and organized a mechanism, procedures, and poverty alleviation actions, ensuring implementation of poverty alleviation.

Our Poverty Alleviation Principles

Emphasize quality and effectiveness. Quality awareness is our priority in poverty alleviation. We strive to excel on every item, and create excellent products with high precision.

Innovative poverty alleviation projects. Leveraging their own professional advantages, relevant departments innovate poverty alleviation with resources in funds, projects, information, management, technology, and intelligence to address the specific needs of poverty-stricken areas, helping them improve their economic status rapidly.

Establish a mechanism for poverty alleviation. The Company has set up a leading panel to regularly examine our achievements and push for progress in poverty alleviation. Under the guidance of the President's Office, a project team comprising personnel from various departments has been established for each impoverished area to effectively coordinate resources from relevant departments. In addition, poverty alleviation has been incorporated into the KPI assessment for the participating departments and personnel.



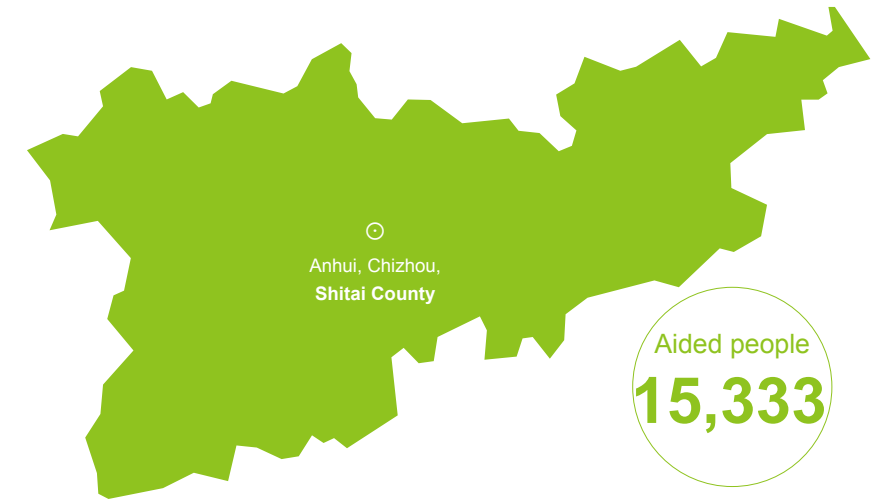
The signing ceremony of poverty alleviation agreements between China Merchants Securities, with Shitai County in Anhui and Neixiang County in Henan

Our focus on poverty alleviation

"One-on-one" poverty alleviation

Alleviated area:
Shitai County in Chizhou of Anhui Province
(forecast economic improvements in 2019)

Number of people aided :
15,333 poverty-stricken people



Poverty alleviation in finance

China Merchants Securities has fully asserted its professional capabilities to help introduce listed or to be listed companies to Shitai administrative area or to bring in industrial parks from developed regions, and help the pre-IPO companies in the Shitai administrative area to be listed in the future.

At present, Shanghai Jiajie Eco-Technology Co., Ltd. has been invited to register in Shitai and provided with advisory services in relation to listing and stock underwriting. The preliminary due diligence investigation has commenced, which is expected to be filed in 2018. Details regarding the size of funds to be raised and other issues have not been finalized yet. Meanwhile, we are actively coordinating the relocation of Shanghai Shencheng Agricultural Investment and Development Co., Ltd. in the IPO counseling enterprise pool to Shitai County, helping the county increase tax revenue.

In addition, we conducted in-depth investigations into the characteristics of the resources and industry development of Shitai, to help it build its own advantages and enhance economic vitality and corporate capital operational capacity. For example, in terms of the county's tourism resources, we conducted an assessment on the value of Guniujiang scenic area in Shitai, and assisted Anhui Jiuhua Mountain Tourism Development Co., Ltd. to establish Shitai Tourism Co., Ltd. together with the scenic area. In future, we will provide a series of services for the new company, including going public. In terms of selenium-enriched water resources in Shitai, we provided IPO advice to the county water producer, Anhui World Village Functional Beverage Co., Ltd. In terms of tea resources in Shitai, we advised the local company Anhui Tianfang Tea Co., Ltd. on the NEEQ listing.

Local resources	Financial solutions	Company names
Tourism	Establishment of new company, IPO advisory	Shitai Tourism Co., Ltd.
Selenium-enriched water	IPO advisory	Anhui World Village Functional Beverage Co., Ltd.
Tea	NEEQ listing	Anhui Tianfang Tea Co., Ltd.

Poverty alleviation in industrial development

Based on the characteristics of Shitai's resources and industries, China Merchants Securities has used its own advantages to support Shitai to carry out investment, industrial chain integration, corporate restructuring, and mergers and acquisitions, and provided relevant professional services. We also helped the county enhance cooperation among agriculture, tourism, industry, and other areas, promoting industrial management in enterprises and economic development in Shitai.

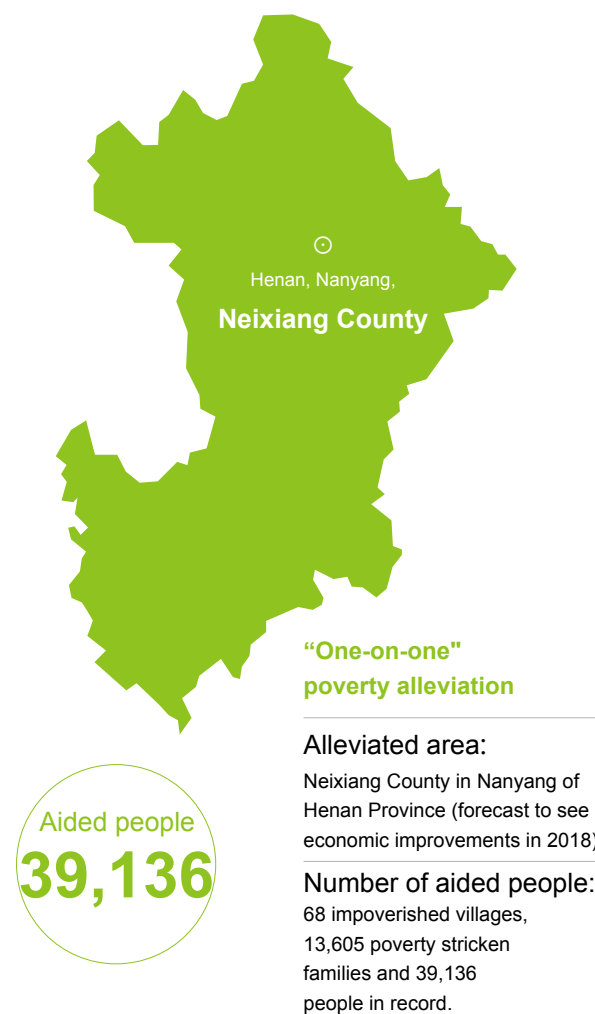
Poverty alleviation in education

According to the poverty alleviation needs in Shitai County, we jointly carried out training on capital market knowledge, financial securities, enterprise management, and macroeconomics, to facilitate the exchange of ideas between cadres and cultivate talents who are familiar with the capital market of Shitai. At the same time, we disseminated financial knowledge among residents to improve their level of financial knowledge and risk prevention awareness.

On December 6, 2016, together with the Director General of Education Bureau in Anhui Shitai and other leaders, the Company participated in the international education seminars held by the Shanghai Adream Charitable Foundation, to help impoverished counties broaden their education vision, and donated RMB 1.05 million to build 7 classrooms in the county. We hope to introduce the concept of true love into the local education system and enhance the overall level of comprehensive quality education.

Poverty alleviation in consumption

Based on the ecological featured products in Shitai and the combination of the "Internet +" model, China Merchants Securities provided services in featured products promotion and sales channel expansion. In November 2016, we introduced the county's agricultural products to Shenzhen Pagoda Industrial Development Co., Ltd., bridging the sales channels.



Seminars on targeted poverty alleviation at the county chief's office in Neixiang, Henan

Poverty alleviation in finance

1. Bond financing

China Merchants Securities has been actively responding to the poverty alleviation policy. We have provided services for Muyuan Foods and Muyuan Group in Neixiang, Nanyang, and signed into poverty alleviation strategic agreements with Neixiang County in Henan Province. In 2016, China Merchants Securities issued Muyuan Group 2016 private placement exchangeable corporate bonds for the county, raising RMB 2.15 billion. For the issuer, the exchangeable note is a low-cost financing tool, because it includes options, and has lower interest rates than simple notes and a higher pledge rate than other standardized business such as securities-backed lending. Meanwhile, thanks to its short issuance cycle and flexible terms, the exchangeable note is also widely applied in other fields such as reduction, equity adjustment, mergers and acquisitions, and market value management.

2. Established securities branch

The Company has established a securities branch in Neixiang to provide integrated financial services for Neixiang County, enhancing its capacity for self-development.

Poverty alleviation in industrial development

Based on the resources and industries in Neixiang, we provided services including introduction of investment, industrial chain integration, corporate restructuring, mergers and acquisitions. for enterprises and featured industries in Neixiang. We also helped the county enhance the cooperation among different parties and promote industrialized agriculture and economic development.

Poverty alleviation in education

According to the poverty alleviation needs in Neixiang County, we jointly carried out training on capital market knowledge, finance and securities, enterprise management, and macroeconomics to facilitate the exchange of ideas between cadres and cultivate talents who are familiar with the capital market of Neixiang and to improve their level of financial knowledge and risk prevention awareness.

On November 4 to November 5, 2016, a series of capital market training sessions were held in Shanghai for the leaders of the general office and financial office of Neixiang county government, to coach them on capital operation for listed companies and enhance the capital operating awareness and financial professional knowledge of the governors and the local businesses.

On December 6, 2016, the Company invited the Director General of Education Bureau in Neixiang, Henan and other leaders to the international education seminar held by the Shanghai Adream Charitable Foundation to help impoverished counties broaden education vision, and donated RMB 1.05 million to build 7 classrooms in the county. We hope to introduce the concept of true love into the local

education system and enhance the overall level of comprehensive quality education.

Poverty alleviation in consumption

Based on the ecological featured products in Neixiang and the

combination of the "Internet +" model, we provided services in featured products promotion and sales channel expansion. In November 2016, we introduced the county's agricultural products to Shenzhen Pagoda Industrial Development Co., Ltd., bridging the sales channels.

Poverty alleviation in consumption

Alleviated area:

Xi County in Linfen of Shanxi Province (forecasted economic improvements in 2018)

Number of people aided:

8,089 poverty-stricken families,
20,786 people



Linfen County is one of the most impoverished counties in China, and is also a targeted poverty alleviation county of the Council of Securities Association of China. Yulu pear is an important agriculture poverty alleviation pilot project in the county. It is expected that the production of Yulu pears will explode in the coming two to three years. prevent upcoming losses brought by low prices, we actively discussed with the local government on an aid plan and decided to donate RMB 1 million, and promote the development of Yulu pears industryby sponsoring the pear trees, so that local farmers' economic income would be protected.

Combined with the targeted poverty alleviation measures implemented in one of China's most impoverished counties Makit in Kashi, Xinjiang, we communicated with Makit County to reach detailed understanding of its existing poverty alleviation plan and demands and decided to help the county through boosting consumption. In 2016, the Company ordered RMB 30,000 of local featured products to promote among employees. Afterwards, the Company started to started to bridge its needs in drinking water and employee gifts with the county's mineral water and other industrial resources, maximizing the consumption needs of our employees and the Company to facilitate the development of local farming and breeding industries and improve the economic status of impoverished locals.

Poverty alleviation in consumption

Alleviated area:

Kashi Makit in Xinjiang (forecasted to see economic improvements by the end of 2017)

Number of people aided:

10,312 poverty-stricken families



Poverty alleviation in education

Alleviated area:

Xinghe County in Neimenggu (forecasted to see economic improvements by the end of 2017)

Number of people aided:

30 poverty-stricken high school students in Xinghe No.1 Middle School at Xinhe County



Education has always been our focus in charity work. The Company deeply understands that education is the key to poverty alleviation. Starting from education, we guide poverty-stricken people to the pursuit of poverty relief and the initiative to change. We visited the impoverished local students to understand their most urgent needs. In 2016, the Company donated RMB 234,000 to provide 3-year financial aid for 30 poverty-stricken high school students at Xinghe No.1 Middle School in Inner Mongolia. We hope the financial aid can help solve their economic problems in their daily life and their school life. On December 29, 2016, the first year of the allocated financial aid was in place.

Our wide range of poverty alleviation programs at the grassroots level



Our financial poverty alleviation projects

We actively respond to national policies. Focusing on precise poverty alleviation and innovation, we carry out financial poverty alleviation projects. Our financing business covers the entire central and western regions including Guizhou, Yunnan, Henan, Chongqing. We invest in transportation, water, infrastructure, and other public services to continuously improve the investment environment and local society.



Advocate sustainability

We are a firm advocate of sustainable development. In 2016, we promoted rational consumption, efficient use of energy,

and resources and frugal lifestyle and contributed to the construction of a "Beautiful China".

Our green actions

Led by the Company's headquarter, the branches actively organized employees to learn environmental knowledge, to participate in low-carbon environment protection activities and tree planting activities, and to promote low-carbon and green life concepts.

March

- ◆ Zhuhai securities branches carried out a tree planting family activity, attracting hundreds of high-end clients.
- ◆ Jinan securities branches carried out a "Planting Hopes, Harvesting Future" tree planting activity.
- ◆ Liuzhou securities branches carried out an environment protection hiking activity.

May

- ◆ Changchun securities branches carried out a trash collecting activity in Nanhu Park.

July

- ◆ Haikou securities branches held a Youth Day hiking activity and a 25th anniversary hiking activity.

April

- ◆ Harbin securities branches held a wetland family tree activity.
- ◆ Shenzhen Jinrong Road Securities Branch and Shenzhen Technology Park Securities Branch jointly held "healthy walking hand in hand" hiking activities on Yantian coastal plank road.

June

- ◆ Client Service Center held a hiking activity in Shenzhen Erxian Guan (深圳二线关).

September

- ◆ Linyi securities branches was elected as an "Environmental Messenger" by Linyi Newspaper.

November

- ◆ Legal and Compliance Department organized a MacLehose Trail hiking activity in Hongkong.

Green operation

We have built an electronic trading platform including telephone, mobile phone, PAD and so on. At present, the proportion of nonfield transactions by individual investors is 93.84%, of which online transactions accounted for 54.72% and mobile phone 39.12%. In 2016, we vigorously promoted the "Zhiyuan Onepass" financial service platform, CMS website, phone trading, mobile securities, PAD securities, and various electronic trading platforms, saving business costs for clients and reducing costs in securities branches and labor for the Company. We continued to optimize our asset management business. We launched all-round electronic services, including "electronic contract signing" and "electronic statements" to encourage clients to use paperless services, minimize paper consumption, and lower carbon emissions. While providing convenient and efficient services to clients, our costs in printing and delivery decreased by about 50%. Through text messages, WeChat, email, QQ groups, microblog, messaging, and other sources, we encouraged our clients to be more environment friendly. In 2016, the Company sent about 675.5 million text messages and MMS to clients. Our Client Center replied to 439 letters to the sbox@cmschina.com.cn mailbox. With access to the functions of reviewing securities information, conducting securities trading, booking account opening, managing bank transfer, providing intelligent client services, opening and withdrawal in Tina Tina Li, and reminders of new shares wins, our WeChat platform users exceed 500,000. Providing all possible applications and services for current and potential clients, WeChat has gradually become an internet portal for the Company, significantly reducing the use of paper, ink and energy consumption by couriers.

Green office

We take various measures in our business operation to achieve energy conservation, energy saving, and environment protection, which are deeply rooted in our employees' minds. We promote the use of energy-saving lamps and ensure all lights are turned off when leaving. In summer, we maintain the air conditioner temperature at 26 degrees and above. All office equipment is turned off when not being used. Every day after work, security guards check the workplace to make sure all electrical appliances are off. In our offices and securities branches, we put up signage at the faucets and water machines to remind staff to save water.

We use water saving faucets and toilets in rest-rooms. We set up double-sided printing default and recycle single-sided printing paper. We collect newspapers, magazines, wrapping paper, used paper and other waste for recycling. We shred internal classified documents. In 2016, we shredded 15 boxes of classified documents to recycle waste. We launched an electronic office and mobile office. In 2016, the systems recorded 133,000 processing times, 7,265 mobile office users (according to the number of downloads), 8,952 WeChat platform users and 9,500 mobile platform users. For announcements, no hard copy is to be made except for documentation. For red heading documents, no hard copy is to be made except for external communication and documentation. In 2016, 778 red heading documents were issued throughout the year. Counted at 4 pages per piece and 100 copies of double-sided printing, 155,600 pieces of paper were saved. Our internal newsletter "CMS E-Paper" published 47 issues throughout the year. Counted at 3,000 readers and 25 sheets of paper per piece, more than 3.52 million pieces of paper were saved.

Green advertisement

"Low carbon emissions and environment protection" is a key aspect in our corporate culture. The Company promotes the concept of low-carbon environment protection through sharing corporate and individual practices in the culture column of "CMS E-Paper".

Green transportation

At present, the Company only has a small fleet of corporate vehicles, which are under strict management. We provide training on driving skills and efficient use of energy. Meanwhile, we encourage employees to take public transportation to save energy and reduce gas emissions. The Company is equipped with video and audio conference call systems. In 2016, the headquarter alone held 708 video conferences and training sessions. At the same time, we encourage employees to do self-study and take exams through the E-learning system. Throughout the year, 38,000 employees studied and passed self-examinations via the system, reducing business trips and the use of vehicles.

► Comply with laws and regulations, deepen comprehensive risk management

Focused on the management objectives of "maintaining good reputation and ensuring compliance with law", we have established organizational structure and policy system to conduct compliance management. Our compliance management organization consists of five levels: Board of Directors, Senior Managers, Compliance Directors, Legal and Compliance Departments, branches and controlled subsidiaries. The Company appoints a compliance specialist in each department and an operation director in each securities branch to assist the departments and sales units in compliance management.

The Company has established a policy system of compliance management based on "compliance management system" to fulfill the responsibilities through consultation and review, monitoring, checking and supervision. The Company's Legal and Compliance Department provides advice and reviews for all departments, branches and controlled subsidiaries in daily operation. In addition, the Company develops and improves relevant assessment and accountability systems. We include the effectiveness of compliance management in the performance appraisal of all staff.

The Company has established a training mechanism for compliance risk control. Via various channels and forms, we carry out regular training for senior executives, newly promoted cadres and new employees to cultivate their risk awareness. In addition, the Company develops and improves relevant assessment and accountability system. We take the effectiveness of compliance management into the performance appraisal of all staff. Performance and risk control are the two key aspects in our incentive mechanism.

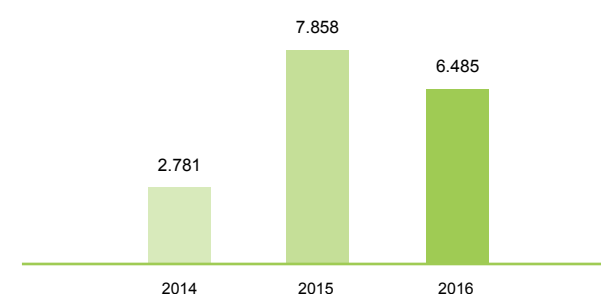
Meanwhile, we have set up policies on call for bids and purchasing, and supplier management mechanism to standardize the selection, assessment and confirmation of suppliers. Both the policies and mechanism have specified requirements for suppliers on legal compliance, business reputation, finance and accounting mechanism, and product/service quality. Each purchasing department has created relevant measures for supplier selection and conduct regular assessments (no longer than two years) on long-term suppliers (except new suppliers of less than three months) to evaluate their compliance with our requirements.

► Fulfill tax obligation

Taxation is the best way for companies to pay back society and we consider it our social responsibility. Since the founding of the Company, we have actively fulfilled the obligations and responsibilities of a corporate taxpayer by paying taxes according to laws and regulations. In the last three years, the cumulative tax we paid is about RMB 17.124 billion (including withholding). Over the years, the Company was recognized as a "Top 100 Tax Payer" in Guangdong Province and a "Law-Abiding Taxpayer" and "Top 10 Branded Company" in Shenzhen City, and received other honorary titles.

► Corporate tax (including withholding) in the last three years

Unit: RMB billion



► 2016 recognitions



► The team underwriting "Panda Financial Bonds of National Bank of Canada" won the third prize in "2016 China Merchant Group Advanced Innovation Unit".



► The Company was recognized as a "2015 Outstanding Corporate Bond Underwriter in the Shanghai Stock Exchange"; Li Kai (李恺), an employee in the Investment Banking Department, was recognized as a "2015 Outstanding Bond Underwriting Personnel in the Shanghai Stock Exchange".



► The Company was recognized as an outstanding underwriter and an outstanding dealer as a "2016 Outstanding Member in China Bond Market".



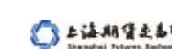
► China Merchants Futures Co., Ltd. was recognized as a "2016 Outstanding Market Growing Member".



► China Merchants Futures Co., Ltd. was recognized as the "2016 Most Promising Member" and received the "2016 Best Institutional Development Award".



► China Merchants Futures Co., Ltd. won the Platinum Award of 2016 Excellent Members.



► China Merchants Futures Co., Ltd. won the 2016 Excellent Member Award.



► The Company won first place in "2016 China's Best Private Equity Fund Custody Broker" in "Yinghua Board".



► Two enterprise ABS products and six credit ABS products received numerous annual awards in the "2016 China Securitization Forum".



► The Company ranked fourth in "The 9th New Fortune China's Best Investment Bank" and "Best Local Investment Bank", third in "Most Progressing Investment Bank", first in "Best Asset Securitization Investment Bank", fifth in "Best Local Equity Underwriting Investment Bank", fourth in "Best Local Bond Underwriting Investment Bank", fifth in "Best Local M&A Investment Bank", fourth in "Best Real-Estate Industry Investment Bank" and fourth in "Best Corporate Bond Investment Bank".



► In the 2016 Best Analyst by New Fortune Magazine, the Company won sixth place in "Best Local Research Team" and third place in "Oversees Market Research Institution".



► In "2016 Thomson Reuters StarMine Global Seller Analyst Award", Han Qi, a Hong Kong Securities Research Department employee won second place in "Best Profit Forecast of Mainland China and Hong Kong's Consumer Industry". He is also among the top 10 best stocks report in Hong Kong Finance Analysts Association.



► Our Hong Kong Fixed Income Sector Investment Team ranked ninth in "Global Best Asian Bond and Asset Manager" of "Best Investment Agency for Asian G3 Bond" by 2016 Treasury Magazine (《财资》杂志).



► The investment team of the Fixed Income Department at CMS Hong Kong ranked ninth in Global Best Asian Bond Asset Managers in the 2016 "Asia G3 Bond Best Investor".



► In the 2016 Institutional Investors (China), CMS HK ranked fourth among Chinese companies, sixteenth in overall ranking, tenth in overall ranking in China and fifth in new energy/environment protection.



► CCMS HK won third place in "Best Overseas Research" in "2016 IAMAC Award for China Insurance Assets Management Industry".



► Our "Trusteeship Integrated Financial Services Platform" won the first prize in information technology application of securities industry, while "Zhiyuan Onepass" ranked forth.



► Our new generation of trading transformation technology systems and switching work won the "Outstanding Contribution Award". The Company was awarded "System Construction Pioneer".



► Our big data mobile platform was recognized as an "Innovative Case of Global Cloud Computing".



► "'Zhiyuan Onepass" was recognized as a "2015 Top Ten Brokerage App".



► The Company was awarded the "Excellent Financial Data Center of China Data Center Standardization Project" in 2016 Annual Outstanding Data Center.



► The Company was awarded "2016 China Best Investment Bank" and "2016 China Best Bond Investment Bank" in China Best Investment Bank. Xie Jijun (谢继军), an employee in investment bank, was awarded "2016 China Top Ten Investment Bankers".



► The Company was recognized as the "Best Institutional Service Intermediary".



► The Company won the "Most Creative Broker" in the "Most Thoughtful Broker" Award held by the WeChat account of Quanshang CN, a new media under Securities Times.



► The Company was recognized as the



"Best Prime Broker".
► The company won "2016 Best Investment Bank" and Ling Jianghong, an employee in investment bank, won "2016 Best Investment Banker" in the namesake award held by Value Line, Sina, China Economic Net and China Reform Daily.



► The Company was awarded "Top Five Team" in "China Securities Industry Analyst".



► The wide range of social benefits brought by our accumulated donations and outstanding project operation in 2011-2015 won us the silver award of "Pengcheng Charity Donation Enterprise" in the Third Pengcheng Charity Award.



► The CMF internal control audit project was recognized as "2015-2016 Outstanding Audit Project of Shenzhen Internal Audit Institutions".



► The Company has been designated as the legislative point of contact by the Shenzhen Standing Committee of the National People's Congress. The committee has designated nine companies in Shenzhen as the legislative points of contact based on a company's reputation, its leading position in the industry, and its capability in legal construction. We are the only securities company selected.



► Zhu Tao, an employee of Legal Compliance, was awarded "Pioneer in Central Enterprise Legal Affairs".



► CMS HK won the championship in "The First HK-China Investment Bank Basketball League".



► China Merchants Securities Monthly Magazine was awarded the third prize of "Good Cover" in 2016 Annual Outstanding Internal Magazine.

Improvement plan

In the future, we will maintain strict adherence to national policies, support the development of corporate clients, promote industrial progress, achieve mutual growth with corporate clients and drive the national economy forward. Meanwhile, in compliance with laws and regulations, we will uphold the highest standards, and promote compliance awareness and cautious and standardized operating attitudes among other intermediaries and clients.



Looking Forward

In 2017, we will carry on our social responsibilities, create value through outstanding financial services, and steadily build the best in investment bank in China with international competitiveness.

Looking forward to 2017, we will adhere to our strategic goal of becoming the best investment bank with international competitiveness in China and further promote industry development. We will further standardize our management, improve capabilities, be responsible, and stabilize the market and industry, to raise our competitiveness to the same level as leading international investment banks.

▶ 2017 ESG goals

We aim for healthy, long-term, and sustainable development. We will proactively take on our responsibilities to lead the industry, and adapt to and support the industry regulatory reform. We will continuously improve our management, and promote and support the development of the Company and the industry through our industry-leading services and comprehensive management approach.

Serve the real economy and satisfy our clients

We will address the requirements of China's 13th Five-Year Plan, follow the capital market's positioning for serving the real economy, and adhere to the macro economic policies such as the structural reform of the supply front and the reform of state-owned enterprises. We will accelerate the development of full-function and full-chain integrated service capabilities for a modern investment bank, capture the future opportunities of commodities, disposition of nonperforming assets and asset management, and realize sustainable development through policy-led business development.

We will actively develop new business models of capital intermediary services. We will promote "direct investment + investment banking", innovate leveraged finance with controllable risks and explore new businesses such as financing for exercising incentive stock options and structured finance.

We will strategically develop the business line of commodities, coordinate with different resources within the Company and provide comprehensive services including global commodity trading, risks management, and commodity finance. We will focus on the innovative incubator project to fulfill client's requirements with new technology, new products, and new services.

compliance and comprehensive risk management

The rapidly changing circumstances will be a challenge to our business and operations. All departments will work closely to ensure the steady and organic growth of the Company. The middle offices will try their utmost to provide solutions to support business expansions.

We will stress the prevention of key risks and improve the abilities in comprehensive risk management. A consolidated risk management system has been established to deepen the risk management at subsidiaries. We will create policies for classified market risk management and build stress testing and the framework of investment performance analysis. We will conduct follow-up checks on credit policy execution and promote the management system for key operational risk indices. We will focus on the changes in liquidity risks and improve the liquidity reserve and emergency handling mechanisms. We will put more effort into debt financing and enhance flexibility.

We will remain humble and comply with regulations. Despite our past achievements in compliance, we need to prevent self-contentment and stay alert of the challenges of supervision and compliance. We shall maintain a zero-tolerance attitude and be vigilant of the accountability and bottom line of compliance. We will ensure active communication with regulators, stay in line with the supervision boundary and stringency, and provide excellent legitimate services to support business expansion.

Increase income, protect shareholder interests

We will utilize the capital and financing advantages of an H Shares company, to proactively seek M&A opportunities and address the excessive costs of debts compared to the benefits of investments. A capital-driven strategy will be employed to boost income as well as the income scale and contribution of capital-intensive businesses.

We will continue to expand our business and seek opportunities in the field of pan finance, by investigating in new businesses including financial leasing, small loans, and PPP, to improve the stability of the Company's overall income.

We will promote Internet finance to broader and deeper areas, build a new business model for the age of data technology, and provide better services with innovation.

▶ Improve the Report

The transformation includes building a marketing system for key accounts, expanding the refinancing business, improving the M&A service, deepening the industry transformation, and continuing building the IBS function. Individual business will undergo preliminary transform to wealth management. We will drive for material progresses in optimizing organizational functions, client classification, full life-cycle product development, precision marketing, and non-transactional wealth management. For institutional clients, we will establish a one-stop full-function and full-chain integrated service model to improve the service quality and client satisfaction.

We will draw on the experience of leading peers at home and abroad. Innovations will be applied at work. A more integrated team will be formed for tackling greater challenges.

 Feedback Form

Post Code: 518026

Fax: _____

Appendix: Environmental, Social and Governance Reporting Guide (HKEx)

Index of Environmental, Social and Governance Reporting Guide (HKEx)

Aspect	Abstract of Key Performance Indicators	Disclosure	Relevant Chapters
A. Environmental	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Full Disclosure	Advocate sustainability
	A1.1 The types of emissions and respective emissions data.	Not Disclosed	
	A1.2 Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Not Disclosed	
	A1.3 Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A (We do not produce a large amount of hazardous waste in our business.)	
	A1.4 Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Partial Disclosure	Advocate sustainability
	A1.5 Description of measures to mitigate emissions and results achieved.	Partial Disclosure	Advocate sustainability
	A1.6 Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Partial Disclosure	Advocate sustainability
	General Disclosure Policies on the efficient use of resources, including energy, water and other raw materials.	Partial Disclosure	Advocate sustainability
	A2.1 Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Not Disclosed	
	A2.2 Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Not Disclosed	
A. Environmental A2: Use of Resources	A2.3 Description of energy use efficiency initiatives and results achieved.	Full Disclosure	Advocate sustainability

	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Partial Disclosure	Advocate sustainability
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	N/A (We do not produce a large amount of packaging materials in our business.)	
A. Environmental A3: The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Full Disclosure	Advocate sustainability
	A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Full Disclosure	Advocate sustainability
B. Social Employment and Labour Practices B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Full Disclosure	Our employee rights protection system
	B1.1	Total workforce by gender, employment type, age group and geographical region.	Full Disclosure	Our Team
	B1.2	Employee turnover rate by gender, age group and geographical region.	Not Disclosed	
	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Full Disclosure	Our employee rights protection system
B. Social Employment and Labour Practices B2: Health and Safety	B2.1	Number and rate of work-related fatalities.	N/A (Our employees conduct their daily work via computers in a safe and healthy working environment. Work injury or work-related fatalities are highly unlikely.)	
	B2.2	Lost days due to work injury.	N/A (Our employees conduct their daily work via computers in a safe and healthy working environment. Work injury or work-related fatalities are highly unlikely.)	
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Full Disclosure	Our employee rights protection system

B. Social Employment and Labour Practices B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Full Disclosure	Our learning and training platform
	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Not Disclosed	
	B3.2	The average training hours completed per employee by gender and employee category.	Full Disclosure	Our learning and training platform
B. Social Employment and Labour Practices B4: Labour Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	N/A (We mainly recruit employees with certain education background and related experience. Child labor or forced labor is highly unlikely.)	
	B4.1	Description of measures to review employment practices to avoid child and forced labour.	N/A (We mainly recruit employees with certain education background and related experience. Child labor or forced labor is highly unlikely.)	
	B4.2	Description of steps taken to eliminate such practices when discovered.	N/A (We mainly recruit employees with certain education background and related experience. Child labor or forced labor is highly unlikely.)	
B. Social Operating Practices B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain.	Full Disclosure	Comply with laws and regulations
	B5.1	Number of suppliers by geographical region.	Not Disclosed	
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Partial Disclosure	Comply with laws and regulations
B. Social Operating Practices B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Full Disclosure	Protect client interests
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	N/A (This KPI is not applicable to our business.)	

B. Social Operating Practices B7: Anti-corruption	B6.2	Number of products and service related complaints received and how they are dealt with.	Full Disclosure	Strengthen communication with clients, Follow through on feedback
	B6.3	Description of practices relating to observing and protecting intellectual property rights.	Not Disclosed	
	B6.4	Description of quality assurance process and recall procedures.	N/A (This KPI is not applicable to our business.)	
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Full Disclosure	Protect client interests
	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Full Disclosure	Enhance internal control
B. Social Community B8: Community Investment	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Full Disclosure	Enhance internal control
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Full Disclosure	Enhance internal control
	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Full Disclosure	Support real economy development Devoted in charity Poverty alleviation Advocate sustainability
B. Social Community B8: Community Investment	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Full Disclosure	Support real economy development Devoted in charity Poverty alleviation Advocate sustainability
	B8.2	Resources contributed (e.g. money or time) to the focus area.	Full Disclosure	Support real economy development Devoted in charity Poverty alleviation Advocate sustainability