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招商证券股份有限公司
China Merchants Securities Co., Ltd.

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

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED JUNE 30, 2017

The board of directors (the “**Board**”) of China Merchants Securities Co., Ltd. (the “**Company**”) hereby announces the unaudited interim results of the Company and its subsidiaries for the six months ended June 30, 2017. This announcement, containing the full text of the 2017 interim report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of interim results.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement will be published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.newone.com.cn), respectively.

The Company's 2017 interim report will be despatched to H shareholders and published on the websites of the Company and The Stock Exchange of Hong Kong Limited in due course.

By order of the Board
HUO Da
Chairman

Shenzhen, the PRC, August 24, 2017

As at the date of this announcement, the board of directors of the Company comprises Mr. HUO Da, Mr. WANG Yan and Mr. XIONG Jiantao as executive directors; Ms. SU Min, Mr. XIONG Xianliang, Mr. SU Jian, Ms. PENG Lei, Mr. HUANG Jian, Mr. WANG Daxiong and Mr. CHEN Zhigang as non-executive directors; and Mr. XIANG Hua, Mr. XIAO Houfa, Mr. XIONG Wei, Mr. HU Honggao and Mr. YANG Jun as independent non-executive directors.

Important Notice

- I. The Board, the Supervisory Committee, Director(s), Supervisor(s) and senior management of the Company undertake that the information in this interim report is true, accurate and complete and contains no false record, misleading statement or material omission, and assume joint and several liabilities to the information in this report.**
- II. All Directors of the Company attended the fourth meeting of the sixth session of the Board held on August 24, 2017 to review the interim report for the six months ended June 30, 2017 of the Group .**
- III. This interim report has not been audited.**
- IV. HUO Da, officer in charge of the Company, DENG Xiaoli, officer in charge of accounting matters of the Company, and CHE Xiaoxin, officer in charge of the accounting office of the Company (head of accounting department), hereby warrant that the financial statements contained in this interim report are true, accurate and complete.**
- V. No proposal on profit distribution or capitalization of common reserve for the Reporting Period was proposed by the Board of the Company.**
- VI. Risks statement relating to forward-looking statements**

Forward-looking statements, such as future plans and development strategies, contained in this report do not constitute any substantive commitments of the Company to investors. Investors should be aware of the investment risks.
- VII. There is no appropriation of the Company's funds by the controlling shareholder and its associates for non-operating purposes.**
- VIII. There is no provision of guarantee by the Company in favour of any third party in violation of the prescribed decision-making procedures.**
- IX. 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.**

X. Warning on material risks

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

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

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

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CHAPTER 1 DEFINITIONS

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

Common terms and expressions	
“A Share(s)”	domestic share(s) in the ordinary share capital of our Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange (stock code: 600999)
“A Shareholder(s)”	holders of A Shares
“Articles of Association”	the Articles of Association of China Merchants Securities Co., Ltd., as amended, supplemented or otherwise modified from time to time
“Bosera Funds”	Bosera Asset Management Co., Limited (博時基金管理有限公司)
“Central Bank”	The People’s Bank of China
“China Merchants Bank”	China Merchants Bank Co., Ltd. (招商銀行股份有限公司)
“China Merchants Fund”	China Merchants Fund Management Co., Ltd. (招商基金管理有限公司)
“China Merchants Futures”	China Merchants Futures Co., Limited (招商期貨有限公司)
“China Merchants Group”	China Merchants Group Limited (招商局集團有限公司)
“CM Finance Investment”	China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)
“CM Steam Navigation”	China Merchants Steam Navigation Co., Ltd. (招商局輪船有限公司) (formerly known as 招商局輪船股份有限公司)
“CMET”	China Merchants Expressway Network & Technology Holdings Co., Ltd. (招商局公路網絡科技控股股份有限公司)
“CMS Asset Management”	China Merchants Securities Asset Management Co., Ltd. (招商證券資產管理有限公司)
“CMS International”	China Merchants Securities International Company Limited (招商證券國際有限公司)
“CMS Investment”	China Merchants Securities Investment Co., Ltd. (招商證券投資有限公司)
“CMS Zhiyuan”	China Merchants Zhiyuan Capital Investment Co., Ltd. (招商致遠資本投資有限公司)
“Company”, “our Company”, “our Group”, “China Merchants Securities” or “Issuer”	China Merchants Securities Co., Ltd. (招商證券股份有限公司) and, unless the context otherwise requires, its subsidiaries
“Company Law”	the Company Law of the PRC (《中華人民共和國公司法》), as amended, supplemented or otherwise modified from time to time
“Company’s website”	http://www.newone.com.cn , the website of China Merchants Securities Co., Ltd.
“Corresponding Period of Last Year”, “Previous Period”	from January 1, 2016 to June 30, 2016

“CSDC”	China Securities Depository and Clearing Corporation Limited
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會)
“CSRC Shenzhen Office”	the Shenzhen office of the China Securities Regulatory Commission
“ECT”	E-Capital Transfer Co., Ltd. (證通股份有限公司)
“Equity Exchange”	Guangdong Equity Exchange Co., Ltd. (廣東金融高新區股權交易中心有限公司)
“Everbright Securities”	Everbright Securities Company Limited (光大證券股份有限公司)
“Exchanges”	the Shanghai Stock Exchange and the Shenzhen Stock Exchange
“H Share(s)”	overseas-listed foreign share(s) in the ordinary share capital of our Company with nominal value of RMB1.00 each, which are listed on The Stock Exchange of Hong Kong Limited (stock code: 6099)
“H Shareholder(s)”	holders of H Shares
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange website”	http://www.hkexnews.hk , the website of The Stock Exchange of Hong Kong Limited
“Huatai United Securities”	Huatai United Securities Co., Ltd. (華泰聯合證券有限責任公司)
“Jisheng Investment”	Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)
“Liaoneng Holdings”	Liaoning Liaoneng Holdings Co., Ltd. (遼寧遼能實業有限公司)
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
“NSSF”	the National Council for Social Security Fund of the PRC (全國社會保障基金理事會)
“Reporting Period”, “Current Period”	from January 1, 2017 to June 30, 2017
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“Securities Law”	the Securities Law of the PRC (中華人民共和國證券法), as amended, supplemented or otherwise modified from time to time
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shanghai Brilliance”	Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. (上海新世紀資信評估投資服務有限公司)
“SSE”	the Shanghai Stock Exchange (上海證券交易所)
“SSE website”	http://www.sse.com.cn , the website of the Shanghai Stock Exchange
“SZSE”	the Shenzhen Stock Exchange (深圳證券交易所)

Unless the context otherwise requires, all amounts are stated in RMB.

CHAPTER 2 CORPORATE PROFILE AND KEY FINANCIAL INDICATORS

I. Corporate Information

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

List of Members of the Board, Supervisory Committee and Committees

Members of the Board

Executive Directors

Mr. HUO Da (Chairman of the Board)

Mr. WANG Yan (President and Chief Executive Officer)

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

Non-executive Directors

Ms. SU Min

Mr. XIONG Xianliang

Mr. SU Jian

Ms. PENG Lei

Mr. HUANG Jian

Mr. WANG Daxiong

Mr. CHEN Zhigang

Independent Non-executive Directors

Mr. XIANG Hua

Mr. XIAO Houfa

Mr. XIONG Wei

Mr. HU Honggao

Mr. YANG Jun

Supervisory Committee

Ms. ZHOU Linda Lei (Chairman)
Mr. LI Xiaofei
Mr. WANG Zhangwei
Mr. MA Yunchun
Mr. FANG Xiaobing
Mr. ZHANG Zehong
Ms. YIN Hongyen
Ms. HE Min
Mr. XIONG Zhigang

Members of Board Committees

Strategy Committee

Mr. HUO Da (Chairman)
Mr. WANG Yan
Mr. XIONG Jiantao
Mr. XIONG Xianliang
Mr. WANG Daxiong
Mr. CHEN Zhigaong
Mr. XIANG Hua

Risk Management Committee

Ms. SU Min (Chairman)
Mr. WANG Yan
Mr. SU Jian
Ms. PENG Lei
Mr. WANG Daxiong
Mr. CHEN Zhigang
Mr. XIANG Hua

Audit Committee

Mr. XIAO Houfa (Chairman)
Mr. SU Jian
Mr. HUANG Jian
Mr. HU Honggao
Mr. YANG Jun

Nomination Committee

Mr. XIONG Wei (Chairman)
Mr. WANG Yan
Ms. PENG Lei
Mr. XIAO Houfa
Mr. HU Honggao

Remuneration and Appraisal Committee

Mr. XIANG Hua (Chairman)

Ms. SU Min

Ms. PENG Lei

Mr. XIONG Wei

Registered Capital and Net Capital of the Company

Unit: RMB Currency: RMB

	At the end of the Reporting Period	At the end of last year
Registered capital	6,699,409,329.00	5,808,135,529.00
Net capital	52,233,457,431.88	45,524,144,216.62

Business Qualifications of the Company

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

Number	Qualification	Approval authority	Date of approval
1	Core dealer of credit risk mitigation instruments	National Association of Financial Market Institutional Investors	January 2017
2	Qualification to issue credit risk mitigation certificates	National Association of Financial Market Institutional Investors	January 2017
3	Qualification to issue credit-linked notes	National Association of Financial Market Institutional Investors	January 2017
4	Non-bank member of the Shanghai Commercial Paper Exchange	The People's Bank of China	November 2016
5	Trading Authority for Access to Southbound Trading Business under Shenzhen-Hong Kong Stock Connect	Shenzhen Stock Exchange	November 2016
6	Approval for pilot provision of online account opening service	Institution Department (機構部) of CSRC	April 2015
7	Approval for financing through exercising incentive share options of listed companies	Shenzhen Stock Exchange	March 2015
8	Licence for spot gold proprietary trading business	Institution Department (機構部) of CSRC	March 2015
9	Qualification to provide payment services for customers' funds	China Securities Investor Protection Fund Corporation Limited	March 2015

Number	Qualification	Approval authority	Date of approval
10	Licence for stock options market-making business	CSRC	January 2015
11	Licence for market-making business for SSE 50 ETF options trading	Shanghai Stock Exchange	January 2015
12	Authority for proprietary trading of share options	Shanghai Stock Exchange	January 2015
13	Licence for futures settlement	China Securities Depository and Clearing Corporation Limited	January 2015
14	Stock options trading participant on the Shanghai Stock Exchange	Shanghai Stock Exchange	January 2015
15	Licence for online securities business	Securities Association of China	November 2014
16	Trading Authority for Access to Southbound Trading Business	Shanghai Stock Exchange	October 2014
17	Ordinary member of Shanghai Clearing House for centralised settlement of RMB interest rate swaps	Shanghai Clearing House	June 2014
18	Qualification of lead manager business (market-making business)	National Equities Exchange and Quotations	June 2014
19	Licence for OTC options trading business	Securities Association of China	February 2014
20	Licence for investment fund custody business	CSRC	January 2014
21	Qualification for agency business of securities pledge registration	China Securities Depository and Clearing Corporation Limited	July 2013
22	Licence for stock-pledged repo business	Shanghai Stock Exchange, Shenzhen Stock Exchange	June 2013
23	Licence for interest rate swap business	CSRC Shenzhen Office	May 2013
24	Permit for conducting insurance agency businesses	China Insurance Regulatory Commission	April 2013
25	Qualification of lead manager business (recommendation and brokerage businesses)	National Equities Exchange and Quotations	March 2013
26	Licence for OTC trading business	Securities Association of China	February 2013
27	Licence for equity total return swap business	CSRC	January 2013
28	Licence for special institutional client business of insurance companies	China Insurance Regulatory Commission	January 2013
29	Licence for sale of financial products	CSRC	December 2012
30	Qualification of underwriting debt financing instruments of non-financial enterprises	National Association of Financial Market Institutional Investors	November 2012
31	Qualification to provide comprehensive custodian services for private funds	CSRC	October 2012
32	Licence for margin and securities refinancing	China Securities Finance Co., Ltd.	August 2012

Number	Qualification	Approval authority	Date of approval
33	Qualification of underwriting private placement bonds of small and medium enterprises	Securities Association of China	June 2012
34	Licence for stock repurchase business	CSRC	May 2012
35	Qualification for dealer-quoted bond-pledged repo transactions	CSRC	January 2012
36	Qualification for third-party custodian services for one customer — multiple bank services	CSRC Shenzhen Office	June 2011
37	Qualification for margin financing and securities lending business	CSRC	June 2010
38	Licence for direct investment business	CSRC	August 2009
39	Qualification for intermediary introduction business for China Merchants Futures	CSRC	February 2008
40	Qualified Domestic Institutional Investors	CSRC	August 2007
41	Tier-1 dealer on the integrated e-platform for fixed income securities of the Shanghai Stock Exchange	Shanghai Stock Exchange	July 2007
42	Permit for foreign exchange operation in the securities business	State Administration of Foreign Exchange	December 2006
43	Clearing participant of China Securities Depository and Clearing Corporation Limited	China Securities Depository and Clearing Corporation Limited	March 2006
44	Primary dealer of SSE 180 Index Exchange Traded Fund	Shanghai Stock Exchange	March 2006
45	Qualification for underwriting business of commercial paper	The People's Bank of China	July 2005
46	Qualification for operation of foreign shares business	CSRC	September 2002
47	Qualification for open-end securities investment fund consignment business	CSRC	August 2002
48	Qualification for online securities agency business	CSRC	February 2001
49	Qualified member of interbank market	The People's Bank of China	September 1999

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

Number	Qualification	Approval authority	Date of approval
1	Licence for dealing in futures contracts	Securities and Futures Commission of Hong Kong	June 2014
2	Licence for advising on futures contracts	Securities and Futures Commission of Hong Kong	June 2014

3	Licence for asset management	Securities and Futures Commission of Hong Kong	March 2010
4	Licence for dealing in securities	Securities and Futures Commission of Hong Kong	February 2009
5	Licence for advising on securities	Securities and Futures Commission of Hong Kong	February 2009
6	Licence for advising on corporate finance	Securities and Futures Commission of Hong Kong	February 2009

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

Number	Qualification	Approval authority	Date of approval
1	Licence for basis trading	China Futures Association	April 2017
2	Licence for pricing services	China Futures Association	April 2017
3	Licence for cooperative hedging	China Futures Association	March 2017
4	Licence for warehouse receipt services	China Futures Association	December 2016
5	Filing for entry of the interbank bond market	The People's Bank of China	July 2016
6	Licence for asset management	CSRC	March 2013
7	Licence for futures investment consulting	CSRC	August 2011
8	Licence for financial futures brokerage	CSRC	October 2007
9	Licence for commodities futures brokerage	CSRC	January 1993

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

Number	Qualification	Approval authority	Date of approval
1	Qualification for pilot direct investment business	CSRC	August 2009

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

Number	Qualification	Approval authority	Date of approval
1	Private investment funds manager	Asset Management Association of China	August 2014

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

Number	Qualification	Approval authority	Date of approval
1	Pilot scheme for overseas investment of qualified domestic investors	Shenzhen Joint Meeting Office of the Pilot Scheme for Overseas Investment of Qualified Domestic Investors (深圳市合格境內投資者境外投資試點工作聯席會議辦公室)	November 2015
2	Qualified domestic institutional investors	CSRC	January 2015
3	Qualification for securities asset management business	CSRC	January 2015

II. Contact Persons and Contact Methods

	Secretary to the Board	Representative of Securities Affairs
Name	WU Huifeng	LUO Li
Correspondence address	45/F, Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen	45/F, Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen
Telephone	0755-82943666	0755-82960432
Fax	0755-82944669	0755-82944669
E-mail address	IR@cmschina.com.cn	luoli@cmschina.com.cn

	Joint Company Secretaries	
Name	WU Huifeng	KWONG Yin Ping Yvonne
Correspondence address	45/F, Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen	18/F, Tesbury Centre, 28 Queen's Road East, Wan Chai, Hong Kong

III. Updates on Basic Information

Registered address of the Company	38/F–45/F, Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen
Postal code	518026
Office address of the Company	38/F–45/F, Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen
Postal code	518026
Principal Place of business in Hong Kong	48/F, One Exchange Square, 8 Connaught Place, Central, Hong Kong
Company's website	http://www.newone.com.cn
E-mail address	IR@cmschina.com.cn
Changes during the Reporting Period	During the Reporting Period, the registered capital of the Company was changed to RMB6,699,409,329.00 and the legal representative was changed to HUO Da. For details, please see the announcements dated May 18 and June 1, 2017 of the Company.

IV. Updates on Information Disclosure and Place of Document Inspection

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

Language and means of receipt of Corporation Communication

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

- to read and/or download the corporate communication published on the Company's website at <http://www.newone.com.cn/en> and receive written notice for the publication of the corporate communication; or

- to receive printed English version of all corporate communications only; or
- to receive printed Chinese version of all corporate communications only; or
- to receive both printed English and Chinese versions of all corporate communications.

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

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

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

V. Information on the Company's Shares

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

VI. Other Information

(1) Legal Advisers

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

Legal advisers in Hong Kong: Clifford Chance (27/F, Jardine House, One Connaught Place, Central, Hong Kong)

(2) Accounting Firms

Domestic Accounting Firms: Shinewing Certified Public Accountants LLP

Office Address: 8/F, Block A, Fu Hua Mansion, No. 8 Chao Yang Men Bei Da Jie, Dong Cheng District, Beijing

International Accounting: SHINEWING (HK) CPA Limited

Office address: 43/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong

(3) Share registrars

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

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

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

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

VII. Key Accounting Data and Financial Indicators

(I) Key accounting data

Unit: RMB'000 Currency: RMB

Key accounting data	January to June 2017	January to June 2016	Change (%)
Total revenue and other income	8,542,017	8,728,756	-2.14
Profit of the year attributable to shareholders of the Company	2,552,259	2,241,825	13.85
Profit of the year attributable to shareholders of the Company after deduction of non-recurring profit or loss	2,565,770	2,217,691	15.70
Net cash from operating activities	8,401,901	29,784,174	-71.79
Other comprehensive income	424,728	-1,345,656	—

Unit: RMB'000 Currency: RMB

	As at the end of June 2017	As at the end of 2016	Change (%)
Total assets	242,817,150	243,058,428	-0.10
Total liabilities	166,191,382	183,143,389	-9.26
Equity attributable to shareholders of the Company	76,537,136	59,826,337	27.93
Total equity	76,625,768	59,915,039	27.89

(II) Major financial indicators

Major financial indicators	The Reporting Period (January to June)	The Corresponding Period of Last Year	Change (%)
Basic earnings per share (RMB per share)	0.3529	0.3860	-8.56
Diluted earnings per share (RMB per share)	0.3529	0.3860	-8.56
Basic earnings per share after deduction of non-recurring profit or loss (RMB per share)	0.3549	0.3818	-7.04
Weighted average return on net asset (%)	3.88	4.64	Decreased by 0.76 percentage point
Weighted average return on net asset after deduction of non-recurring profit or loss (%)	3.90	4.59	Decreased by 0.69 percentage point

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

Unit: RMB Currency: RMB

Items	As at the end of the Reporting Period	As at the end of last year
Net capital	52,233,457,431.88	45,524,144,216.62
Net assets value	72,934,160,355.64	56,884,318,589.01
Sum of Risk Base Capital Provisions	14,716,690,342.22	14,258,394,120.66
On Balance Sheet and Off Balance Sheet Total Assets	174,069,701,868.95	168,000,435,649.00
Risk coverage ratio (%)	354.93	319.28
Capital leverage ratio (%)	23.57	24.30
Liquidity coverage ratio (%)	207.66	151.00
Net stable funding ratio (%)	132.07	134.94
Net capital/net assets (%)	71.62	80.03
Net capital/liabilities (%)	55.54	43.03
Net assets/liabilities (%)	77.56	53.77
Value of proprietary equity securities and derivatives/net capital (%)	28.88	37.01
Value of proprietary non-equity securities and derivatives/net capital (%)	93.85	98.12

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

There was no difference between the net profit for the periods from January to June in 2017 and from January to June in 2016 and net assets as of June 30, 2017 and December 31, 2016 as set out in the consolidated financial statements prepared in accordance with the China Accounting Standards for Business Enterprises and in the consolidated financial statements prepared in accordance with the International Financial Reporting Standards.

CHAPTER 3 SUMMARY OF OPERATION

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

(I) Principal business and operating models of the Company

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

Brokerage and wealth management: 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 in return for fees and commissions. It also provides capital-based intermediary services (including margin financing and securities lending as well as securities-backed lending and stock repurchases) to clients and earns interest income. In addition, the Company provides investment research, sales and trading, prime brokerage and other services for a variety of institutions such as funds and insurance companies in order to gain fees and commissions.

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

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

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

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

During the Reporting Period, the trading in domestic secondary stock market shrunk to an average daily trading volume of RMB449.895 billion in the SSE and the SZSE, representing a decrease of 17.67% as compared with the same period of last year. The secondary bond market continues its decreasing trend that has been occurring since the end of last year. The ChinaBond composite net value (in aggregate) index fell by 2.40%. During the Reporting Period, in respect of the primary stock market, the issue of stocks (including the issuance of

shares to acquire assets) amounted to RMB594.634 billion, representing a decrease of 34.19% as compared with the same period of last year. The issue of bonds amounted to RMB5,065.427 billion, representing a decrease of 31.22% as compared with the same period of last year. The issue of corporate bonds amounted to RMB414.598 billion, representing a significant decrease of 71.14% as compared with the same period of last year.

According to the statistics of the Securities Association of China, for the first half of 2017, the operating income of 129 securities companies as calculated according to the PRC GAAP amounted to RMB143.696 billion, representing a decrease of 8.52% as compared to the same period last year. The net profit amounted to RMB55.258 billion, representing a decrease of 11.55% as compared with the same period of last year. As at the end of June 2017, the total assets amounted to RMB5,810 billion, representing an increase of 0.97% as compared with the end of last year. The net assets amounted to RMB1,750 billion, representing an increase of 19.51% as compared with the end of last year. Net capital amounted to RMB1,500 billion, representing an increase of 27.29% as compared with the end of last year.

II. Significant Changes in Major Assets of the Company during the Reporting Period

There was no significant change in major assets of the Company during the Reporting Period.

III. Analysis on Core Competitiveness during the Reporting Period

(I) Market position of the Company

During the Reporting Period, the Company and its core business maintained their leading market positions. As at the end of the Reporting Period, the Company ranked seventh and fifth in terms of total assets and net assets respectively. The Company ranked eighth in terms of trading volume in the SSE and the SZSE. The Company ranked seventh in terms of net income of securities brokerage business. The Company ranked fifth in terms of balance of margin financing and securities lending. The Company ranked seventh in terms of the amount of securities-backed lending transactions. The Company ranked seventh in terms of the amount of equity underwritten and ranked second in terms of amount of bond underwritten as a lead underwriter. The Company ranked seventh in terms of the value of entrusted assets and first in terms of number of private and public funds under custody which had filed with the relevant authority, respectively.

(II) Analysis on the Company's Competitiveness

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

After years of development, the Company has successfully capitalized on strategic opportunities to transform into an investment bank in China with leading comprehensive strength. It has been among the top ten securities companies for years in terms of operating income and asset scale. The Company was one of the first securities firms to be qualified for the pilot innovation program in 2004, and innovation has always been an important strategic direction of the Company. With the ongoing efforts in developing and expanding new products

and services, the Company has maintained a leading position in different segments, including the lead underwriter, custody and outsourcing, asset securitization and global commodity trading services, with differentiated competitive advantages.

During the Reporting Period, the Company obtained qualifications for various new business, including the qualification of core dealer of credit risk hedging instruments in the inter-bank market. The Company issued the first PPP asset securitization product in China as a lead underwriter. The Company also issued the first asset management product and structured note pegged to the MSCI EMU Index.

2. *The prime broker of choice for institutional investors with strong institutional client service capabilities*

The Company is the first prime broker in the securities industry providing one-stop services to institutional investors. In addition, the Company is the first securities firm to obtain the approval for providing comprehensive custodian services for private investment funds, and one of the first batch of securities firms to establish a prime brokerage trading system. The Company is also a leading provider of various integrated services, including prime brokerage trading services, fund custody and outsourcing, margin financing and securities lending, fund selling and market-making, investment research services and seed funds.

According to the Asset Management Association of China, as at the end of the Reporting Period, the number of registered private investment funds entrusted by the Company increased by 27.85% over the end of last year, ranking top in the industry with a market share of 27.63%.

3. *A strategically positioned business network and diversified service capabilities*

As market competition continues to intensify, the Company has devoted substantial resources to upgrade the brokerage business model from a traditional brokerage trading business to a wealth management business. Based on customers' asset size and investment needs, the Company has increased the penetration of margin financing and securities lending business among affluent and high-net-worth customers and expanded the geographic coverage and functions of its securities branches. To satisfy the needs of personalized, customized and diversified wealth management business, the Company has also provided differentiated and diversified services and charged different commission rates for these services.

As at the end of the Reporting Period, the Company had 237 branches, including 62.87% of the branches in the well-developed and affluent Pearl River Delta, Yangtze River Delta and the Bohai Rim, and 30.80% of the branches in Beijing, Shanghai and Shenzhen. During the Reporting Period, China Merchants Securities (Korea) Co., Ltd. (招商證券(韓國)有限公司), a wholly-owned subsidiary of the Company, was issued a financial investment business licence from the Financial Services Commission, Republic of Korea to provide intermediary services in relation to stocks, bonds, funds and derivatives in China and Hong Kong. The Company was the first securities firm in China to expand its business to Korea.

4. *A comprehensive investment banking platform with premier integrated service capabilities for corporate clients*

The Company is committed to providing comprehensive and cross-border investment banking services to satisfy various needs of corporate clients throughout their life-cycles, including pre-IPO financing, equity underwriting and sponsoring, debt underwriting, OTC Listing and financial advisory services. Meanwhile, the Company has strategically built up expertise and competitiveness in six industries, including TMT, healthcare and medicine, financial services, infrastructure and real estate, agriculture, food and beverage, and energy and transportation.

During the Reporting Period, the Company maintained its leading position in the initial public offering (IPO) business and its competitiveness in re-financing business was enhanced significantly. The Company ranked amongst the top in the industry in terms of underwriting amount and number of projects. The Company maintained its competitiveness in debt underwriting business and ranked second and third in terms of the value of debts underwritten as a lead underwriter and asset securitization underwritten, respectively. Despite the intense competition in the Hong Kong market, the Company ranked first in terms of the value of IPO underwritten.

5. *A highly collaborative business model with strong cross-selling capabilities*

The Company has established effective internal collaboration mechanisms and service systems, including operating model of committees, project team approach and the recognition, assessment and compensation of internal collaboration efforts. The Company has developed a comprehensive measurement and appraisal system based on synergistic value to record the synergistic effect of different business lines in order to improve the management efficiency, further enhance the synergies across business lines and facilitate collaboration and cross-selling of different businesses in China and overseas. Also, through the full-service business platform, the Company provides comprehensive and one-stop financial wealth management services to clients. Since 2016, the Company introduced the “Soft Dollars Assessment” (軟錢考核) mechanism to further spread synergies through the establishment of cross-department collaboration platform.

6. *Prudent, proactive and comprehensive risk management and internal controls*

A prudent risk management culture, an effective risk management framework, pioneering quantitative risk measurements and comprehensive risk management instruments are essential components of a modern investment bank and fundamental to the Company’s sustainable growth. The Company has established a leading global market risk management system across different markets and business lines, which performs value at risk (VaR) testing, stress testing and sensitivity analysis. In addition, the Company has developed a credit risk management system, which centralizes the management of data on various businesses and customers, as well as an internal credit assessment tool and collateral conversion rate model. The Company has set up a sound operational risk management system with operational risk self-examination process and data collection tools in relation to the operational risk events and losses, which aims to maintain stable development and maximize profitability under the premise of identifiable, predictable, manageable and bearable risks.

7. *A core financial service platform of China Merchants Group, benefiting from the century-old “China Merchants” brand and its unique business resources*

China Merchants Group is the de facto controller of the Company. As a large-scale state-owned enterprise directly managed by the SASAC under the State Council, China Merchants Group’s principal businesses cover the three core industries of transportation, finance and property. The securities business is one of the four principal businesses under the financial segment of China Merchants Group. Benefiting from the critical positioning within China Merchants Group, the Company is able to obtain valuable client resources and business opportunities. In particular, the Company enjoys competitive advantages in capturing the emerging business opportunities arising from the various business initiatives within China Merchants Group, such as “One Belt One Road” (一帶一路), “Collaboration between Industrial Companies and Financial Companies” (產融結合) and “Collaboration between Financial Companies” (融融結合). As a result, the Company has successfully enhanced its brand recognition and market position.

8. *A visionary management with an international perspective supported by a professional team*

The senior management of the Company has extensive managerial experience in the securities and financial industries, and has a visionary strategy and international perspective. The middle-level management team of the Company possesses many years of experience in the PRC securities industry with outstanding executive capabilities. The Company has established a “Four-in-One” strategic management system, combining the four core elements of strategic planning, performance-based management, bonus evaluation and cadre appointment and dismissal, which closely aligned employee interests with the business strategies. Moreover, the Company has implemented a competitive remuneration structure and career development paths to motivate and attract talents, further strengthening the competitiveness of the Company.

CHAPTER 4 REPORT OF THE BOARD OF DIRECTORS

I. Operation Discussion and Analysis

(I) Overview

In the first half of 2017, the global economy saw a continued and moderate recovery with improvement in the trading position of major economies. In the PRC, the benefits of the supply-side reform on the domestic economy has been gradually seen, with satisfactory progress in restructuring and growth in demand, which was evidenced by a gross domestic product (GDP) growth of 6.9% for the first half as compared to the corresponding period of last year. In view of the increasingly prudent monetary policies, the financial industry has enhanced its focus on supporting the real economy, restricting investment speculation and controlling risks soundly, and more efforts have been made on de-leveraging and de-channeling.

In the first half of 2017, the average daily trading volume of stock and funds in the secondary market amounted to RMB449.9 billion, representing a decrease of 17.7% as compared with same period of last year, and the average net commission rate of the industry was 0.363%, representing a year-on-year decrease of 14.99% as compared with that in 2016. During the Reporting Period, the SSE Composite Index and SZSE Composite Index increased by 2.86% and 3.46%, respectively. However, the structural differences were obvious. The SSE 50 Index and CSI 300 Index increased by 11.5% and 10.78%, respectively, while SSE SME Composite Index and SZSE ChiNext Composite Index decreased by 2.44% and 10.12%, respectively, and the China Bond Composite Index (net price) decreased by 2.4%. Despite the active IPOs in the primary market, the refinancing market has shrunk and the total amount of debt financing also recorded a decline. During the first half of the year, the operating income and net profit of the securities industry as calculated according to the PRC GAAP dropped to RMB143.7 billion and RMB55.3 billion, respectively, representing a year-on-year decrease of 8.5% and 11.5%, respectively.

During the Reporting Period, China Merchants Securities, as a large integrated securities company, has fully capitalized on its capability of anti risk and anti market fluctuation. As the Company focused on compliance, improved its management and marketing and sped up transformation, its operation and management saw favourable prospects. Firstly, the operation and management of the Company remained stable and sound. Under the complicated market condition and strict regulatory requirements, the Company managed to maintain steady growth and there was no material risk or compliance issue. The risk loss ratio was relatively low and the asset quality was good. The Company is one of the only two securities firms in the industry to receive the “AA” regulatory rating (Class A) from the CSRC for 10 consecutive years. Secondly, ranking of the Company in the industry in terms of its core competitiveness indicators was further advanced. In the first half of 2017, both the operating revenue and net profit of the Company as calculated according to the PRC GAAP increased in spite of adverse market environment. Core businesses of the Company achieved further advancement in various rankings as compared to 2016. Thirdly, competitive advantages of the Company were

strengthened. Leveraging on its clear strategy and forward-looking tactics, the competitive advantages of the Company in different segments serving the real economy with high growth potential were further enhanced, including prime brokerage, custody and outsourcing, bond financing, asset-backed securitization (ABS) and global commodity trading services, which further consolidated the leading market position of the Company.

(II) Analysis of Principal Businesses

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

Business line	Current period		Previous period		Change in percentage
	Amount (RMB'000)	Percentage	Amount (RMB'000)	Percentage	
Brokerage and wealth management	5,759,068	67.42%	6,405,413	73.38%	Decreased by 5.96 percentage points
Investment banking	1,206,528	14.12%	1,124,430	12.88%	Increased by 1.24 percentage points
Investment management	931,533	10.91%	413,323	4.74%	Increased by 6.17 percentage points
Investment and trading	556,851	6.52%	546,779	6.26%	Increased by 0.25 percentage points
Others	118,562	1.39%	238,811	2.74%	Decreased by 1.35 percentage points

During the Reporting Period, the revenue and other income of the Company amounted to RMB8.542 billion, representing a year-on-year decrease of 2.14%. The revenue and other income from the brokerage and wealth management business line amounted to RMB5.759 billion, representing a year-on-year decrease of 10.09%. The revenue and other income from the investment banking business line amounted to RMB1.207 billion, representing a year-on-year increase of 7.3%. The revenue and other income from the investment management business line amounted to RMB932 million, representing a year-on-year increase of 125.38%. The revenue and other income from the investment and trading business line amounted to RMB557 million, representing a year-on-year increase of 1.84%. The revenue and other income from other businesses amounted to RMB119 million, representing a year-on-year decrease of 50.35%.

1. Brokerage and Wealth Management Business

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

(1) Retail brokerage and wealth management

In the first half of 2017, the transaction amount of stock and funds in the A-share market amounted to RMB53.54 trillion, representing a year-on-year decrease of 18.35%. Confronted with the market challenges, the Company optimized its online and offline marketing channels, expanded the cooperation with major banks, established cooperation with non-banking institutions, promoted the application of two-dimensional barcodes and developed the Internet business platform system so as to enhance the efficiency of internet account opening and attract more customers. The core functions of “Zhiyuan Yi Hu Tong (智遠一戶通)”, the latest upgraded mobile application, have been optimized for better user experience. During the Reporting Period, the number of new accounts was 934,000, representing a year-on-year increase of 13.45%.

Meanwhile, the Company continuously promote the wealth management transformation. In order to improve the allocation of financial products to satisfy customers’ needs for diversified asset allocation, the Company (1) further enriched its offering of wealth management products and was the first in the industry to launch wealth management products linked with the EUR DAX30 index exclusively for high-net-worth customers to meet their needs for cross-border asset allocation; and (2) provided schedules with introduction of key products every month, recommendation on asset portfolio by types and performance reports of products through its wealth management advisory platform. The Company significantly improved the quality and efficiency of its wealth management advisory services by making full use of the MOT (Moment of Truth) tracking functions of the platform. In the first half of 2017, the sales of financial products under the wealth management plan amounted to RMB426.394 billion, representing a year-on-year increase of 4.99%. The trading volume of stock and funds of customers under the wealth management plan bucked the sluggish trend with a year-on-year increase of 24.09%.

During the Reporting Period, the Company maintained its leading position in the business of Southbound Trading with a market share of 6.48% (Shanghai) ranking fifth in the industry, and a market share of 12.06% (Shenzhen), being one of the top players in the industry.

Major Operational Data of Retail Brokerage and Wealth Management Business of the Company

Operating indicators	First half of 2017	First half of 2016	Change
Total transaction amount of stock and funds	RMB4,203.298 billion	RMB4,979.188 billion	-15.58%
Market share of the trading volume of stock and funds	3.93%	3.8%	Increased by 0.13 percentage point
Ranking in terms of the trading volume of stock and funds (Note 1)	8th	8th	—
Number of eligible accounts (Note 2)	7,752.6 thousand	5,637.5 thousand	37.52%
Number of new accounts opened in the period	934.0 thousand	823.2 thousand	13.45%
Number of branches	237	200	18.50%
Number of wealth management advisors	853	805	5.96%
Number of clients of wealth management plans	2.4868 million	2.0976 million	18.55%
Transaction amount of clients of wealth management plans	RMB872.064 billion	RMB702.794 billion	24.09%
Total sales of wealth management products (Note 3)	RMB426.394 billion	RMB406.141 billion	4.99%

Source: Exchanges, internal statistics of the Company

- Note:
1. The ranking based on the transaction amount of stock and funds is calculated on a consolidated basis. Data of CITIC Securities, CITIC Zhejiang and CITIC Shandong were consolidated, and data of Shenwan Hongyuan and Shenwan Hongyuan (Western) were consolidated.
 2. Eligible accounts refer to fund accounts which are not dormant or unqualified.
 3. The wealth management products sold by the Company include mutual funds, private equity funds and collective wealth management products of the Company (including the subscription data of “Daily Profit”, our margin product).

In respect of futures brokerage, the Company engages in futures brokerage business through China Merchants Futures, a wholly-owned subsidiary. In the first half of 2017, the total transaction volume and trading amount of the national futures market were 1.478 billion lots and RMB85.91 trillion, respectively, representing a year-on-year decrease of 35.48% and 13.52%, respectively. The decrease was mainly due to the slow recovery in the transactions of financial futures resulting from the significant contraction in the transactions of commodity futures. During the Reporting Period, the market share of financial futures and commodity futures of the Company recorded a year-on-year increase of 79.91% and 21.13%, respectively. The market share of treasury bond futures increased by 216.02% as compared with the first

half of last year. The Company actively developed new businesses. They became one of the first companies to obtain the qualification for commodity option business on the Dalian Commodity Exchange and Zhengzhou Commodity Exchange as well as the membership of the Shanghai International Energy Exchange. It also established a wholly-owned risk management subsidiary and the business filing procedures as well as capital injection for such company were completed.

In the first half of 2017, in order to be in compliance with the requirements of Administrative Measures on the Suitability of Securities and Futures Investors (《證券期貨投資者適當性管理辦法》), the Company organized various themed activities in relation to the protection of investors' interests and promoted such activities through multiple channels and media in different ways with an aim to enhance the risk identification capability and cultivate the awareness of rational investment among investors.

(2) Capital-based intermediary services

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

In the first half of 2017, margin financing and securities lending in the A-share market was relatively stable. As at June 30, 2017, although the balance of margin financing and securities lending of the industry was RMB879.862 billion, representing a decrease of 6.3% as compared with that of the end of 2016. The securities-backed lending market continued to grow. As at the end of June 2017, outstanding amount of securities-backed lending was RMB1,520.1 billion, representing an increase of 18.4% as compared to the end of 2016.

During the Reporting Period, the Company actively developed its capital-based intermediary services. The Company focused on enlarging the customer base of margin financing and securities lending through more support to research services and higher efficiency. It also optimized its credit policies for securities-backed lending and provided customers with whole industry chain services, which further consolidated the competitiveness of such business. As of June 30, 2017, the balance of margin financing and securities lending was RMB48.317 billion and ranking fifth on the market. The general collateral ratio was 305.01%. The balance of securities-backed lending and stock repurchases amounted to RMB48.324 billion, representing an increase of approximately 11.51% as compared with that of the end of 2016, which supported the financing needs of customers and the development of the real economy. At the end of June, the performance guarantee ratio of the securities-backed lending was 227.25%.

Capital-based Intermediary Business of the Company and its Ranking

Operating indicators	June 30, 2017	December 31, 2016	Change
Balance of margin financing and securities lending	RMB48.317 billion	RMB51.008 billion	-5.28%
Ranking in terms of the balance of margin financing and securities lending	5th	7th	Increased by two ranks
Outstanding amount of securities-backed lending	RMB48.324 billion	RMB43.337 billion	11.51%
Ranking in terms of the outstanding amount of securities-backed lending	7th	7th	—

Source: Exchanges, internal statistics of the Company

Note: The ranking based on the balance of margin financing and securities lending is calculated on a consolidated basis. Data of CITIC Securities, CITIC Zhejiang and CITIC Shandong were consolidated, and data of Shenwan Hongyuan and Shenwan Hongyuan (Western) were consolidated.

(3) Institutional client services

Institutional client services of the Company include institutional sales and research, prime brokerage and custody and outsourcing services.

① Institutional sales and research

The Company mainly provides institutional clients, such as mutual fund management companies and insurance companies, with leasing of trading seats in exchange of transaction commission. According to Wind Info, a PRC financial data platform, both the trading volume and commission for mutual funds of the Company ranked first in the industry in 2016 (ranking as of the first half of 2017 has not yet been published). However, competition of mutual fund trading became more intensified as the number of market participants grew. In the first half of 2017, the Company continued to improve the investment research and sales services of key mutual funds to consolidate its leading position in mutual funds. It also achieved breakthroughs in the marketing services for customers of insurance and private funds, which further strengthened its differentiated competitiveness.

In respect of research business, in accordance with the adjustments to the industrial structure, economic transformation and development of internet in China, the Company continues to expand the research team and provide professional investment and research services based on clients' demands. As at June 30, 2017, the research center of the Company had over 150 researchers and the equity research team covered over 35 industries and over 1,160 listed companies. The listed companies covered by our research team accounted for 84% of the total market capitalization of CSI 300 Index constituent stocks. During the Reporting Period, the Company published over 2,400 research reports, which was approximately 35% more than last year, and organized 33 large- and medium-scale industry forums and seminars, which was 30% more than last year, serving over 3,400 clients in total. The research team also arranged over 230 teleconferences for institutional investors, roadshows for 5,500 participants and more than 900 joint researches for listed companies.

② Prime brokerage

Prime brokerage business of the Company provides institutional clients with one-stop financial services, including prime brokerage trading system, fund custody and outsourcing, clearing, margin financing and securities lending, fund hatching and research services. In the first half of 2017, the Company continued to upgrade the prime brokerage investment and research services and information technology system by leveraging on its advantages of prime brokerage services featuring “sales + research and development + prime brokerage PB system + custody + capital”. Through improving the five major prime brokerage systems, namely CMS Jinzheng (招證金證), CMS Xuntou (招證迅投), CMS Hengsheng (招證恒生), CMS Tonglian (招證通聯) and CMS Mingce (招證名策), the Company promoted its self-developed “CMS trading master (招證交易大師)” system which provided high quality integrated financial services for prime brokerage customers including private equity funds, fund subsidiaries and trust companies. As of June 30, 2017, the total tradable assets by prime brokerage customers reached RMB139.1 billion, representing an increase of 6% as compared with the end of 2016. During the Reporting Period, the trading volume of stock and funds increased by 25% as compared with last year.

③ Custody and outsourcing

Fund custody services of the Company include asset custody, settlement of funds, funds valuation, and compliance supervision, while the fund outsourcing services mainly include registration of entitlements and funds valuation. In the first half of 2017, competition in the custody and outsourcing industry became increasingly intensified. Custody and outsourcing business of the Company maintained steady and rapid growth in terms of the number of products and asset scale, and became the first securities company in the PRC to provide fund services for wholly foreign-owned enterprise (WFOE) private fund managers and registration and funds valuation outsourcing business for mutual fund managers. As of June 30, 2017, the Company had a total of 14,229 custody and outsourcing products (including 622 products of asset management subsidiaries) with a total value of RMB1,822.907 billion (including total value of products of asset management subsidiaries of RMB656.327 billion), representing increases of 19.8% and 8.3% as compared with the end of 2016, respectively. According to the Asset Management Association of China, the Company ranked first in terms of the number of products under its custody which had been filed with the authority, with a market share of 27.63% in the industry. It also ranked first in terms of the number of mutual funds under custody in the industry. In the first half of 2017, the Company successfully hosted “Shared Responsibilities and Mutual Growth — Win-win Cooperation between Service Providers and Private Equity Funds” (共擔責任、共享發展 — 服務機構與私募基金合作共贏), a sub-forum of the Third West-Lake Summit on Global Alternative Investment Fund, which further boosted its influence in the industry.

2. *Investment Banking Business*

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

(1) *Equity underwriting and sponsoring*

In the first half of 2017, IPO market has remarkably expanded driven by the accelerated approval and offering of IPOs in the A-share market. On the other hand, affected by the new regulations on refinancing and reduction in shareholding, the refinancing market has remarkably shrunk. According to Wind Info, the total amount of equity financing in the A-share market was RMB594.634 billion, representing a year-on-year decrease of 34.19%. (Note: including share issuance for asset acquisition)

The number of and proceeds from A-share IPOs in the first half of 2017 were 237 and RMB116.646 billion, representing a year-on-year increase of 248.53% and 259.30%, respectively. There were 263 companies conducting A-share refinancing with proceeds of RMB477.989 billion, representing a year-on-year decrease of 34.25% and 43.13%, respectively. (Note: including share issuance for asset acquisition)

During the Reporting Period, capturing the market opportunities arising from accelerated approval for IPOs, the Company further explored IPO projects to expand its reserves by enhancing marketing aimed at high quality medium and large enterprises and enterprises with high growth potential. According to the CSRC, as of the end of June 2017, the number of IPO projects handled by the Company pending approval was 38 (including approved projects to be offered), ranking third in the industry. Meanwhile, the Company continued to improve its professionalism in the corporate investment banking business through offering a wide range of products, which have further consolidated its advantages in businesses for small and medium enterprises. Further breakthroughs were made in the marketing of major customers, and customer structure was constantly improved. The Company continued to enhance its industrial research and product innovation to support the expansion of its business team into business department. The Company established specialized business departments for key industries such as pharmaceutical and healthcare, high-end equipment manufacturing, automobiles and consumption industries. The Company further improved the effectiveness in the identification and development of major customers in key industries and strove to provide them with high value-added investment banking services. The Company's core competitiveness has been consolidated.

Amount of Equity Underwriting and Number of Companies Underwritten by the Company

Project	First half of 2017		First half of 2016		Year-on-year change in underwriting amount
	Underwriting amount (RMB100 million)	Number of companies	Underwriting amount (RMB100 million)	Number of companies	
IPO	41.24	9	21.84	4	88.83%
Refinancing	116.45	12	139.54	3	-16.55%
Total	157.69	21	161.38	7	-2.29%

Source: Data of the Company

Note: The figures of overseas investment banking operation were excluded in the above table.

During the Reporting Period, the Company completed a total of nine A-share IPO projects, with an underwriting amount of RMB4.124 billion, representing a year-on-year increase of 88.83%. Our highlighted projects included the IPOs of Guangzhou Shangpin Home Collection Co., Ltd. (廣州尚品宅配家居股份有限公司) and Raisecom Technology Co., Ltd. (瑞斯康達科技發展股份有限公司). Affected by the offering pace and size of projects, the number of completed projects under the refinancing business of the Company recorded a significant year-on-year growth, but the underwriting amount decreased. In the first half of 2017, according to Wind Info, the number of companies and underwriting amount of A shares underwritten by the Company as a lead underwriter ranked sixth and seventh in the industry, respectively, while the number of companies and amount of refinancing business ranked fifth and ninth, respectively, in the industry.

(2) Debt underwriting

In the first half of 2017, the bond market remained weak in general due to financial deleveraging and stricter regulations on the financial industry. The financing cost has increased, which has adversely affected both the market supply and demand. The total amount of debt financing was RMB5,065.4 billion, representing a decrease of 31.22% year-on-year. Particularly, the issuance sizes of enterprise bonds and corporate bonds recorded a year-on-year decrease of 72.62% and 71.14%, respectively. However, asset securitization products maintained rapid growth with an underwriting amount of RMB480.4 billion in the first half of 2017, representing a year-on-year increase of 60.3%.

During the Reporting Period, the Company further expanded its project reserves, explored opportunities for business transformation and focused on developing customers in major businesses and areas. The Company acted as a lead underwriter for a total of 119 debt securities issuance projects with a total underwriting amount of RMB163.440 billion, representing a year-on-year increase of 3.53%. It maintained growth despite the adverse market condition. The Company ranked third, third and fourth in terms of the numbers of debt securities (including debt securities issued as a principal), asset-backed securitization products and debt financial instruments of non-financial companies (including commercial paper, medium-term notes and private placement notes) underwritten, respectively, and ranked second, third and third in terms of underwriting amounts, respectively. The Company, as a lead underwriter, completed the issuance of securities backed by the right to receive heat supply fees under the new urbanization PPP project in Gu'an Industrial Zone of China Fortune Land Development Co., Ltd., which became one of the first asset securitization products backed by PPP projects in the PRC.

Amount of Bonds and Number of Companies Underwritten by the Company

Types of project	First half of 2017		First half of 2016		Underwriting amount
	Underwriting amount (RMB100 million)	Number of companies	Underwriting amount (RMB100 million)	Number of companies	Year-on-year increase
Enterprise bonds and corporate bonds	532.62	39	1,023.8	74	-48.0%
Commercial paper and special financial bonds	217.1	9	62	2	250.2%
Asset-backed securities	711.68	61	390.81	49	82.1%
Other bonds	173	10	102	7	69.6%
Total	1,634.40	119	1,578.61	132	3.5%

Source: Internal data of the Company

(3) Financial advisory

Affected by the promulgation of new requirements on restructuring and accelerated pace of IPOs, the merger, acquisition and restructuring market in the first half of 2017 cooled down significantly as compared to 2016. According to Wind Info, in the first half of 2017, the transaction amount of merger and acquisition market in China (excluding inbound merger and acquisition) amounted to RMB1,199.171 billion, representing a year-on-year decrease of 28.73%, with more transactions settled in cash and the number of transactions was 4,138, representing a year-on-year increase of 86.48%. Industrial merger and acquisition remained the most common transactions in the market.

During the Reporting Period, the Company enhanced its research in terms of the real economy and industrial development to facilitate the matching of enterprises and businesses for mergers and acquisitions, and actively seized opportunities brought by the reformation of state-owned enterprises, transformation of economic structure and integration of industries in order to provide its customers with profitable transaction plans. According to Wind Info, in the first half of 2017, the Company conducted 14 merger and acquisition transactions as disclosed, being tied with China Securities and Haitong Securities for the second place in the industry. The total transaction amount as disclosed was RMB16.33 billion, ranking ninth in the industry. The Company completed the restructuring and listing of S.F. Holding (002352.SZ), a leader in the courier services industry, the restructuring of Blue Flame Holding (000968.SZ), and the merger, acquisition and restructuring of Zhengzhou Coal Mining Machinery (601717.SH). In addition, the Company gradually carried out large projects, including the absorption and merger of Huabei Highway (000916.SZ) by CMET, the merger, acquisition and restructuring of Chuangxin New Material (002812.SZ) and the merger, acquisition and restructuring of Yunnan Metropolitan (600239.SH). These projects have contributed to the development of real economy, transformation and upgrade of industries, reformation of state-owned enterprises and integration of central enterprises.

(4) OTC Business

In the first half of 2017, the National Equities Exchange and Quotations (NEEQ) market experienced a dramatic change. As the number of enterprise candidates qualified for listing has been decreasing and a large number of such enterprises shifted to conduct IPO. As the favourable policies were yet to be implemented, enterprises which intended to list on the NEEQ held off their plans, resulting in a significant slowdown in the growth of sponsoring business for NEEQ. Furthermore, the regulatory authorities have imposed tighter regulations with increasingly strict penalties. According to Wind Info, there were 1,307 companies newly listed on the NEEQ in the first half of 2017, representing a year-on-year decrease of 47.26%. The number of fund-raising projects was 1,517, representing a year-on-year decrease of 4.95%. The amount of fund raised was RMB63.54 billion, representing a year-on-year decrease of 8.54%.

During the Reporting Period, the Company adjusted its development plan of OTC business and sought for business transformation. The Company focused on the development of corporate customers with future business opportunities and NEEQ customers proposing to make IPO. The Company improved its integrated services by exerting efforts in developing whole-chain services.

According to the Choice Financial Terminal (Choice 金融終端) of East Money, in the first half of 2017, the Company sponsored 33 companies. A total of 358 listed companies were sponsored by the Company, including 52 enterprises listed on the innovative level of NEEQ, ranking fifth and sixth in the industry, respectively. In the first half of 2017, 29 listed companies transferred their continuing supervision to the Company, ranking first in the industry. The Company completed the issuance of shares of 46 companies on the NEEQ, raising a total of RMB1.341 billion, ranking sixth in terms of the number of issuance in the industry.

3. *Investment Management*

The Company engages in securities asset management business and private investment fund business through China Merchants Securities Asset Management Co., Ltd. and China Merchants Zhiyuan Capital Investment Co., Ltd., its wholly-owned subsidiaries, respectively. The Company engages in fund management business through Bosera Funds and China Merchants Fund, its associated companies.

(1) *Asset management*

The Company engages in asset management business through CMS Asset Management, its wholly-owned subsidiary.

In the first half of 2017, a series of policies aiming at de-channeling and deleveraging were issued in order to prevent financial risks and guide the asset management companies to adopt active management. Under the extraordinarily complicated market condition, the debt and stock markets remained sluggish while the interest rate in the monetary market rose rapidly, making it very difficult to conduct quantitative hedging.

During the Reporting Period, CMS Asset Management proactively responded to changes and recorded a steady growth in both operating revenue and value of assets managed. Firstly, CMS Asset Management put a great effort in enhancing its active asset management and the revenue generated from its core products increased significantly. As at June 30, 2017, the total value of assets under active management of the Company amounted to RMB118.45 billion, representing an increase of 16.3% as compared to the end of 2016. Secondly, CMS Asset Management expanded its MOM products rapidly and effectively enhanced its investment management. Its advantage in the size and performance of products over its peers became more apparent. Lastly, CMS Asset Management developed new products adapting to the latest market trends and changes accurately.

As at June 30, 2017, the total assets under management of the Company amounted to RMB645.0 billion, representing an increase of 2.4% as compared to the end of 2016. The collective assets, targeted assets and specialized assets managed by the Company amounted to RMB43.3 billion, RMB564.8 billion and RMB36.9 billion, respectively. In the first half of 2017, the Company ranked seventh in terms of net revenue from entrusted asset management business and entrusted funds. The Company recorded one rank higher over the end of 2016 in terms of entrusted funds.

Business scale and revenue performance of securities asset management business of the Company:

Category	Asset under management (RMB100 million)		Net revenue of asset management (RMB100 million)	
	As at June 30, 2017	As at December 31, 2016	For the first half of 2017	For the first half of 2016
Collective wealth management	432.61	446.54	3.71	4.01
Targeted wealth management	5,648.33	5,619.96	1.15	0.73
Specialized wealth management	369.32	232.22	0.06	0.31
Total	6,450.26	6,298.72	4.92	5.05

Source: Internal data of the Company

(2) Private Investment Funds

As at June 30, 2017, there were 19,708 private fund managers registered with Asset Management Association of China, and a total of 56,576 private funds were filed, with subscription and paid-up amounts of RMB13.59 trillion and RMB9.46 trillion, respectively. The number and size of filed private funds increased by over 10% as compared to the end of 2016, showing that the private fund industry has entered the stage of rapid growth.

In respect of the external environment, the regulatory authorities continued to issue new policies and regulations on the equity investment industry with an aim to optimize the environment of capital market and establish a sustainable ecosystem with characteristics of China for private funds. The supply-side structural reform was pushed through gradually and the transformation and upgrade of real economy, reformation of state-owned enterprises and assets, cooperation between the government and social capital and other policies created many opportunities for equity investment. In respect of the development of equity investment market, as the market tended to adopt multiple strategies rather than the traditional single strategy, VC/PE institutions focused on business development covering the whole industry chain. In general, there were both opportunities and challenges in the equity investment market.

During the Reporting Period, CMS Zhiyuan further strengthened its core competitiveness in respect of fund raising, investment, management and exiting by expanding fund-raising channels and project sources, regulating risk and compliance management and improving the performance of investment. In the first half of 2017, CMS Zhiyuan actively organized for the setup of several funds, including the industrial investment fund jointly established with Anhui Transportation Holding Group Co., Ltd. and the large logistics industry fund jointly established with Haier Electronics Group Co., Ltd.. CMS Zhiyuan also entered into strategic cooperation agreements with high-quality institutions such as CMET and Shaanxi Cultural Industry Investment Holdings (Group) Co., Ltd.. CMS Zhiyuan improved the professional capability of its investment team. Keeping abreast of the development of the high-end

manufacturing industry and the TMT industry, it has completed investment in projects such as iView (廣景科技), Inmyshow (天下秀) and Youfan Technology (優帆科技). As of the end of June 2017, the total assets managed by CMS Zhiyuan amounted to RMB19 billion, ranking the top in private investment funds.

(3) *Fund management*

① Boseru Funds

The Company holds 49% equity interest in Boseru Funds. In the first half of 2017, Boseru Funds grasped the opportunities brought by the capital market reform and transformation of financial institutions and put a great effort in responding to challenges posed by the transformation in the mutual funds industry. All business lines recorded steady growth with continuous improvement in the operating performance. As at the end of June 2017, the assets managed by Boseru Funds increased by 3.6% from the end of 2016 to RMB635.8 billion. The asset value of mutual funds under its management amounted to RMB376.4 billion, basically the same as that at the end of 2016. Boseru Funds continued to maintain its leading position in the industry.

② China Merchants Fund

The Company holds 45% equity interest in China Merchants Fund. In the first half of 2017, in face of the complicated and severe situation, China Merchants Fund persisted in diversified development and aimed at quality growth. As at the end of the Reporting Period, the value of asset managed by China Merchants Fund amounted to RMB481.6 billion, representing an increase of 8.5% over the end of 2016. The asset value of mutual funds under its management amounted to RMB371.2 billion, representing an increase of 7.5% over the end of 2016, China Merchants Fund continued to maintain its leading position in the industry.

4. *Investment and Trading Business*

The Company engages in the trading of equity and fixed-income securities and other financial products.

(1) *Equity investment*

In the first half of 2017, the A-share market saw sharp fluctuation in general with apparent differentiated structures. The performance of blue chips significantly surpassed the medium and small cap stocks. The SSE 50 Index and CSI 300 Index increased by 11.5% and 10.78%, respectively, while SSE SME Composite Index and SZSE ChiNext Composite Index decreased by 2.44% and 10.12%, respectively, as compared to the end of 2016.

During the Reporting Period, the Company persisted in its philosophy of value investment for the proprietary investment business and increased investment in blue chips with satisfactory performance. In addition, while strictly complying with the relevant commitments made in

2015, the Company adjusted its investment profile and participated in the placing of new shares, boosting the year-on-year growth of investment return. In addition, the Company engaged in market-neutral investment business by adopting quantifying and hedging approaches, in order to gain stable excess return with low risk exposure. All of its existing businesses, including market-making for funds and stock options and trading of OTC derivatives, have attained relatively favorable investment returns. In March 2017, the soybean meal options were listed on the Dalian Commodity Exchange and the Company became the first securities company to receive the qualification of a market maker of commodity options.

(2) *Fixed-income instruments, currencies and commodities (FICC)*

In the first half of 2017, the bond market remained weak in general. The annualized yield rate of ChinaBond Composite Index (中債綜合財富指數) was -0.24%. In respect of commodities, the PRC government has encouraged the provision of financial services for the real economy, aiming to strive for stronger bargaining power of commodities to be vested in Eastern countries, which has created favourable development opportunities for the commodities business.

During the Reporting Period, macro environment and credit researches were enhanced for the proprietary bond investment business and efforts were made to prevent interest rate risks and credit risks. The Company increased its investment returns by employing multi-dimensional strategies to establish a more optimized investment research system and develop innovative business. In the first half of the year, the Company attained higher investment returns from bond investment, with a yield rate far exceeding the ChinaBond Composite Index (中債綜合財富指數).

While growing the existing businesses, the Company has also proactively prepared for and facilitated the rapid development of innovative business. A FICC comprehensive business platform has been established with multifaceted efforts and the commodities business has experienced a breakthrough in scale. In respect of foreign exchange business, the Company is applying for foreign exchange business qualification with the State Administration of Foreign Exchange and the CSRC, developing our working team and system steadily.

(3) *Sale and trading of OTC products*

In the first half of 2017, with the challenges from the sluggish market and further financial deleveraging, the Company faced a certain degree of difficulties in relation to the type and scale of OTC products issued. The Company proactively adjusted its business approach to optimize the core customer services and maintain a steady growth in the issuance scale of structured notes. The Company issued RMB16.867 billion of OTC products during the Reporting Period.

In respect of the NEEQ market-making business, the Company adjusted the market-making strategy and trading strategy according to market development trend and its own advantages. The Company had provided market-making services to 208 stocks as of June 30, 2017, and is providing market-making services for 153 stocks. The NEEQ market-making index for the year dropped by 4.24% during the year, and the market-making business of the Company

outstripped the market by approximately one percentage point. Based on the comments of the securities firms acting as prime brokers on the NEEQ, the Company ranked seventh in terms of its market-making business capacity.

5. *Overseas Business*

The Company operates overseas business through China Merchants Securities International Company Limited, its wholly-owned subsidiary. CMS International is principally engaged in securities and futures contracts brokerage, custodian services, listing sponsorship, financial advisory, corporate financing, investment management, asset management, market researches and other businesses permitted by the securities regulatory rules in Hong Kong through the establishment of different subsidiaries.

With the economic recovery in the major regions across the globe in the first half of the year, the performance of Hong Kong stock market saw improvement in terms of the trading volume and price. The Hang Seng Index increased by approximately 3,700 points, representing an increase of approximately 17%, and the average daily trading volume was HK\$76.0 billion, representing a year-on-year increase of 13%. The scale of corporate financing expanded significantly. Proceeds raised from IPOs in the market amounted to HK\$53.6 billion, representing a year-on-year increase of 23%. The amount raised from G3 bonds in the Asian market (except Japan) amounted to USD167.3 billion, representing a year-on-year increase of 82%.

Performance indicators for businesses of CMS International including investment banking and securities have achieved record highs. In terms of investment banking business, during the Reporting Period, CMS International completed 32 stock or bond transactions, including seven IPOs in Hong Kong. The amount underwritten was USD591 million, representing a year-on-year growth of 457.5%. CMS International also completed two financial advisory projects with a total transaction amount of USD120 million, three share placements raising a total of approximately USD430 million and 20 overseas bond issuances, with the amount underwritten being USD1,650 million, representing a year-on-year growth of 439.3%. In the first half of 2017, CMS International ranked first and sixth (third among PRC-based companies) in terms of the amount of Hong Kong IPOs underwritten and the amount of equity underwritten, respectively. The market share of its securities business involving trading of shares in Hong Kong increased by 48%, an increase of 10 places in terms of ranking, while the daily margin trading volume recorded a significant year-on-year increase of 1.3 times. Meanwhile, CMS International has put greater efforts in developing businesses including subscription of new bonds, bond trading, and trading of equity derivatives and funds so as to gradually establish an all-round product platform.

With years of development, the fixed income and global commodities businesses have become important income sources of the Company with an increasing percentage to the total income year-on-year. During the Reporting Period, the investment gains of fixed income credit bonds outperformed major bond indexes in the Asian market in terms of investment returns and were traded on the first day of the launch of Bond Connect, which was of great strategic value to the Company. The Company won international awards in respect of its global commodities, including the “2016 Best Securities Firm — Commodities/Futures Services” (2016 最佳券商 — 大宗商品／期貨服務) from the Institutional Investor magazine and “2016 Best Iron Ore

Broker in China” (2016 中國最佳鐵礦石經紀商) from the Singapore Exchange. The strength of China Merchants Securities as a leading PRC-based commodities business platform was once again demonstrated.

In the first half of 2017, CMS Korea Co., Ltd. (招商證券(韓國)有限公司) obtained the licence from the Financial Services Commission of the Republic of Korea. The Company became the first securities firm in China to expand its business to Korea.

(III) Analysis of Financial Statements

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

In the first half of 2017, the total revenue and other income of the Company amounted to RMB8.542 billion, representing a year-on-year decrease of 2.14%. The profit attributable to shareholders of the Company and holders of other equity instruments amounted to RMB2.552 billion, representing a year-on-year increase of 13.85%. The weighted average return on net assets was 3.88%, representing a year-on-year decrease of 0.76 percentage points.

Unit: RMB'000 Currency: RMB

Item	Current period		Previous period		Change	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Fee and commission income	4,522,870	52.95%	5,003,390	57.32%	-480,520	-9.60%
Interest income	3,197,799	37.44%	3,298,067	37.78%	-100,268	-3.04%
Net investment gains	862,385	10.10%	386,559	4.43%	475,826	123.09%
Other income and gains	-41,037	-0.48%	40,740	0.47%	-81,777	-200.73%
Total revenue and other income	8,542,017	100.00%	8,728,756	100.00%	-186,739	-2.14%

Fee and commission income recorded a year-on-year decrease of 9.6%, mainly due to the year-on-year decrease in trading volume of stock and funds in the A-share market and the decrease in commission rate of the securities trading agency business of the Company along with the overall decline in the industry. The fee and commission income of securities and futures brokerage business recorded a year-on-year decrease of 19.82%. The income of underwriting and sponsorship business remained stable as compared to the corresponding period of last year. Mainly due to the significant year-on-year increase in income of merger and acquisition and reorganisation, the income of financial advisory business recorded a year-on-year increase of 55.18%. The income of asset management business recorded a slight decrease of 1.06%.

Interest income recorded a slight year-on-year decrease of 3.04%. Due to the decline in the trading activities in the stock market, margin deposits from customers recorded a drop, and the interest income from deposits of the Company with Exchanges and financial institutions decreased by 16.34% year-on-year. Interest income from margin financing and securities lending recorded a slight year-on-year decrease of 4.61%, and the interest income from securities-backed lending and stock repurchases increased by 25.22% year-on-year due to the significant growth in the business size of securities-backed lending and stock repurchases.

Net investment gains recorded a substantial year-on-year increase of 123.09%, primarily due to a significant increase in investment income from equity securities as a result of the rising indexes of the A-share market and Hong Kong stock market in the first half of the year as compared to the corresponding period of last year.

Unit: RMB'000 Currency: RMB

Item	Current period		Previous period		Change	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Depreciation and amortization	93,348	1.58%	79,414	1.28%	13,934	17.55%
Staff costs	1,924,966	32.59%	1,462,058	23.49%	462,908	31.66%
Fee and commission expenses	880,609	14.91%	819,411	13.17%	61,198	7.47%
Interest expenses	2,241,063	37.94%	3,019,430	48.52%	-778,367	-25.78%
Business tax and surcharges	46,101	0.78%	357,129	5.74%	-311,028	-87.09%
Other operating expenses	685,130	11.60%	565,209	9.08%	119,921	21.22%
Impairment losses	35,063	0.59%	-79,077	-1.27%	114,140	—
Total expenses	5,906,280		6,223,574		-317,294	-5.10%

In the first half of 2017, the total expenses of the Company amounted to RMB5.906 billion, representing a year-on-year decrease of 5.1%, of which fee and commission expenses amounted to RMB881 million, representing a year-on-year increase of 7.47%. The increase was primarily due to a year-on-year increase of RMB62 million in fee and commission expenses of underwriting and sponsorship business as a result of the increase in distribution expenses of the Company. Fee and commission expenses of securities and futures brokerage business was relatively stable over the corresponding period of last year, while a year-on-year increase of 11.79% in the fee and commission expenses for asset management business and a year-on-year decrease of 19.07% in the fee and commission expenses for financial advisory business were recorded.

Interest expenses amounted to RMB2.241 billion, representing a year-on-year decrease of 25.78%, which was mainly due to a substantial decrease in interest expenses for financial assets sold under repurchase agreements and subordinated bonds as a result of the decrease in the liabilities and financing of the Company.

Staff costs amounted to RMB1.925 billion, representing a year-on-year increase of 31.66%, primarily due to an increase in the performance bonus of employees.

Other expenses mainly included depreciation and amortization, business tax and surcharges, other operating expenses and impairment losses. The year-on-year increase in depreciation and amortization was mainly due to the increase in depreciation and amortization of fixed assets related to IT and other aspects. The significant year-on-year decrease in business tax and surcharges was primarily due to the replacement of business tax by value-added tax since May 2016. The significant increase in impairment losses was primarily due to the impairment losses of RMB42 million provided for financial assets under resale agreements during the year.

2. *Analysis of assets and liabilities*

As of the end of June 2017, the equity attributable to shareholders of the Company and holders of other equity instruments was RMB76.537 billion, representing an increase of 27.93% as compared with the end of 2016, mainly attributable to the issuance of perpetual subordinated bonds of the Company of RMB15.0 billion. The net profit attributable to shareholders of the Company was RMB2.552 billion and dividends distributed to shareholders were RMB1.266 billion.

At the end of June 2017, total assets of the Company were RMB242.817 billion, representing a slight decrease of RMB241 million as compared with the end of 2016. The total current assets amounted to RMB216.141 billion and total non-current assets accounted to RMB26.676 billion. Excluding the accounts payable to brokerage clients, the total assets amounted to RMB182.913 billion, representing an increase of RMB7.436 billion, or 4.24%, as compared with the end of 2016. At the end of June 2017, the total liabilities of the Company were RMB166.191 billion, representing a decrease of RMB16.952 billion, or 9.26%, as compared with the end of 2016. The current liabilities amounted to RMB140.005 billion and non-current liabilities amounted to RMB26.187 billion. Excluding the accounts payable to brokerage clients, the liabilities of the Company were RMB106.287 billion, representing a decrease of RMB9.275 billion as compared with the end of 2016.

The Company has maintained satisfactory assets quality and liquidity. Net current assets at the end of June 2017 amounted to RMB76.137 billion. At the end of June 2017, the Company's cash and bank balances and clearing settlement funds, financial assets, advances to customers, financial assets held under resale agreements and long-term equity investment accounted for 31%, 31%, 22%, 10% and 3% of the total assets, respectively. The Company's financial assets sold under repurchase agreements, short-term borrowings and placements from other financial institutions in aggregate accounted for 20% of the total liabilities, while accounts payable to brokerage clients, bonds payable and long-term borrowings, and short-term financing bills accounted for 36%, 24% and 7% of the total liabilities, respectively.

As at June 30, 2017, the gearing ratio of the Company was 58.11%, representing a decrease of 7.75 percentage points as compared with the end of 2016.

3. *Cash flows*

Unit: RMB'000 Currency: RMB

Item	Current period	Previous period	Change	Percentage change
Net cash used in operating activities	8,401,901	29,784,174	-21,382,273	-71.79%
Net cash used in investing activities	-250,574	-1,996,614	1,746,040	—
Net cash generated from financing activities	-7,047,674	-27,787,392	20,739,718	—
Net increase/(decrease) in cash and cash equivalents	1,103,653	168	1,103,485	656,836.31%

In the first half of 2017, the net increase in cash and cash equivalents of the Company was RMB1.104 billion. The net cash used in operating activities amounted to RMB8.402 billion. The net cash used in investing activities amounted to -RMB251 million. The net cash generated from financing activities amounted to -RMB7.048 billion. The changes in foreign exchange rate resulted in a net cash outflow of RMB272 million.

Net cash used in operating activities amounted to RMB8.402 billion, representing a decrease of RMB21.382 billion as compared to the corresponding period in 2016. The decrease was primarily due to the decrease in advances to customers and financial assets at fair value through profit or loss.

Net cash used in investing activities amounted to -RMB251 million, representing an increase of RMB1.746 billion as compared to the corresponding period in 2016. The increase was primarily due to a decrease of RMB1.932 billion in the net investment from the disposal of available-for-sale financial assets during the year.

Net cash generated from financing activities amounted to -RMB7.048 billion, representing an increase of RMB20.740 billion as compared to the corresponding period in 2016. The increase was primarily due to the issuance of perpetual subordinated bonds with an amount of RMB15.0 billion, a year-on-year increase of RMB1.715 billion in the proceeds from the issuance of bonds and short-term financial bills payable, and a year-on-year increase of RMB2.134 billion in the net proceedings from borrowings.

(IV) Analysis of investment

1. Analysis of total external equity investments

(1) Significant equity investments

Shareholding in financial enterprises

Target	Initial investment (RMB10,000)	Shareholding as at the beginning of the period (%)	Shareholding as at the end of the period (%)	Closing balance (RMB10,000)	Gain or loss during the Reporting Period (RMB10,000)	Change in equity attributable to the owner during the Reporting Period (RMB10,000)	Accounting item	Source
Bosera Asset Management Co., Limited	369,319.04	49.00%	49.00%	441,022.79	25,284.56	-65.53	Long-term equity investment	Acquisition
China Merchants Fund Management Co., Ltd.	35,584.45	45.00%	45.00%	132,594.16	18,964.44	309.87	Long-term equity investment	Promotion and acquisition
Total	404,903.49	—	—	573,616.95	44,249.00	244.34	—	—

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

(2) Significant non-equity investment

Item	Amount (RMB10,000)	Progress	Amount invested during the year (RMB10,000)	Total investment paid (RMB10,000)	Return (RMB10,000)
Construction project of the China Merchants Securities Building	145,000.00	75.42%	1,988.56	109,363.01	—
Total	145,000.00	—	1,988.56	109,363.01	—

(3) *Financial assets measured at fair value*

Unit: RMB10,000

Item	As at the end of June 2017		From January to June 2017	
	Initial investment cost/nominal amount	Fair value	Investment gains	Change in fair value
Financial assets at fair value through profit or loss	4,874,598.27	4,887,262.49	9,618.33	73,653.26
Available-for-sale financial assets	2,564,517.60	2,579,992.75	19,374.94	66,020.84
Derivative financial assets	5,356,566.61	54,428.24	351.81	-17,574.81
Derivative financial liabilities		75,555.77		
Financial liabilities at fair value through profit or loss	730,444.88	721,001.45	-7,891.54	8,706.48
Subtotal	—	—	21,453.54	130,805.77

(V) **Material disposal of assets and equities**

There was no material disposal of assets and equities of the Company during the Reporting Period.

(VI) Analysis of major subsidiaries and associated companies

1. Major subsidiaries

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

CMS Asset Management is a wholly-owned subsidiary of the Company with a registered capital of RMB1 billion. As of June 30, 2017, the total assets and net assets of CMS Asset Management amounted to RMB2,741.38 million and RMB2,385.33 million. Its principal business is securities asset management.

Unit: RMB10,000

Item	For/as of the end of the first half of 2017	For/as of the end of the first half of 2016
Registered capital	100,000	100,000
Total revenue and other income	54,126	52,944
Net profit	32,058	30,742
Total assets	274,138	197,819
Net assets	238,533	174,942

(2) China Merchants Securities International Company Limited

CMS International is a wholly-owned subsidiary of the Company and has a paid-up capital of HK\$1,803.6 million. On February 10, 2017, China Merchants Securities held the 46th meeting of the fifth session of the Board and considered and approved resolutions regarding the additional capital injection of HK\$2.6 billion (or RMB equivalent) to CMS International and the additional capital injection of HK\$2 billion by CMS International to its wholly-owned subsidiary, China Merchants Securities (HK) Co., Limited. On June 28, 2017, the Company held the second meeting of the sixth session of the Board and considered and approved the adjustment of the additional capital injection to CMS International from HK\$2.6 billion (or RMB equivalent) to HK\$2.3 billion and the additional capital injection of HK\$2 billion by CMS International to China Merchants Securities (HK) Co., Limited. CMS International is principally engaged in securities and futures contracts brokerage, custody services, listing sponsorship, financial advisory, corporate financing, investment management, asset management, market researches and other businesses permitted by the securities regulatory rules in Hong Kong through the establishment of different subsidiaries.

Unit: HK\$10,000

Item	For/as of the end of the first half of 2017	For/as of the end of the first half of 2016
Paid-up capital	180,363	180,363
Total revenue and other income	70,389	23,712
Net profit	13,767	-17,758
Total assets	2,127,950	1,708,997
Net assets	301,762	260,920

(3) *China Merchants Futures Co., Limited*

China Merchants Futures is a wholly-owned subsidiary of the Company with a registered capital of RMB630 million. As of the first half of 2017, China Merchants Futures had four branches in Beijing, Guangzhou, Shanghai and Hangzhou. Its principal businesses include commodity futures brokerage, financial futures brokerage, futures investment consultation and asset management.

Unit: RMB10,000

Item	For/as of the end of the first half of 2017	For/as of the end of the first half of 2016
Registered capital	63,000	63,000
Total revenue and other income	30,256	22,547
Net profit	8,831	7,389
Total assets	718,399	821,258
Net assets	122,010	105,330

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

CMS Zhiyuan is a wholly-owned subsidiary of the Company with a registered capital of RMB1.7 billion. China Merchants Securities conducted the second meeting of the sixth session of the Board on June 28, 2017, by which the proposal regarding capital increase of CMS Zhiyuan in an amount of RMB2.3 billion was considered and passed. Upon the completion of the capital increase, the registered capital of CMS Zhiyuan increased to RMB4.0 billion, which has further improved its capital strength and extended its influence in the private fund industry. CMS Zhiyuan mainly engages in private equity investment funds and related consultancy and advisory services and other business as permitted by regulatory authorities.

Unit: RMB10,000

Item	For/as of the end of the first half of 2017	For/as of the end of the first half of 2016
Registered capital	170,000	170,000
Total revenue and other income	38,308	-13,020
Net profit attributable to the parent company	24,074	-26,694
Total assets	579,451	550,762
Net assets attributable to the parent company	226,305	183,050

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

CMS Investment is a wholly-owned subsidiary of the Company with a registered capital of RMB1.2 billion. Its principal businesses include securities investment, financial product investment, commodities investment (except for those prohibited by laws, administrative regulations and orders of the State Council unless prior approval is granted), investment management, investment advisory, equity investment and venture investment (projects are separately reported).

Unit: RMB10,000

Item	For/as of the end of the first half of 2017	For/as of the end of the first half of 2016
Registered capital	120,000	30,000
Total revenue and other income	333	-260
Net profit	1,206	-252
Total assets	124,394	32,432
Net assets	125,091	33,138

2. *Major associated companies*

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

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

Unit: RMB10,000

Item	For/as of the end of the first half of 2017	For/as of the end of the first half of 2016
Registered capital	25,000	25,000
Operating revenue	151,934	109,818
Operating profit	67,586	53,519
Net profit	51,601	39,980
Total assets	492,292	362,035
Net assets	337,521	255,185

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

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

Unit: RMB10,000

Item	For/as of the end of the first half of 2017	For/as of the end of the first half of 2016
Registered capital	21,000	21,000
Operating revenue	129,095	111,146
Operating profit	52,857	40,808
Net profit	42,143	31,600
Total assets	436,589	298,883
Net assets	250,310	175,112

(VII) Structured entities controlled by the Company

As of the end of June 2017, the Group consolidated six structured entities, including mainly collective asset management schemes, limited partnership and investment funds. If the Group is involved in a structured entity as manager and investor, the Group assesses whether its potential variable returns will be significantly affected by the returns attributable to its investment and the remuneration as a manager and whether the Group is a principal of the entity. As at June 30, 2017, the total assets of the consolidated structured entities amounted to RMB5,112 million.

II. Other Disclosure

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

☐ Applicable ☒ Not Applicable

There has been no material change in the Company's outlook to this accounting year since the publication of the 2016 annual report.

(II) **Potential risks and corresponding measures**

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

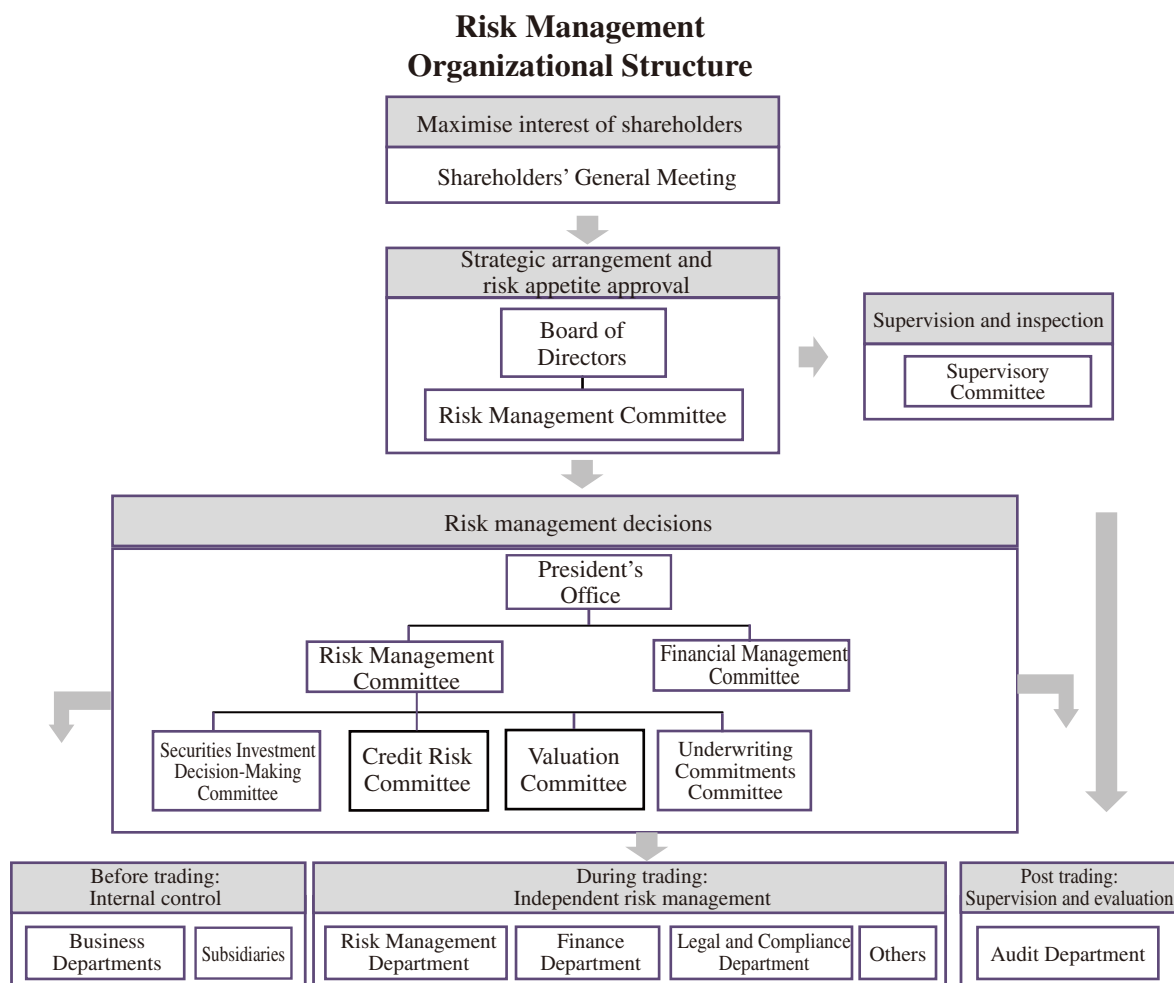
1. Risk Management

(1) Risk management structure

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

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

The chart below sets out our risk management organizational structure:



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

- ① The Board and its Risk Management Committee are primarily responsible for reviewing and approving the risk management system, the risk appetite, risk tolerance and various risk limit indicators of the Company, considering and approving the allocation plan of economic capital of the Company, convening quarterly meetings to review quarterly risk reports and thoroughly assessing the risk management of the Company.
- ② The Supervisory Committee is responsible for supervising and examining the overall operation of the risk management system of the Company.
- ③ The senior management is responsible for the overall risk management in the Company's business operation. They regularly review risk assessment reports, formulate risk management measures and establish risk limit indicators. A Risk Management Committee and a Financial Management Committee are set up under the senior management. The Risk Management Committee serves as the highest risk management decision-maker at the operation level. The Company has also appointed a Chief Risk Officer to oversee the formation of the overall risk management system, monitor, evaluate and report the overall risk level, and provide risk management advice for business decision-making of the Company. In addition, a Securities Investment Decision-

making Committee, Credit Risk Committee, Valuation Committee and Underwriting Commitments Committee were set up under the Risk Management Committee responsible for making collective decisions based on experts' suggestions on issues relating to securities investment, credit risk, securities evaluation and underwriting risks within their respective scope of authorization. The risk management of subsidiaries is managed by the overall risk management system of the Company through vertical management approach. The person-in-charge of risk management of subsidiaries shall be nominated, appointed, removed and appraised by the Chief Risk Officer of the Company.

- ④ As the department to coordinate market, credit and operating risks management of the Company, the Risk Management Department is responsible for managing the market risks and credit risks, as well as assisting and guiding other business departments in managing operational risks of the Company. As a department in charge of the liquidity risk management of the Company, the Finance Department is responsible for managing liquidity risks and the formation of the liquidity risk management system. The Legal and Compliance Department is responsible for managing the compliance and legal risks of the Company and assisting the chief compliance officer in reviewing, supervising and examining the compliance of both the business operations of the Company and the employees' practicing behaviours. The Audit Department is responsible for auditing and examining the effectiveness and execution of the risk management procedures of the Company as well as conducting an overall evaluation of the internal control system of the Company at least once a year.
- ⑤ Each of the business departments, branches and wholly-owned subsidiaries is directly responsible for risk management and supervision of their respective business and management field.

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

(2) Risk management system

In accordance with the Risk Management System (《全面風險管理制度》), the Rules of Procedures for Risk Management Committee Meeting (《風險管理委員會議事規則》), the Administrative Measures on Business Authorization (《業務授權管理辦法》) and Rules on the Risk Management of Subsidiaries (《子公司風險管理辦法》), the Company has established a comprehensive risk management system which covers various risk exposures including market, credit, operational, liquidity and reputation risks and specifies the boundaries and general principles of each risk category.

(3) *Quantitative risk management indicator system*

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

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

(4) Risk management culture

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

(5) Risk management IT system

The Company fully understands the importance of IT system in the modern risk management and has significant investment in the establishment of such systems, including advanced risk management IT systems either developed in collaboration with the IT department of the Company or introduced from home and abroad. A relatively comprehensive market risk management IT system has been established covering the acquisition of daily real-time market information, monitoring of business risks, quantified risk analysis and measurement and risk reports from multiple dimensions, layers and perspectives. The system was continuously updated to include more data and business types and optimize the approach and content of monitoring. A unified credit risk management IT system has been established for credit businesses such as margin financing and securities lending as well as securities-backed lending. A net capital monitoring mechanism has been established according to the Administrative Measures for Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》) issued by the CSRC to effectively monitor various risk indicators for net capitals. Based on the mechanism, a monitoring system of consolidated risk control indicators is being developed to further strengthen the risk management of the Group. In the first half of 2017, the Company established a consolidated supervision and control system and an information system for centralized management of each customer. The consolidated supervision and control system manages the risk control indicators of the parent company and subsidiaries of the Group on a consolidated basis. Through the information system for centralized management of each customer, credit risk data of each customer as included in the consolidated statements of the Group was managed collectively. The system also facilitates standardized identification of customers as well as measurement of credit risk exposure of each customer by business lines and on a consolidated basis. In addition, the People’s Bank of China-linked credit system has been launched and passed the acceptance test by the credit center of Shenzhen branch of People’s Bank of China, which has further enhanced the credit risk control capability of the Company.

2. *Market Risk and Corresponding Measures*

(1) *Profile*

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

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

(2) *Market risk management approaches*

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

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

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

(3) *Responsibilities of market risk management*

The Company collectively allocates the economic capital in accordance with the risk preference and risk tolerance indicators set by the Board. By considering the risk and return associated with each type of investment and for the purpose of relevance and diversification, the Company diversifies the overall risk limitation to different business departments and business lines and formulates corresponding business authorization. Directly confronted with the market risk, the front-office business departments are responsible for market risk

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

(4) Measurement of market risk

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

① VaR

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

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

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

② Stress test

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

③ Sensitivity analysis

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

(5) *Market risk limit management system*

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

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

The Risk Management Department independently monitors each risk limit of the Company on a daily basis. The department will warn the operation management, relevant business departments and business lines in a timely manner if the risk limit is reached or exceeded. Such business departments and lines will issue analysis reports and propose appropriate measures and the Risk Management Department will issue risk evaluation opinions. Relevant leaders of the Company and committees will review the report and require to reduce risk exposures or increase risk limit based on the situation. The Risk Management Department is responsible for monitoring the implementation of such measures.

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

3. *Credit risks and corresponding measures*

(1) *Profile*

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

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

(2) *Management of credit risk*

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

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

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

① Credit risk limit

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

② Internal credit rating

The Company has established an internal credit rating system to review the assets and liabilities profile and debts of its borrower or bonds issuer. In tandem with the external credit rating, the internal credit rating system has become an important instrument for credit business decisions and risk management. The Company has developed several internal credit rating models and comprehensive internal credit rating systems based on the characteristics of different industries and target customers. Internal credit rating results are gradually employed in business authorization, limit forecast, limit approval, risk monitoring, asset quality management, and etc.

③ Quantitative management of collaterals

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

④ Credit risk measurement model

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

(3) *Responsibility for managing credit risk*

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

(4) *Credit risk management on principal businesses*

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

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

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

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

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

Unit: RMB'000

	June 30, 2017	December 31, 2016
Issuers in Mainland China		
PRC sovereign bonds	14,075,683	8,748,217
AAA	9,671,819	6,489,911
AA+	4,805,235	4,529,270
AA	1,396,478	1,861,249
AA-	—	—
Below AA-	—	—
A-1	388,665	—
Non-rated	14,567,667	6,983,738
Sub-total	44,905,547	28,612,385
Issuers in Hong Kong and other regions		
A	100,717	82,669
B	2,555,828	1,535,375
C	—	434,703
D	—	—
Non-rated	281,284	310,126
Sub-total	2,937,829	2,362,873
Total	47,843,376	30,975,258

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

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

Credit rating of the bonds issued in Hong Kong and other regions were derived from the lowest of Moody's, Standard & Poor's and Fitch Rating, if any. The bonds, which are not rated by the above agencies, are classified as non-rated. Including in A rating are the bonds comprising Aaa~Aa3 rating of Moody's, AAA~AA- rating of Standard & Poor's and AAA~AA- rating of Fitch; and including in B rating are the bonds comprising A1~Baa3 rating of Moody's, A+~BBB- rating of Standard & Poor's and A+~BBB- rating of Fitch; including in C rating are the bonds comprising Ba1~B3 rating of Moody's, BB+~B- rating of Standard & Poor's and BB+~B- rating of Fitch; and including D rating are the bonds comprising Caa1~D rating of Moody's, CCC+~C rating of Standard & Poor's and CCC+~C- rating of Fitch.

4. Operational Risk Management and Corresponding Measures

(1) Overview

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

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

(2) Operational Risk Management

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

- ① We have established comprehensive systems for operational risk mitigation and management to formulate an operational risk management framework in accordance with the New Basel Accord and our strategic development needs, and we effectively lead the operation of various businesses through measurement and allocation of operational risk-based economic capital;
- ② We have established an integrated, scientific and hierarchical system on the basis of operational risk appetite, tolerance and management policy. We improved the operational risk governance structure in a dynamic way by conducting gap analysis on the basis of continuous tracking and assessment of the current management status;
- ③ We have utilized operational risk management tools in a scientific and refined way by using operational risk and self-assessment management tools, progressively establishing a structure categorizing procedures, operational risks and control measures, and applying quantitative and qualitative operational risk exposure assessment methods;
- ④ We have actively promoted the compilation of an operational risk manual for all business units. With such procedures as the focus and with each department or branch as a unit, we have written operational risk manuals that cover all of our businesses. On top of basic risk calculation and assessment functions, we further included following-up improvement and tracking, leading to a continuous improvement of the operational risk manuals;
- ⑤ By using operational risk events and loss data collection management tools, we collected and summarized the important internal and external operational risk events encountered by each of our businesses. Additionally, we identified areas with risk exposure and their impacts. This has allowed our operational risk management to transition towards pre-event forecasting based on large volumes of data;

- ⑥ A pilot scheme was established for development of a system for key indicators of operational risk. By formulating measurements for control and management targets of all businesses and carrying out dynamic monitoring of operational risk, we further enhanced the precautions against operational risk;
- ⑦ We improved the standard measurements for risk capital. Measurement and verification procedures for operational risk-based economic capital which were applicable for the current risk tolerance level were established. Through controlling the total amount of operational risk-based economic capital, we ensured a reasonable balance between the scale of various businesses and their respective risk tolerance capability;
- ⑧ We paid great attention to promoting operational risk management consciousness. We emphasized the importance of conducting risk identification and control before introducing innovative products and innovative businesses. This helps operational risk management cover all the departments and branches in our front, middle and back offices, and in turn effectively strengthens our ability to control in advance, monitor during and improve after the occurrence of such events.

5. *Liquidity Risks and corresponding measures*

(1) *Overview*

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

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

(2) *Duties of liquidity risk management*

The Financial Management Committee under the President's Office is responsible for formulating the liquidity policy for management. A treasure operating mechanism for centralized management and control of liquidity risk has been established, and the financial department is responsible for liquidity management. The Financial Management Committee of the Company convenes quarterly meetings to determine the funding for each business and formulate financing plans by taking into account of factors such as liabilities and business development of the Company as well as the market condition.

(3) *Management measures for liquidity risk*

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

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

CHAPTER 5 MAJOR EVENTS

I. Shareholders' General Meeting

Meeting	Date of meeting	Inquiry index of designated website for the publication of poll results	Date of publication
2016 Annual General Meeting	May 26, 2017	SSE website, Hong Kong Stock Exchange website, Company's website	May 26, 2017

II. Proposals on Profit Distribution or Conversion of Capital Reserve

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

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

No interim dividends for the six months ended June 30, 2017 was proposed by the Board of Directors of the Company. The interim dividend for the six months ended June 30, 2016 was distributed as follows: cash dividend of RMB1.54 (before tax) per 10 shares based on a total of 5,808,135,529 shares. The profit distributed in cash was RMB894,452,871.47 in total, accounting for 39.90% of net profit attributable to owners of the parent company in the combined financial statements for the first six months of 2016.

III. Performance of Undertakings

Undertakings of undertaking related parties such as de facto controller, shareholders, related parties, acquiror and the Company during or subsisting at the time of the Reporting Period

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

Background	Type	Party(ies)	Details	Effective time and validity period	Whether the undertakings have a performance deadline	Whether the undertakings have been strictly performed in a timely manner	Reason for not performed in a timely manner	Follow-up actions, in case of undertakings not performed in a timely manner
Undertaking related to the initial public offering	Lock-up of shares	China Merchants Group	H Shares subscribed under the Global Offering shall be locked up for three years commencing from the listing date of H Shares of the Company.	Three years from the listing date of H Shares of the Company.	Yes	Yes	—	—
Undertaking related to the initial public offering	Lock-up of shares	Cornerstone investors of H Shares of the Company (note)	The cornerstone investors of H Shares of the Company have undertaken that they will not sell, directly or indirectly, any H Shares purchased under the relevant cornerstone investment agreement and any resulting shares or other securities of the Company within the six months upon listing of the H Shares of the Company on October 7, 2016 without the prior written consent of the Company and China Merchants Securities (HK) Co., Limited.	Six months	Yes	Yes	—	—
Undertakings related to re-financing	Lock-up of shares	CM Finance Investment	No transfer of A Shares subscribed in the non-public offering is allowed within 60 months from the date of completion of the non-public offering of A Shares in May 2014.	60 months	Yes	Yes	—	—
Undertakings related to re-financing	Lock-up of shares	China Ocean Shipping (Group) Company and Hebei Port Group Co., Ltd.	No transfer of A Shares subscribed in the non-public offering is allowed within 36 months from the date of completion of the non-public offering of A Shares in May 2014.	36 months	Yes	Yes	—	—
Other undertakings to minority shareholders	Others	China Merchants Group and China Ocean Shipping (Group) Company	When there is unusual price movement in the shares of the Company, they will not reduce their shareholdings in the Company and will increase their shareholdings in accordance with laws when appropriate.	When there is unusual price movement in the shares of the Company	Yes	Yes	—	—

Note: For details of cornerstone investors of H Shares of the Company, please refer to the Announcement of Results of Offering of H Shares published in Hong Kong Stock Exchange website and the Company's website.

IV. Appointment and Removal of Accounting Firms

Details of the appointment and removal of accounting firms

On May 26, 2017, the 2016 annual general meeting of the Company considered and approved the Resolution on Appointment of Auditing Firms of the Company for 2017, pursuant to which, the Company re-appointed ShineWing Certified Public Accountants LLP and SHINEWING (HK) CPA Limited as the auditors of the annual financial report and internal control of the Company for 2017.

V. Punishment and Remedial Measures of the Listed Company, its Directors, Supervisors, Senior Management, Controlling Shareholders, De Facto Controller and Purchaser

On April 27, 2017, the Company received the Decision of the Shenzhen Office of the China Securities Regulatory Commission regarding the Order of Rectification against China Merchants Securities Co., Ltd. and the 3-month Suspension of PB System Account Opening ([2017] No. 16) (《深圳證監局關於對招商證券股份有限公司採取責令改正並暫停新開立PB系統賬戶3個月措施的決定》). The CSRC Shenzhen Office conducted an on-site inspection on the businesses related to the PB system of the Company and discovered that the Company had violated the requirements of paragraph 1 of Rule 27 and paragraph 1 of Rule 28 under the Regulations on Supervision and Administration of Securities Companies (《證券公司監督管理條例》) in the course of opening PB system accounts for customers. As a result, the CSRC Shenzhen Office imposed the administrative regulatory measure of ordering the Company to perform rectification and to suspend the opening of new PB system accounts for three months.

The Company has always attached high importance to lawful operation and internal control. In view of the issues mentioned above, the Company has performed comprehensive self-inspection and duly performed rectification according to the regulatory requirements, enhanced and improved the internal control for businesses related to the PB system, and at the same time conducted thorough inspection for defects, and continuously improved the internal control and compliance management of the Company.

For details, please see the relevant announcement of the Company dated April 28, 2017.

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

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

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

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

VIII. Material Contracts and their Performance

(I) Custody, contracting and leasing

During the Reporting Period, the Company did not enter into any material custody, contracting or leasing.

(II) Guarantees

Unit: RMB Currency: RMB

Guarantees provided by the Company (excluding guarantees for subsidiaries)													
Guarantor	Relationship between the guarantor and the listed company	Guarantee	Amount of guarantee	Date of guarantee (date of agreement)	Effective date of guarantee	Expiry date of guarantee	Types of guarantee	Completion of guarantee	Guarantee overdue	Outstanding amount of guarantee overdue	Counter-guarantee	Guarantee for related parties	Relationship
—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total guarantees provided during the Reporting Period (excluding guarantees for subsidiaries)						0							
Balance of guarantees as at the end of the Reporting Period (A) (excluding guarantees for subsidiaries)						0							
Guarantees for subsidiaries by the Company													
Total guarantees provided for subsidiaries during the Reporting Period						1,334,746,358.14							
Balance of guarantees for subsidiaries as at the end of the Reporting Period (B)						7,972,378,924.19							
Total guarantees (including guarantees for subsidiaries)													
Total guarantees (A+B)						7,972,378,924.19							
% of total guarantees to the net assets of the Company						10.42							
Including:													
Guarantees for shareholders, de factor controller and their related parties (C)						0							
Debt guarantee provided directly or indirectly for companies with gearing ratio over 70% (D)						0							
Amount of guarantees in excess of 50% of the net assets (E)						0							
Total amount of the above three items of guarantees (C+D+E)						0							
Outstanding guarantees subject to joint and several liabilities						—							

Details of guarantees	As at the end of the Reporting Period: 1. The Company provided a counter-guarantee of RMB1.5 billion to the Bank of China for the benefit of CMS International, a wholly-owned subsidiary of the Company, to secure a foreign bank credit; 2. The provision of guarantees in a total amount of RMB2.972 billion (including US\$35 million, HK\$3 billion and £14.9254 million) for bank loans of China Merchants Securities (HK) Co., Limited and China Merchants Securities (UK) Limited, wholly-owned subsidiaries of the Company, by CMS International; 3. On January 20, 2014, the Resolution regarding the Provision of Net Capital Guarantee for an Asset Management Subsidiary to be Established by the Company was approved at the first extraordinary meeting of the fourth session of the Board in 2014, which allowed the Company to provide net assets guarantee of up to RMB500 million for an asset management subsidiary, CMS Asset Management. On September 27, 2016, the Resolution regarding the Increase in Commitment for Net Capital Guarantee in favour of the Asset Management Subsidiary by the Company was approved at the 42th meeting of the fifth session of the Board, which allowed the Company to increase the net assets guarantee in favour of CMS Asset Management by no more than RMB3 billion in stages (together with the original guarantee of RMB500 million, the maximum amount shall be no more than RMB3.5 billion), and authorized the management of the Company to perform in stages, or terminate, such net assets guarantee within the above limit based on the actual operating condition of CMS Asset Management. As at June 30, 2017, the balance of net capital guarantee provided by the Company for CMS Asset Management amounted to RMB3.5 billion.
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IX. Other Major Events

(I) The reasons for and effects of changes in accounting policies, accounting estimates and auditing methods when compared with the previous accounting period

☐ Applicable ☒ Not Applicable

(II) The reasons for and effects of retrospective recalculation and modification of amount due to rectification of major accounting errors during the Reporting Period

☐ Applicable ☒ Not Applicable

X. Relationship with investors during the Reporting Period

During the Reporting Period, the Company maintained in-depth communications with 117 local and international institutional investors and media companies through the annual results presentation and roadshows. We also had one-on-one and one-on-many contacts with 173 local and international institutional investors on 22 occasions through giving speeches at investment strategy seminars and forums organized by domestic and foreign securities firms and reception of visits from institutional investors. We had communicated with more than 71 investors via SSE E-Interaction, telephone, email and shareholders' general meeting.

In the first half of 2017, the benefits of the supply-side reform on the domestic economy of China could be gradually seen. Amid the stringent regulation on the securities industry, profit models of major securities companies have further transformed. The development of the Company have aroused tremendous attention from domestic and foreign investors and analysts. The Company paid close attention to the opinions and suggestions of investors on its profit model transformation, and explained its future international strategies, pan-financial strategies, new business model of "Internet + Securities", transformation of brokerage and wealth management business, and the impact of new requirements for investor eligibility management to investors in details, which deepened the understanding of investors about the Company and the securities industry.

XI. Corporate Governance

(I) Compliance with Code on Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Hong Kong Listing Rules (the "Model Code") as the code of conduct regarding the transactions of securities of the Company by all Directors and Supervisors. Having made specific inquiries, all Directors and Supervisors of the Company have confirmed that during the Reporting Period, they have strictly complied with the standards under the Model Code. According to the requirements of the CSRC, employees of the Company shall be regarded as securities practitioners and shall be prohibited from dealings in shares. The Company is not aware of any breach of the guidelines by the relevant employees. The Board will inspect the corporate governance and its operation from time to time, in order to comply with the applicable requirements under the Hong Kong Listing Rules and safeguard the interests of shareholders. Upon enquiry, all Directors, Supervisors and senior management have confirmed they have strictly complied with the applicable requirements under the Model Code and the Management Rules on the Shares and Changes of Shareholdings of Directors, Supervisors and Senior Management in China Merchants Securities Co., Ltd. (《招商證券股份有限公司董事、監事和高級管理人員所持公司股份及其變動管理制度》). For details regarding the shareholdings of the Directors, Supervisors and senior management in the Company, please see "V. Interests and Short Positions in Shares and Underlying Shares of the Company and its Associated Corporations of the Directors, Supervisors and Chief Executives" under "Chapter 7 Directors, Supervisors and Senior Management" of this report.

(II) OVERVIEW OF CORPORATE GOVERNANCE

The Company, being a company listed in the PRC and Hong Kong, manages its operation in strict compliance with the laws, regulations and regulative documents of the places where its shares are listed, and strives to protect and enhance its corporate image. The Company continues to improve its corporate governance structure in compliance with the Company Law, Securities Law and the regulations and requirements of the CSRC, SFC and the Hong Kong Stock Exchange. The corporate governance of the Company complies with the applicable requirements of the laws and regulations. The Company has established a corporate governance structure consisting of the shareholders' general meeting, the Board, the Supervisory Committee and the management with separate duties and effective checks and balances in order to maintain regulated corporate governance and operation. In 2017, the Company has adopted the Corporate Governance Code under Appendix 14 of the Hong Kong Listing Rules as the guideline of its corporate governance.

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

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

XII. Material Events After the Reporting Period

Please refer to "60. Events after the Reporting Date" under "Chapter 9 Financial Report" of this report.

XIII. Interim Results Reviewed by the Audit Committee

The Audit Committee of the Company has reviewed and confirmed that the interim results announcement for the six months ended June 30, 2017, the 2017 interim report and unaudited interim financial information for the six months ended June 30, 2017 were prepared in accordance with International Accounting Standard ("IAS") 34 — "Interim Financial Reporting".

CHAPTER 6 CHANGES IN ORDINARY SHARES AND SHAREHOLDERS

I. Changes in Share Capital

(I) Table of changes in shares

1. Table of changes in shares

Unit: share

	Before		Changes (+,-)					After	
	Number of shares	Percentage (%)	New issue	Bonus shares	Shares transfer from reserve	Others	Subtotal	Number of Shares	Percentage (%)
I. Restricted shares	1,005,035,700	15.00	—	—	—	-189,727,058	-189,727,058	815,308,642	12.17
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned legal person shares	1,005,035,700	15.00	—	—	—	-189,727,058	-189,727,058	815,308,642	12.17
3. Other domestic shares	—	—	—	—	—	—	—	—	—
Including: Domestic non-state-owned legal person shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	—	—	—	—	—	—	—	—	—
4. Foreign shares	—	—	—	—	—	—	—	—	—
Including: Overseas legal person shares	—	—	—	—	—	—	—	—	—
Overseas natural person shares	—	—	—	—	—	—	—	—	—
II. Tradable unrestricted shares	5,694,386,611	85.00	—	—	—	189,714,076	189,714,076	5,884,100,687	87.83
1. Ordinary shares denominated in RMB	4,713,985,431	70.37	—	—	—	189,714,076	189,714,076	4,903,699,507	73.20
2. Domestic listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas listed foreign shares	980,401,180	14.63	—	—	—	—	—	980,401,180	14.63
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	6,699,422,311	100.00	—	—	—	-12,982	-12,982	6,699,409,329	100.00

2. Notes on changes in shares

On March 27, 2017, deregistration for 12,982 A Shares held by Liaoneng Holdings, an original state-owned shareholder of the Company, was subsequently fulfilled in relation to the obligation to transfer the state-owned shares. Total share capital of the Company was changed to 6,699,409,329 shares, including 5,719,008,149 A Shares and 980,401,180 H Shares, representing 85.37% and 14.63% of the total share capital of the Company, respectively.

On May 31, 2017, the 189,727,058 private offering restricted shares subscribed by China Ocean Shipping (Group) Company and Hebei Port Group Co., Ltd. were tradable in the market.

For details, please see the related announcements published by the Company on March 24, 2017 and May 18, 2017.

(II) Changes in restricted shares

Unit: share

Name of Shareholder	Restricted shares at the beginning of the Reporting Period	Unlocked restricted shares during the Reporting Period	Increased restricted shares during the Reporting Period	Restricted shares at the end of the Reporting Period	Reason for restriction	Date of unlocking
China Merchants Finance Investment Holdings Co., Ltd.	815,308,642	—	—	815,308,642	Private offering	May 27, 2019
China Ocean Shipping (Group) Company	124,453,374	124,453,374	—	—	Private offering	May 31, 2017
Hebei Port Group Co., Ltd.	65,273,684	65,273,684	—	—	Private offering	May 31, 2017
Total	1,005,035,700	189,727,058	—	815,308,642	/	/

II. Shareholders

(I) Number of Shareholders

Number of holders of the ordinary shares as of the end of the Reporting Period	100,895
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(II) Shareholdings of the top ten shareholders and the top ten holders of tradable shares (or holders of unrestricted shares) at the end of the Reporting Period

Unit: share

Top ten shareholders							
Name of shareholder (in full)	Changes during the Reporting Period	Number of shares	Percentage (%)	Number of Restricted shares	Pledged or locked-up		Nature of shareholders
					Status	Number	
China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	—	1,402,114,293	20.93	815,308,642	Nil	—	State-owned legal person
Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)	—	1,310,719,131	19.56	—	Nil	—	State-owned legal person
HKSCC Nominees Limited (香港中央結算 (代理人) 有限公司)	5,400	979,972,980	14.63	—	Nil	—	Overseas legal person
China Ocean Shipping (Group) Company (中國遠洋運輸 (集團) 總公司)	—	418,948,014	6.25	—	Nil	—	State-owned legal person
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	167,566,532	310,757,271	4.64	—	Nil	—	State-owned legal person
Hebei Port Group Co., Ltd. (河北港口集團有限公司)	—	264,063,640	3.94	—	Nil	—	State-owned legal person
China Communications Construction Company Ltd. (中國交通建設股份有限公司)	—	209,399,508	3.13	—	Nil	—	State-owned legal person
China Merchants Steam Navigation Co., Ltd. (招商局輪船有限公司) (formerly known as 招商局輪船股份有限公司)	—	173,193,797	2.59	—	Nil	—	State-owned legal person
COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運 (廣州) 有限公司)	—	83,999,922	1.25	—	Nil	—	State-owned legal person
Central Huijin Asset Management Ltd. (中央匯金資產管理有限責任公司)	—	77,251,600	1.15	—	Nil	—	State-owned legal person

Top ten holders of unrestricted shares			
Name of shareholder	Number of tradable unrestricted shares held	Class and number of shares	
		Class	Number
Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)	1,310,719,131	RMB ordinary shares	1,310,719,131
HKSCC Nominees Limited (香港中央結算 (代理人) 有限公司)	979,972,980	Overseas listed foreign shares	979,972,980
China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	586,805,651	RMB ordinary shares	586,805,651
China Ocean Shipping (Group) Company (中國遠洋運輸 (集團) 總公司)	418,948,014	RMB ordinary shares	418,948,014
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	310,757,271	RMB ordinary shares	310,757,271
Hebei Port Group Co., Ltd. (河北港口集團有限公司)	264,063,640	RMB ordinary shares	264,063,640
China Communications Construction Company Ltd. (中國交通建設股份有限公司)	209,399,508	RMB ordinary shares	209,399,508
China Merchants Steam Navigation Co., Ltd. (招商局輪船有限公司) (formerly known as 招商局輪船股份有限公司)	173,193,797	RMB ordinary shares	173,193,797
COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運 (廣州) 有限公司)	83,999,922	RMB ordinary shares	83,999,922
Central Huijin Asset Management Ltd. (中央匯金資產管理有限責任公司)	77,251,600	RMB ordinary shares	77,251,600
Statement on the related relationship or concerted actions among the aforesaid shareholders	Among the above top ten shareholders, 1. CM Finance Investment, Jisheng Investment, CM Steam Navigation are all subsidiaries of China Merchants Group, the de facto controller of the Company; 2. China Ocean Shipping (Group) Company and COSCO Shipping (Guangzhou) Co., Ltd. are all subsidiaries of China COSCO Shipping Corporation Limited.		

Note 1: As at June 30, 2017, the total number of shareholders of the Company was 100,895, including 100,513 A Shareholders and 382 H Shareholders;

Note 2: HKSCC Nominees Limited (香港中央結算 (代理人) 有限公司) is the nominee holder for the shares of the non-registered H Shareholders of the Company;

Note 3: The A Shareholders are the holders of registered accounts at the Shanghai Branch of China Securities Depository and Clearing Corporation Limited;

Note 4: Given the fact that the shares of the Company are margin financing and securities lending targeted securities, the number of shares held by the shareholders will be calculated based on the aggregate number of shares and equities in their ordinary securities accounts and credit securities accounts.

Shareholdings of the top ten holders of restricted shares and the restrictions

Unit: share

Number	Name of shareholder	Number of restricted shares held	Listing and trading of restricted shares		Restriction
			Date of being released for listing and trading	Number of additional shares to be listed and traded	
1	China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	815,308,642	May 27, 2019	—	Lock-up period of 60 months after the closing of private offering of shares of the Company in 2014.
Statement on the related relationship or concerted actions among the aforesaid shareholders		Nil			

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

As at June 30, 2017, to the knowledge of the Directors after having made reasonable enquiry, the following persons (other than Directors, Supervisors and the chief executives of the Company) had interests or short positions in the shares or underlying shares which will be required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Number	Name of de facto controller and substantial shareholders	Class of shares	Nature of interest	Number of shares held (shares)	Percentage of total number of issued shares of the Company (%)	Percentage of total number of issued A Shares/ H Shares of the Company (%)	Long positions ⁷ / short positions ⁸ / shares available for lending
1	China Merchants Group	A Shares	Interest held by controlled corporations ¹	2,886,027,221	43.08	50.46	Long position
		H Shares	Beneficial owner or other interest ²	67,706,400	1.01	6.91	Long position
2	China Merchants Steam Navigation Co., Ltd. (招商局輪船有限公司) (formerly known as 招商局輪船股份有限公司)	A Shares	Beneficial owners and interest of corporation controlled by substantial shareholders ³	2,886,027,221	43.08	50.46	Long position
3	China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	A Shares	Beneficial owners and interest of corporation controlled by substantial shareholders ⁴	2,712,833,424	40.49	47.44	Long position
4	Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)	A Shares	Beneficial owner	1,310,719,131	19.56	22.92	Long position
5	China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司)	A Shares	Interest held by controlled corporations ⁵	502,947,936	7.51	8.79	Long position
		H Shares	Interest held by controlled corporations ⁶	68,878,000	1.03	7.03	Long Position
6	China Ocean Shipping (Group) Company (中國遠洋運輸(集團)總公司)	A Shares	Beneficial owner	418,948,014	6.25	7.33	Long position
7	National Council for Social Security Fund of the PRC	H Shares	Beneficial owner	58,674,780	0.88	5.98	Long position

1. China Merchants Group holds 100% of the equity interest in CM Finance Investment, Jisheng Investment and CM Steam Navigation, and is therefore deemed to be interested in the same number of A shares in which CM Finance Investment, Jisheng Investment and CM Steam Navigation are interested in under the SFO, representing 20.93%, 19.56% and 2.59% of the total share capital of the Company respectively.

2. China Merchants Group holds 100% of the equity interest in Best Winner Investment Limited, and is therefore deemed to be interested in the same number of H Shares in which Best Winner Investment Limited is interested in under the SFO, representing 1.01% of the total share capital of the Company.
3. CM Steam Navigation holds 100% of the equity interests in CM Finance Investment and Jisheng Investment, and is therefore deemed to be interested in the same number of A Shares in which CM Finance Investment and Jisheng Investment are interested in under the SFO, representing 20.93% and 19.56% of the total share capital of the Company respectively.
4. China Merchants Finance Investment Holdings Co., Ltd. holds 20.93% of the equity interest in the Company, and holds 50% of the equity interest in Shenzhen Jisheng Investment Development Co., Ltd., and is therefore deemed to be interested in the same number of A Shares in which Shenzhen Jisheng Investment Development Co., Ltd. is interested in under the SFO, representing 19.56% of the total share capital of the Company. Thus, China Merchants Finance Investment Holdings Co., Ltd. holds, directly and indirectly, an aggregate of 40.49% of the equity interests in the Company.
5. China COSCO Shipping Corporation Limited holds 100% of the equity interest in China Ocean Shipping (Group) Company and China Shipping (Group) Company (中國海運 (集團) 總公司), and is therefore deemed to be interested in the same number of A Shares in which China Ocean Shipping (Group) Company and COSCO Shipping (Guangzhou) Co., Ltd., a wholly-owned subsidiary of China Shipping (Group) Company, are interested in under the SFO, representing 6.25% and 1.25% of the total share capital of the Company respectively.
6. According to the SFO, China Ocean Shipping Corporation Limited is deemed to be interested in the same number of H Shares which COSCO SHIPPING Financial Holdings Co., Limited, a wholly-owned subsidiary of China Ocean Shipping (Group) Company, is interested in, which represents 1.03% of the total share capital of the Company.
7. A shareholder has a “long position” if it has an interest in shares, including interests through holding, selling or issuing financial instruments (including derivatives) under which such shareholder has the following obligations and liabilities: (i) it has a right to buy the underlying shares; (ii) it is under an obligation to buy the underlying shares; (iii) it has a right to receive money if the price of the underlying shares increases; or (iv) it has a right to avoid or reduce a loss if the price of the underlying shares increases; and
8. A shareholder has a “short position” if it borrows shares under a securities borrowing and lending agreement, or if it holds, sells or issues financial instruments (including derivatives) under which such shareholder has the following obligations and liabilities: (i) it has a right to require another person to buy the underlying shares; (ii) it is under an obligation to deliver the underlying shares; (iii) it has a right to receive money if the price of the underlying shares decreases; or (iv) it has a right to avoid or reduce a loss if the price of the underlying shares decreases.

Save as disclosed above, as at June 30, 2017, the Company is not aware of any other persons (other than Directors, Supervisors and the chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

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

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

CHAPTER 7 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

I. Change in Shareholdings

(I) Transactions of securities by Directors, Supervisors and relevant employees

The Company has adopted a set of codes of conduct regarding the transactions of securities by the Directors, Supervisors and relevant employees of the Company on terms no less exacting than the required standard set out in the Model Code. Having made enquiry by the Company, all Directors and Supervisors confirmed that they had complied with the requirements set out in the Model Code above during the period from January 1, 2017 to June 30, 2017. The Company is not aware of any breach of the guidelines by any relevant employee.

(II) Share options granted to Directors, Supervisors and senior management during the Reporting Period

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

II. Changes in Directors, Supervisors and Senior Management

Name	Position	Change
HUO Da	Chairman of the Board and Executive Director	Elected
SU Jian	Non-executive Director	Elected
XIONG Jiantao	Executive Director	Elected
CHEN Zhigang	Non-executive Director	Elected
WANG Zhangwei	Shareholder Representative Supervisor	Elected
MA Yunchun	Shareholder Representative Supervisor	Elected
XIONG Zhigang	Employee Representative Supervisor	Elected
GONG Shaolin	Chairman of the Board and Executive Director	Retired
HUA Li	Non-executive Director	Retired
GUO Jian	Non-executive Director	Retired
CAO Dong	Non-executive Director	Retired
LIU Chong	Shareholder Representative Supervisor	Retired
ZHU Haibin	Shareholder Representative Supervisor	Retired
ZHAN Guifeng	Employee Representative Supervisor	Retired
DING Edward An Hua	Vice President	Retired

Details of changes in Directors, Supervisors and senior management

The term of office of the fifth session of the Board and the Supervisory Committee which had been established since May 30, 2014 expired on May 30, 2017. The new sessions were elected at the 2016 annual general meeting of the Company held on May 26, 2017 in accordance with the Articles of Association. Based on the results of the election, Mr. HUO Da, Mr. SU Jian, Mr. XIONG Jiantao, Mr. CHEN Zhigang, Mr. XIANG Hua, Mr. XIAO Houfa, Mr. XIONG Wei, Mr. HU Honggao and Mr. WONG Ti were elected as the Directors of the sixth session of the Board. Mr. WANG Zhangwei and Mr. MA Yunchun were elected as the shareholder representative Supervisors of the sixth session of the Supervisory Committee. Mr. GONG Shaolin, Mr. HUA Li, Mr. GUO Jian and Mr. CAO Dong ceased to act as the Directors of the Company, and Mr. ZHU Haibin and Mr. LIU Chong ceased to act as the shareholder representative Supervisors of the Company. In the same month, Mr. XIONG Zhigang replaced Mr. ZHAN Guifeng as the employee representative Supervisor through democratic election by the employee representatives. The remaining Directors and Supervisors shall continue to hold office.

On May 26, 2017, Mr. HUO Da was elected as the chairman of the sixth session of the Board of the Company at the first meeting of the sixth session of the Board of the Company. On the same day, the Company received the Shenzhen office of the China Securities Regulatory Commission's Approval of HUO Da as a Chairman of a Securities Firm (《深圳證監局關於核准霍達證券公司董事長類人員任職資格的批覆》) (Shen Zheng Ju Xu Ke Zi [2017] No. 30). Pursuant to which, Mr. HUO Da has been appointed as the chairman of the Company with effect from May 26, 2017, and his term of office will end on the expiry date of the sixth session of the Board. On June 1, the Company received the Notice of Change (Filing) (《變更(備案)通知書》) (21700379241) issued by the Market Supervision Administration of Shenzhen Municipality (深圳市市場監督管理局). According to such notice, the legal representative of the Company has been changed to HUO Da, the chairman.

As of the end of the Reporting Period, as the qualifications of the five proposed independent Directors as independent directors in a securities firm are pending approval from the securities regulatory authority, the existing independent non-executive Directors, namely Mr. YI Xiqun, Mr. LIU Jialin, Mr. DING Huiping, Mr. ZHU Haiwu and Mr. YANG Jun, shall continue to hold office.

In July 2017, the qualifications of Mr. XIANG Hua, Mr. XIAO Houfa and Mr. HU Honggao as independent directors in a securities firm were approved by the CSRC Shenzhen Office. They shall officially serve as independent non-executive Directors of the Company with their terms of office ending on the expiry date of the current session of the Board. In August 2017, the qualifications of Mr. XIONG Wei as independent director in a securities firm were approved by the CSRC Shenzhen Office. He shall officially serve as independent non-executive Director of the Company with his terms of office ending on the expiry date of the current session of the Board. Mr. LIU Jialin, Mr. ZHU Haiwu, Mr. DING Huiping and Mr. YI Xiqun ceased to act as the independent non-executive Directors of the Company.

III. Major Changes in respect of Directors and Supervisors

Mr. SU Jian, the Director, had acted as Head of the Financial Department (Property Department) of China Merchants Group since July 2017. Save as the change of session and change of position of Mr. SU Jian, the Director, mentioned above, during the reporting period, pursuant to Rule 13.51B of the Hong Kong Listing Rules, there was no other material change in relation to the Directors and Supervisors.

IV. EMPLOYEES OF THE PARENT COMPANY AND MAJOR SUBSIDIARIES

(I) Employees

Number of employees of the parent company (including securities agents)	9,735
Number of employees of major subsidiaries	759
Total number of employees (including securities agents)	10,494
Number of resigned and retired employees with expenses borne by the parent company and major subsidiaries	42

(II) Remuneration

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

(III) Training

According to the strategy of “catching up and forging ahead”, the Company planned and implemented classified and specific training programs under the theme of “Year of Marketing (營銷年)”, including profession, management and general training programs, covering all employees in order to support their growth and enhance the core competitiveness of the Company.

1. Profession training was organized for all employees to raise their profession in securities and innovation capability through a series of internal themed training covering marketing, integrated operation, innovative businesses and basic skills.
2. Management training was provided for new and current management and senior management members to enhance their overall management abilities through themed training programs covering leadership, global vision and the latest financial knowledge.
3. General training was mainly provided for basic level employees to improve their professionalism through various forms of online and offline training programs covering diversified subjects including corporate culture, compliance and risk control, rules and systems, business procedures and office skills.

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

As at June 30, 2017, based on the information available to the Company and to the best knowledge of the Directors, the following Directors, Supervisors and chief executives had interest and/or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required (a) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of Part XV of the SFO, to be entered in the register required to be kept by the Company; or (c) pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange:

Number	Name of director	Class of share	Nature of interest	Number of shares held (shares)	Percentage of total number of issued shares of the Company (%)	Percentage of total number of issued A shares/H Shares of the Company (%)	Long positions (Note 1)/short positions (Note 2)/shares available for lending
1.	YANG Jun (楊鈞)	A shares	Beneficial owner	11,800	0.00018	0.00021	Long position

Note 1: A shareholder has a “long position” if it has an interest in shares, including interests through holding, selling or issuing financial instruments (including derivatives) under which such shareholder has the following obligations and liabilities: (i) it has a right to buy the underlying shares; (ii) it is under an obligation to buy the underlying shares; (iii) it has a right to receive money if the price of the underlying shares increases; or (iv) it has a right to avoid or reduce a loss if the price of the underlying shares increases.

Note 2: A shareholder has a “short position” if it borrows shares under a securities borrowing and lending agreement, or if it holds, sells or issues financial instruments (including derivatives) under which such shareholder has the following obligations and liabilities: (i) it has a right to require another person to buy the underlying shares; (ii) it is under an obligation to deliver the underlying shares; (iii) it has a right to receive money if the price of the underlying shares decreases; or (iv) it has a right to avoid or reduce a loss if the price of the underlying shares decreases.

Save as disclosed above, as at June 30, 2017, the Company is not aware of other Directors, Supervisors and chief executives having any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations which would be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they were taken or deemed to have under such provisions of the SFO), or interests which would be required, pursuant to section 352 of Part XV of the SFO, to be entered in the register referred to therein, or required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

CHAPTER 8 CORPORATE BONDS

I. General Information of Corporate Bonds

Unit: RMB Currency: RMB

Name	Abbreviation	Code	Date of issue	Date of expiry	Remaining balance	Interest rate (%)	Payment of principal and interest	Trading place
2012 Type One Corporate Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司2012年公司債券品種一)	12 China Merchants 01 (12 招商 01)	122232	March 5, 2013	March 5, 2018	30	4.45	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
2012 Type Two Corporate Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司2012年公司債券品種二)	12 China Merchants 02 (12 招商 02)	122233	March 5, 2013	March 5, 2018	15	4.80	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
2012 Type Three Corporate Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司2012年公司債券品種三)	12 China Merchants 03 (12 招商 03)	122234	March 5, 2013	March 5, 2023	55	5.15	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
2014 Publicly Traded Corporate Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司公開發行2014年公司債券)	14 China Merchants Bonds (14 招商債)	122374	May 26, 2015	May 26, 2025	55	5.08	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The second tranche of 2015 Subordinated Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司2015年第二期次級債券)	15 China Merchants 02 (15 招商 02)	123227	March 24, 2015	March 24, 2020	100.00	5.58	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The fourth tranche of 2015 Subordinated Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司2015年第四期次級債券)	15 China Merchants 04 (15 招商 04)	123211	April 13, 2015	April 13, 2018	50.00	5.75	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange
The fifth tranche of 2015 Subordinated Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司2015年第五期次級債券)	15 China Merchants 05 (15 招商 05)	123092	April 24, 2015	October 24, 2017	50.00	5.57	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	Shanghai Stock Exchange

Name	Abbreviation	Code	Date of issue	Date of expiry	Remaining balance	Interest rate (%)	Payment of principal and interest	Trading place
The fifth tranche of 2017 Short-term Corporate Bonds of Securities Company of China Merchants Securities Co., Ltd. (招商證券股份有限公司 2017 年證券公司短期公司債券 (第五期))	China Merchants 1706 (招商 1706)	117568	July 13, 2017	November 10, 2017	30.00	4.50	One-off payment of principal and interest upon expiry	Shenzhen Stock Exchange
The sixth tranche of 2017 Short-term Corporate Bonds of Securities Company of China Merchants Securities Co., Ltd. (招商證券股份有限公司 2017 年證券公司短期公司債券 (第六期))	China Merchants 1707 (招商 1707)	117570	August 9, 2017	May 16, 2018	32.40	4.60	One-off payment of principal and interest upon expiry	Shenzhen Stock Exchange

Note: The second tranche of 2015 Subordinated Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司 2015 年第二期次級債券) entitles the issuer to exercise a redemption option at the end of the third year.

(I) Payment of interests of corporate bonds

On March 6, 2017, the Company paid an aggregate of RMB488.75 million of interests (tax inclusive) which was incurred from the corporate bonds of 2012 (2012 年公司債券) for the period from March 5, 2016 to March 4, 2017.

On May 26, 2017, the Company paid an aggregate of RMB279.40 million of interests (tax inclusive) which was incurred from the corporate bonds of 2014 (2014 年公司債券) for the period from May 26, 2016 to May 25, 2017.

(II) Payment of interests of subordinated bonds and enforcement of relevant special terms

1. The Company exercised the redemption option and settled the principal and interest payment for the first tranche of 2015 subordinated bonds on March 20, 2017 (as March 19, 2017 fell on Sunday, the payment was extended to the next following business day);
2. The Company settled the interest payment for the second tranche of 2015 subordinated bonds on March 24, 2017;
3. The Company exercised the redemption option and settled the principal and interest payment for the third tranche of 2015 subordinated bonds on April 13, 2017;
4. The Company settled the interest payment for the fourth tranche of 2015 subordinated bonds on April 13, 2017;
5. The Company settled the interest payment for the fifth tranche of 2015 subordinated bonds on April 24, 2017.

(III) Payment of interests of short-term corporate bonds of securities companies

1. The Company settled the principal and interest payment for the first tranche of 2016 short-term corporate bonds of securities companies (type 1) on April 17, 2017 (as April 15, 2017 fell on Saturday, the payment was extended to the next following business day);
2. The Company settled the principal and interest payment for the first tranche of 2017 short-term corporate bonds of securities companies on May 12, 2017;
3. The Company settled the principal and interest payment for the second tranche of 2017 short-term corporate bonds of securities companies on June 2, 2017;
4. The Company settled the principal and interest payment for the fourth tranche of 2017 short-term corporate bonds of securities companies (type 1) on June 27, 2017;
5. The Company settled the principal and interest payment for the third tranche of 2017 short-term corporate bonds of securities companies on August 9, 2017.

(IV) Details of the issuance of other corporate bonds

1. Receipt of no objection letter for short-term corporate bonds of securities companies

In December 2016, the Company received the No Objection Letter for Securities Companies Short-term Corporate Bonds in 2016 of China Merchants Securities Co., Ltd. Meeting Transfer Conditions of SZSE (Shen Zheng Han [2016] No. 836) (《關於招商證券股份有限公司 2016 年證券公司短期公司債券符合深交所轉讓條件的無異議函》(深證函 [2016]836 號)) issued by the Shenzhen Stock Exchange. The Shenzhen Stock Exchange has no objection to the application by the Company for the confirmation that its issuance of securities companies short-term corporate bonds of no more than 60% of its net assets is in compliance with the transfer conditions of the SZSE.

In January 2017, the Company received the No Objection Letter for the Offer for Sale of Short-term Corporate Bonds Privately Issued by China Merchants Securities Co., Ltd. ((Shang Zheng Han [2017] No. 44) 《關於對招商證券股份有限公司非公開發行短期公司債券掛牌轉讓無異議的函》(上證函 [2017]44 號)) from the Shanghai Stock Exchange, pursuant to which the Shanghai Stock Exchange has no objection to the offer for sale of short-term corporate bonds privately issued by the Company to qualified investors in the amount of no more than RMB26.5 billion.

2. Receipt of no objection letter for subordinated bonds of securities companies

In January 2017, the Company received the No Objection Letter for the Offer for Sale of Subordinated Bonds Privately Issued by China Merchants Securities Co., Ltd. (Shang Zheng Han [2017] No. 100) 《關於對招商證券股份有限公司公開發行次級債券掛牌轉讓無異議的函》(上證函 [2017]100 號) issued by the Shanghai Stock Exchange on January 24, 2017, pursuant to which the Shanghai Stock Exchange has no objection to the offer for sale of the subordinated bonds privately issued by the Company in an amount of RMB10.0 billion in the SSE.

II. Contact Person and Contact Details of the Trustees in Corporate Bonds and Contact Details of the Credit Rating Agency

Trustee	Name	Huatai United Securities Co., Ltd.	Everbright Securities Co., Ltd.	Essence Securities Co., Ltd.	China Galaxy Securities Co., Ltd.
	Office address	(01A, 02, 03, 04), 17A, 18A, 24A, 25A & 26A, 5/F, CTS Tower, Central Business District, Futian District, Shenzhen	No. 1508, Xinzha Road, Jing'an District, Shanghai	35/F, Anlian Building, No. 4018 Jintian Road, Futian District, Shenzhen (深圳市福田区金田路 4018 號安聯大廈 35 層)	Room 218, Tower C, Corporate Square, No. 35 Finance Street, Xicheng District, Beijing (北京市西城區金融大街 35 號國際企業大廈 C 座 218 室)
	Contact person	YU Shouxiang (于首祥)	XUE Jiang (薛江), SUN Bei (孫蓓), LI Qunyan (李群燕)	HAO Wulan (郝烏蘭)	XU Jinjun (許進軍)
	Contact number	0755-82492956	021-22169999, 021-22169880	010-66239358	010-66568061
Credit rating agency	Name	Shanghai Brilliance Credit Rating & Investors Service Co., Ltd.	Shanghai Brilliance Credit Rating & Investors Service Co., Ltd.	Shanghai Brilliance Credit Rating & Investors Service Co., Ltd.	China Chengxin Securities Rating Co., Ltd.
	Office address	14/F, Huasheng Building, No. 398 Hankou Road, Shanghai	14/F, Huasheng Building, No. 398 Hankou Road, Shanghai	14/F, Huasheng Building, No.398 Hankou Road, Shanghai	Room 968, Block 1, No. 599 Xinye Road, Qingpu District, Shanghai (上海市青浦區新業路 599 號 1 幢 968 室)

Other descriptions:

The trustees of the Company's corporate bonds of 2012 and corporate bonds of 2014 are Huatai United Securities Co., Ltd. and Everbright Securities Co., Ltd., respectively, and the credit rating agency is Shanghai Brilliance.

The trustee of the non-public issuance of the second tranche of 2015 subordinated bonds and the fourth tranche of 2015 subordinated bonds of the Company is Everbright Securities Co., Ltd.. The trustee of the fifth tranche of 2015 subordinated bonds is Essence Securities Co., Ltd.. The credit rating agency is Shanghai Brilliance.

The trustee of the non-public issuance of 2017 short-term corporate bonds of securities companies of the Company is China Galaxy Securities Co., Ltd., and the credit rating agency is China Chengxin Securities Rating Co., Ltd..

III. Use of Proceeds from the Issuance of Corporate Bonds

In accordance with the Prospectus of the China Merchants Securities Co., Ltd. for the Public Issuance of Corporate Bonds of 2012 (《招商證券股份有限公司公開發行 2012 年公司債券募集說明書》), all proceeds from the issuance of the corporate bonds of 2012, after deducting the issuance expenses, shall be used for replenishment of the Company's working capital. As at December 31, 2013, all proceeds from the current bond issuance were used for replenishment of the Company's working capital in accordance with the relevant provisions of the prospectus.

In accordance with the Prospectus of the China Merchants Securities Co., Ltd. for the Public Issuance of Corporate Bonds of 2014 (《招商證券股份有限公司公開發行 2014 年公司債券募集說明書》), all proceeds from the issuance of the corporate bonds of 2014, after deducting the issuance expenses, shall be used for replenishment of the Company's working capital. As at December 31, 2015, all proceeds from the current bond issuance were used for replenishment of the Company's working capital in accordance with the relevant provisions of the prospectus.

In accordance with the prospectus of the Company's non-public issuance of subordinated bonds, namely 15 China Merchants 01 (15 招商 01), 15 China Merchants 02 (15 招商 02), 15 China Merchants 03 (15 招商 03), 15 China Merchants 04 (15 招商 04) and 15 China Merchants 05 (15 招商 05), and short-term corporate bonds of securities companies, namely China Merchants 1601 (招商 1601), China Merchants 1701 (招商 1701), China Merchants 1702 (招商 1702), China Merchants 1703 (招商 1703), China Merchants 1704 (招商 1704) and China Merchants 1706 (招商 1706), all proceeds from the above corporate bonds shall be used for "replenishment of the Company's working capital". All proceeds from the above corporate bonds were used for replenishment of the Company's working capital in accordance with the relevant provisions of the prospectus.

IV. Rating of Corporate Bonds

On April 26, 2017, Shanghai Brilliance conducted a follow-up credit rating on the corporate bonds of the Company, namely 12 China Merchants 01 (12 招商 01), 12 China Merchants 02 (12 招商 02), 12 China Merchants 03 (12 招商 03) and 14 China Merchants Bonds (14 招商債), and issued the "Follow-up Credit Rating Report on the 2012 and 2014 Corporate Bonds of China Merchants Securities Co., Ltd." (Serial Number: Xin Shiji Follow-up [2017]100060) (《招商證券股份有限公司 2012 年及 2014 年公司債券跟蹤評級報告》(編號: 新世紀跟蹤 [2017]100060)), pursuant to which, the credit ratings of the 12 China Merchants 01 (12 招商 01), 12 China Merchants 02 (12 招商 02), 12 China Merchants 03 (12 招商 03) and 14 China Merchants Bonds (14 招商債) remained at AAA and the overall credit rating of the Company remained at AAA with stable outlook.

On April 27, 2017, Shanghai Brilliance conducted a follow-up credit rating on the subordinated bonds of the Company, namely 15 China Merchants 02 (15 招商 02), 15 China Merchants 04 (15 招商 04) and 15 China Merchants 05 (15 招商 05), and issued the "Follow-up Credit Rating Report on the 2015 Subordinated Bonds of China Merchants Securities Co.,

Ltd.” (Serial Number: Xin Shiji Follow-up [2017]100059) (《招商證券股份有限公司2015年次級債券跟蹤評級報告》(編號: 新世紀跟蹤[2017]100059)), pursuant to which, the credit ratings of the 15 China Merchants 02 (15 招商02), 15 China Merchants 04 (15 招商04) and 15 China Merchants 05 (15 招商05) remained at AA+ and the overall credit rating of the Company remained at AAA with stable outlook.

On May 25, 2017, China Chengxin Securities Rating Co., Ltd. conducted a follow-up credit rating on the short-term corporate bonds of securities companies of the Company, namely China Merchants 1702 (招商1702), China Merchants 1703 (招商1703) and China Merchants 1704 (招商1704), and issued the “Follow-up Credit Rating Report on the 2017 Short-term Corporate Bonds (Second Tranche, Third Tranche and Fourth Tranche) of Securities Companies of China Merchants Securities Co., Ltd.” (Serial Number: Xin Ping Wei Han Zi [2017] Follow-up No. 150) (《招商證券股份有限公司2017年證券公司短期公司債券(第二期、第三期、第四期)跟蹤評級報告》(編號: 信評委函字[2017]跟蹤150號)), pursuant to which, the credit ratings of the China Merchants 1702 (招商1702), China Merchants 1703 (招商1703) and China Merchants 1704 (招商1704) remained at A-1 and the overall credit rating of the Company remained at AAA with stable outlook.

V. Credit Enhancement Mechanism, Debt Repayment Plans and Other Relevant Information of the Corporate Bonds During the Reporting Period

As at the approval date of this report, based on the credit enhancement mechanism the existing bonds were issued without any guarantees. According to the repayment plans, the existing four tranches of corporate bonds and three tranches of subordinated bonds shall pay interest annually during the duration of the bonds and the last instalment of interest payment shall be paid together with the principal. According to the repayment plans, the existing two tranches of short-term corporate bonds of securities companies shall pay principal together with all interests on the maturity.

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

VI. Meetings of Corporate Bondholders

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

VII. Duty Performance of the Trustees of Corporate Bonds

Huatai United Securities, the trustee of the corporate bonds of 2012 of the Company, issued the “2016 Trust Report on the 2012 Corporate Bonds of China Merchants Securities Co., Ltd.” (《招商證券股份有限公司 2012 年公司債券受託管理事務報告》(2016 年度)) on April 27, 2017.

Everbright Securities, the trustee of the corporate bonds of 2014 of the Company, issued the “2016 Trust Report on the 2014 Corporate Bonds of China Merchants Securities Co., Ltd.” (《招商證券股份有限公司 2014 年公司債券受託管理事務報告》(2016 年度)) on April 25, 2017.

Everbright Securities Co., Ltd., the trustee of the second and fourth tranches of 2015 subordinated bonds of the Company, issued the “Trust Report on the Second Tranche of 2015 Subordinated Bonds of China Merchants Securities Co., Ltd. (2016)” (《招商證券股份有限公司 2015 年第二期次級債券受託管理事務報告》(2016 年度)) and the “Trust Report on the Fourth Tranche of 2015 Subordinated Bonds of China Merchants Securities Co., Ltd. (2016)” (《招商證券股份有限公司 2015 年第四期次級債券受託管理事務報告》(2016 年度)) on April 26, 2017.

Essence Securities Co., Ltd., the trustee of the fifth tranche of 2015 subordinated bonds of the Company, issued the “Trust Report on the Fifth Tranche of 2015 Subordinated Bonds of China Merchants Securities Co., Ltd. (2016)” (《招商證券股份有限公司 2015 年第五期次級債券受託管理事務報告》(2016 年度)) on April 27, 2017.

For details, please refer to the relevant announcements published by the Company on the SSE website.

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

Unit: RMB Currency: RMB

Key indicators	The end of Reporting Period	The end of last year	Increase/decrease for the end of Reporting Period over the end of last year (%)	Reasons for the change
Current ratio	1.95	2.20	-11.17	—
Quick ratio	1.95	2.20	-11.17	—
Gearing ratio	58.11%	65.86%	-11.76	—
Loan repayment ratio	100.00%	100.00%	—	—

	The Reporting Period (January to June)	The Corresponding Period of Last Year	Increase/decrease for the Reporting Period over the Corresponding Period of Last Year (%)	Reasons for the change
EBITDA/interest coverage ratio	2.47	2.00	23.38	—
Loan repayment ratio	100.00%	100.00%	—	—

IX. Overdue Debts

There were no overdue debts during the Reporting Period.

X. Principal and Interest Payments for Other Bonds and Debt Financing Instruments of the Company

During the Reporting Period, other debt financing instruments of the Company included placements from other financial institutions, financial assets sold under repurchase agreements, principal of structured notes and gold lease, of which all principals and interests were settled on schedule.

XI. Bank Credits of the Company during the Reporting Period

As at the end of June 2017, the Company had available credit lines from its major lending banks amounting to RMB238.8 billion, of which RMB45.7 billion were utilized and RMB193.0 billion were unused.

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

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

During the Reporting Period, the Company was in strict compliance with its commitments and undertakings in respect of corporate bonds under the prospectuses and the proceeds were used in such manner as stated in the prospectuses. The Company strictly performed its obligations of information disclosure and made timely payments of bond interests in order to safeguard the legal interests of investors. During the Reporting Period, the Company had no defaults on its principal and interest repayments for the issued bonds. The Company had a sound operation and favourable profitability, and hence had not identified any risks which might give rise to its inability to fulfil future payments on time.

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

During the Reporting Period, the material incidents stated in Clause 45 of the Administrative Measures for the Issuance and Trading of Corporate Bonds (《公司債券發行與交易管理辦法》) had not occurred, and the Company had favourable business operations, strong overall payment ability and low financial risks.

CHAPTER 9 FINANCIAL REPORT

REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF CHINA MERCHANTS SECURITIES CO., LTD. (Incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of China Merchants Securities Co., Ltd. (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 95 to 193, which comprise the condensed consolidated statement of financial position as of June 30, 2017 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months period then ended, and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standards 34 “Interim Financial Reporting” (“**IAS 34**”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS34.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Chan Wing Kit

Practising Certificate Number: P03224

Hong Kong

August 24, 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	Six months ended June 30,	
		2017	2016
		(Unaudited)	(Audited)
Revenue			
Fee and commission income	5	4,522,870	5,003,390
Interest income	6	3,197,799	3,298,067
Net investment gains	7	862,385	386,559
Total revenue		8,583,054	8,688,016
Other income and gains or losses	8	(41,037)	40,740
Total revenue and other income		8,542,017	8,728,756
Depreciation and amortization	9	(93,348)	(79,414)
Staff costs	10	(1,924,966)	(1,462,058)
Fee and commission expenses	11	(880,609)	(819,411)
Interest expenses	12	(2,241,063)	(3,019,430)
Business tax and surcharges		(46,101)	(357,129)
Other operating expenses	13	(685,130)	(565,209)
(Impairment losses) reversal of impairment losses, net	14	(35,063)	79,077
Total expenses		(5,906,280)	(6,223,574)
Operating profit		2,635,737	2,505,182
Share of results of associates		451,133	339,552
Profit before income tax		3,086,870	2,844,734
Income tax expenses	15	(539,181)	(609,160)
Profit for the period		2,547,689	2,235,574
Attributable to:			
Shareholders of the Company and holders of other equity instruments		2,552,259	2,241,825
Non-controlling interests		(4,570)	(6,251)
		2,547,689	2,235,574
Earnings per share attributable to shareholders of the Company (Expressed in RMB per share)			
— Basic and diluted	16	0.35	0.39

The notes on pages 104 to 193 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

	Six months ended June 30,	
	2017	2016
	(Unaudited)	(Audited)
Profit for the period	2,547,689	2,235,574
Other comprehensive income (expense):		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale financial assets		
Net fair value changes during the period	768,491	(1,313,345)
Reclassification adjustment to profit or loss upon disposal	(108,283)	(538,733)
Income tax impact	(164,731)	465,065
Sub-total	495,477	(1,387,013)
Share of other comprehensive income (expense) of associates	2,443	(3,543)
Exchange differences arising on translating foreign operations	(73,192)	44,900
Other comprehensive income (expense) for the period, net of tax	424,728	(1,345,656)
Total comprehensive income for the period	2,972,417	889,918
Attributable to:		
Shareholders of the Company and holders of other equity instruments	2,976,987	896,169
Non-controlling interests	(4,570)	(6,251)
	2,972,417	889,918

The notes on pages 104 to 193 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT JUNE 30, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	As at June 30,	As at December 31,
		2017	2016
		(Unaudited)	(Audited)
Non-current assets			
Property and equipment	17	1,773,843	1,779,170
Goodwill	18	9,671	9,671
Other intangible assets	19	22,237	23,429
Interests in associates	21	6,764,484	5,288,506
Available-for-sale financial assets	23	7,776,072	8,809,469
Financial assets held under resale agreements	24	8,861,992	6,462,211
Deferred tax assets	25	1,289,958	1,207,996
Other non-current assets	26	177,704	195,050
Total non-current assets		26,675,961	23,775,502
Current assets			
Advances to customers	27	52,238,065	53,351,538
Accounts and other receivables	28	5,246,172	6,827,360
Current tax assets		288,514	425,412
Available-for-sale financial assets	23	18,023,855	15,912,717
Loan receivables		25,833	64,725
Financial assets held under resale agreements	24	15,892,389	12,490,932
Financial assets at fair value through profit or loss	29	48,872,625	48,244,455
Derivative financial assets	30	544,282	1,109,613
Deposits with exchanges and non-bank financial institutions	31	568,944	540,442
Clearing settlement funds	32	14,784,265	19,043,469
Cash and bank balances	33	59,656,245	61,272,263
Total current assets		216,141,189	219,282,926
Total assets		242,817,150	243,058,428

The notes on pages 104 to 193 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

AS AT JUNE 30, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	As at June 30,	As at December 31,
		2017	2016
		(Unaudited)	(Audited)
Current liabilities			
Borrowings	35	5,348,361	3,251,970
Short-term debt instruments	36	11,613,120	21,782,330
Placements from other financial institutions	37	1,750,000	1,500,000
Accounts payable to brokerage clients	38	59,904,469	67,581,720
Accrued staff costs	39	4,920,436	4,707,662
Other payables and accrued charges	40	6,609,909	6,719,125
Provision	41	29,367	—
Current tax liabilities		77,410	72,739
Financial liabilities at fair value through profit or loss	42	7,210,015	4,439,956
Derivative financial liabilities	30	755,558	1,842,803
Financial assets sold under repurchase agreements	43	26,912,175	19,398,988
Long-term borrowings due within one year	49	374,034	368,596
Bonds payable due within one year	50	14,499,651	5,000,000
Total current liabilities		140,004,505	136,665,889
Net current assets		76,136,684	82,617,037
Total assets less current liabilities		102,812,645	106,392,539

The notes on pages 104 to 193 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

AS AT JUNE 30, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	As at June 30,	As at December 31,
		2017	2016
		(Unaudited)	(Audited)
Equity			
Share capital	44	6,699,409	6,699,409
Other equity instruments	45	15,000,000	—
Capital reserve		27,533,939	27,533,939
Investment revaluation reserve	46	182,225	(315,695)
Translation reserve		(21,071)	52,121
General reserves	47	11,498,783	11,498,783
Retained profits		15,643,851	14,357,780
Equity attributable to shareholders of the Company and holders of other equity instruments		76,537,136	59,826,337
Non-controlling interests		88,632	88,702
Total equity		76,625,768	59,915,039
Non-current liabilities			
Accrued staff costs	39	787,540	787,540
Deferred tax liabilities	25	105,625	98,754
Deferred income	48	126,000	126,000
Bonds payable	51	25,167,712	45,465,206
Total non-current liabilities		26,186,877	46,477,500
Total equity and non-current liabilities		102,812,645	106,392,539

Approved and authorised for issue by the board of directors on August 24, 2017.

HUO Da
Director

WANG Yan
Director

The notes on pages 104 to 193 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

	Attributable to shareholders of the Company and holders of other equity instruments								Non- controlling interests	Total
	Reserves									
	Share capital	Other equity instruments	Capital reserve	Investment revaluation reserve	Translation reserve	General reserves	Retained profits	Sub-total		
At January 1, 2017 (Audited)	6,699,409	—	27,533,939	(315,695)	52,121	11,498,783	14,357,780	59,826,337	88,702	59,915,039
Profit (loss) for the period	—	—	—	—	—	—	2,552,259	2,552,259	(4,570)	2,547,689
Other comprehensive income (expense) for the period	—	—	—	497,920	(73,192)	—	—	424,728	—	424,728
Total comprehensive income (expense) for the period	—	—	—	497,920	(73,192)	—	2,552,259	2,976,987	(4,570)	2,972,417
Capital injection by non-controlling shareholders	—	—	—	—	—	—	—	—	4,500	4,500
Issuance of perpetual subordinated bond	—	15,000,000	—	—	—	—	—	15,000,000	—	15,000,000
Dividends recognised as distribution	—	—	—	—	—	—	(1,266,188)	(1,266,188)	—	(1,266,188)
At June 30, 2017 (Unaudited)	6,699,409	15,000,000	27,533,939	182,225	(21,071)	11,498,783	15,643,851	76,537,136	88,632	76,625,768
At January 1, 2016 (Audited)	5,808,136	—	19,403,877	462,366	(105,434)	10,117,807	12,664,367	48,351,119	80,671	48,431,790
Profit (loss) for the period	—	—	—	—	—	—	2,241,825	2,241,825	(6,251)	2,235,574
Other comprehensive (expense) income for the period	—	—	—	(1,390,556)	44,900	—	—	(1,345,656)	—	(1,345,656)
Total comprehensive (expense) income for the period	—	—	—	(1,390,556)	44,900	—	2,241,825	896,169	(6,251)	889,918
Dividends recognised as distribution	—	—	—	—	—	—	(1,434,610)	(1,434,610)	—	(1,434,610)
At June 30, 2016 (Audited)	5,808,136	—	19,403,877	(928,190)	(60,534)	10,117,807	13,471,582	47,812,678	74,420	47,887,098

The notes on pages 104 to 193 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

		Six months ended June 30,	
		2017	2016
		(Unaudited)	(Audited)
OPERATING ACTIVITIES			
Profit before income tax		3,086,870	2,844,734
Adjustments for:			
Interest expenses		2,241,063	3,019,430
Share of results of associates		(451,133)	(339,552)
Depreciation and amortization		93,348	79,414
Impairment losses (reversal of impairment losses), net		35,063	(79,077)
Gains on disposal of property and equipment and other non-current assets		(668)	(345)
Foreign exchange losses, net		72,400	10,544
Net realised loss (gains) from disposal of available-for-sale financial assets		159,858	(356,790)
Dividend income and interest income from available-for-sale financial assets		(353,608)	(508,122)
Unrealised fair value changes in financial instruments at fair value through profit or loss		(823,598)	2,267,539
Unrealised fair value change in derivatives financial instruments		175,749	(852,252)

The notes on pages 104 to 193 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

FOR THE SIX MONTHS ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

		Six months ended June 30,	
		2017	2016
		(Unaudited)	(Audited)
Operating cash flows before movements in working capital		4,235,344	6,085,523
Decrease in advances to customers		1,117,907	17,717,378
(Increase) decrease in other current assets		(684,328)	375,943
(Increase) decrease in interest receivables		(169,122)	20,088
(Increase) decrease in financial assets held under resale agreements		(5,843,256)	3,235,068
Decrease in financial assets at fair value through profit or loss		2,975,317	9,828,426
(Increase) decrease in deposit with exchanges and non-bank financial institutions		(28,502)	280,443
Decrease in clearing settlement funds		5,775,486	7,084,960
Decrease in cash held on behalf of customers		1,610,809	8,136,279
Decrease in accounts payable to brokerage clients		(7,677,251)	(14,705,558)
Increase (decrease) in accrued staff costs		212,774	(2,159,179)
Increase (decrease) in other payables and accrued charges		727,694	(1,553,923)
Increase in financial assets sold under repurchase agreements		7,513,187	873,401
Increase (decrease) in placements from other financial institutions		250,000	(2,400,000)
Increase in provisions		29,367	—
Cash generated from operations		10,045,426	32,818,849
Income taxes paid		(648,458)	(1,931,601)
Interest paid		(995,067)	(1,103,074)
NET CASH FROM OPERATING ACTIVITIES		8,401,901	29,784,174

The notes on pages 104 to 193 form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)

FOR THE SIX MONTHS ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

		Six months ended June 30,	
		2017	2016
		(Unaudited)	(Audited)
INVESTING ACTIVITIES			
Dividends and interest received from investment		353,608	591,422
Purchase of property and equipment, other intangible assets and other non-current assets		(72,933)	(124,729)
Proceeds from disposal of property and equipment, other intangible assets and other non-current assets		925	460
Purchase on disposal of available-for-sale financial assets, net		(532,174)	(2,463,767)
NET CASH USED IN INVESTING ACTIVITIES		(250,574)	(1,996,614)
FINANCING ACTIVITIES			
Dividends paid to shareholders		—	(1,434,610)
Repayment of bonds and short-term debt instruments interest		(3,269,470)	(3,741,395)
Repayment of borrowings interest		(45,584)	(25,878)
Cash received from other equity instruments issued		15,000,000	—
Capital injection from non-controlling shareholders		4,500	—
Repayment from bonds and short-term debt instruments		(20,969,210)	(22,683,840)
Proceeds from borrowings		2,226,652	100,120
Proceeds (repayment) from long-term borrowings		5,438	(1,789)
NET CASH USED IN FINANCING ACTIVITIES		(7,047,674)	(27,787,392)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,103,653	168
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		12,325,818	10,554,561
Effect of foreign exchange rate changes		(272,285)	135,305
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		13,157,186	10,690,034

The notes on pages 104 to 193 form part of this interim financial report.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

1 CORPORATE INFORMATION

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

Being approved by the Ministry of Finance of PRC pursuant to the approval from the Ministry of Finance of PRC for the issues on State-owned shares management by Guotong Securities Co., Ltd. (國通證券股份有限公司) (Cai Qi [2001] No. 723), the China Securities Regulatory Commission pursuant to the approval for the change to limited company by Guotong Securities Limited Liability Company (國通證券有限責任公司) (Zheng Jian Ji Gou Zi [2001] No. 285), the Municipal Government of Shenzhen pursuant to the approval for reform in shareholding structure reform by Guotong Securities Co., Ltd. (國通證券股份有限公司) (Shen Fu Gu [2001] No. 49), and being approved and registered with Shenzhen Administration for Industry and Commerce, Guotong Securities Limited Liability Company (國通證券有限責任公司) reformed its company structure and changed its name to Guotong Securities Co., Ltd. (國通證券股份有限公司) on December 26, 2001. On June 28, 2002, Guotong Securities Co., Ltd. (國通證券股份有限公司) was renamed as China Merchants Securities Co., Ltd. (招商證券股份有限公司).

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

1 CORPORATE INFORMATION (Continued)

As at June 30, 2017, the Company's registered capital was RMB6,699,409,329 and the Company has a total of 6,699,409,329 issued shares of RMB1 each.

The address of the registered office and principal place of business of the Company is 38-45/F., Block A, Jiangsu Building, Yitian Road, Futian District, Shenzhen, Guangdong, PRC. The Company and its subsidiaries (the "Group") are principally engaged in securities brokerage, securities financial advisory, financial advisory relating to securities trading and securities investment activities, securities underwriting and sponsorship, proprietary trading, asset management, margin financing and securities lending, securities investment fund distribution, intermediary services to futures company, agency sales of financial products, insurance agency and securities investment management.

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

2 BASIS OF PREPARATION

The Condensed Consolidated Financial Information has been prepared in accordance with the applicable disclosure provision of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board.

The Condensed Consolidated Financial Information does not include all the information required for a full set of consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2016.

3 USE OF JUDGMENTS AND ESTIMATES

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

The significant judgments made by management in applying the Group's accounting policies and key sources of uncertainty were the same as those applied in the preparation of the consolidated financial statements for the year ended December 31, 2016.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

3 USE OF JUDGMENTS AND ESTIMATES (Continued)

Fair value measurement

When measuring fair value except for the Group's value in use of goodwill and interests in associates for the purpose of impairment assessment, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In estimating the fair value of a non-financial asset and non-financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

If there is an active market for a financial asset or financial liability, the quoted market price without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, the quoted price is the current asking price. Quoted prices from an active market are prices that are readily and regularly available from an exchange, dealer, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the reporting period. Where other pricing models are used, inputs are based on market data at the end of the reporting period.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

3 USE OF JUDGMENTS AND ESTIMATES (Continued)

Fair value measurement (Continued)

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

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

Level 2 valuation technique for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and

Level 3 valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

4 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

Amendments to IFRSs	Annual improvements to IFRSs 2014 – 2016 Cycles
Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

The application of the above revised IFRSs in the current interim period has had no material effect on the Group's financial performance and positions for the current and prior interim periods and/or on the disclosures set out in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

5 FEE AND COMMISSION INCOME

	Six months ended June 30,	
	2017	2016
	(Unaudited)	(Audited)
Securities and futures brokerage business	2,499,153	3,116,952
Underwriting and sponsorship business	965,427	961,809
Asset management and fund management business	552,390	558,326
Financial advisory business	252,346	162,620
Others ⁽¹⁾	253,554	203,683
	4,522,870	5,003,390

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

6 INTEREST INCOME

Interest income, other than the investment interest income disclosed in note 7 is as follows:

	Six months ended June 30,	
	2017	2016
	(Unaudited)	(Audited)
Deposits with exchanges and financial institutions	711,866	850,929
Advances to customers and securities lending	1,912,301	2,004,728
Securities-backed lending and stock repurchase agreement	538,827	430,306
Other financial assets held under resale agreements	34,805	7,088
Others	—	5,016
	3,197,799	3,298,067

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

7 NET INVESTMENT GAINS

	Six months ended June 30,	
	2017	2016
	(Unaudited)	(Audited)
Net realised (losses) gains from disposal of available-for-sale financial assets	(159,858)	356,790
Dividend and interest income from available-for-sale financial assets	353,608	508,122
Dividend and interest income from financial assets at fair value through profit or loss	1,012,902	1,278,408
Net realised losses from disposal of financial assets at fair value through profit or loss	(916,719)	(269,561)
Net realised (losses) gains from disposal of financial liabilities at fair value through profit or loss	(78,915)	150,302
Net realised gains (losses) from derivatives financial instruments	3,518	(222,215)
Unrealised fair value change of financial instruments at fair value through profit or loss		
— financial assets at fair value through profit or loss	736,533	(2,248,824)
— financial liabilities at fair value through profit or loss	87,065	(18,715)
Unrealised fair value change of derivative financial instruments	(175,749)	852,252
	862,385	386,559

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

8 OTHER INCOME AND GAINS OR LOSSES

	Six months ended June 30,	
	2017	2016
	(Unaudited)	(Audited)
Government grant ⁽¹⁾	6,840	29,779
Foreign exchange losses, net	(72,400)	(10,544)
Rental income	5,038	4,492
Gains on disposal of property and equipment and other non-current assets	702	424
Commission from tax withholding and remitting	13,679	14,792
Others	5,104	1,797
	(41,037)	40,740

(1) Government grant represents the unconditional grants received by the Group from local government.

9 DEPRECIATION AND AMORTIZATION

	Six months ended June 30,	
	2017	2016
	(Unaudited)	(Audited)
Depreciation of property and equipment	57,977	44,028
Amortization of other non-current assets	34,726	33,819
Amortization of other intangible assets	645	1,157
Depreciation of investment properties	—	410
	93,348	79,414

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

10 STAFF COSTS

	Six months ended June 30,	
	2017	2016
	(Unaudited)	(Audited)
Salaries, bonus and allowances	1,524,379	1,158,431
Contributions to retirement benefits ⁽¹⁾	160,965	137,313
Other social welfare ⁽²⁾	190,648	106,269
Others	48,974	60,045
	1,924,966	1,462,058

- (1) The domestic employees of the Group in the PRC participate in state-managed retirement benefits plans, operated by the relevant municipal and provincial governments. According to the relevant regulations, the premiums and retirement benefit contributions borne by the Group are calculated and paid to the relevant labour and social welfare authorities on a regular basis. These retirement benefits plans are defined contribution plans and contributions to the plans are expensed as incurred. In addition to the above retirement benefits plans, the Group also provides annuity schemes for certain qualified employees in the PRC. The employees' and the Group's contributions for the annuity schemes are calculated based on certain percentage of employees' salaries and recognised in profit or loss as expense. These annuity schemes are defined contribution plans.

The Group also operates the Mandatory Provident Fund Scheme for all qualified employees in Hong Kong. The Group contributes certain percentage of relevant payroll costs to the scheme, and the contribution is matched by employees but subject to a maximum amount for each employee. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

- (2) The domestic employees of the Group in the PRC participate in state-managed social welfare plans, including social pension insurance, health care insurance, housing funds and other social welfare contributions, operated by the relevant municipal and provincial governments. These social welfare plans are defined contribution plans and contributions to the plans are recognised as expense as incurred.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

11 FEE AND COMMISSION EXPENSES

	Six months ended June 30,	
	2017	2016
	(Unaudited)	(Audited)
Securities and futures brokerage business	655,214	658,427
Underwriting and sponsorship business	191,452	129,400
Asset management business	15,187	13,585
Financial advisory business	13,047	16,122
Others	5,709	1,877
	880,609	819,411

12 INTEREST EXPENSES

	Six months ended June 30,	
	2017	2016
	(Unaudited)	(Audited)
Accounts payable to brokerage clients	94,948	123,392
Financial assets sold under repurchase agreements	421,989	998,441
Margin and securities refinancing	50,728	21,408
Bank borrowings	27,965	9,659
Bonds payable	1,131,787	1,359,420
Short-term financing bills payables	—	13,801
Short-term bond payables	167,893	99,781
Principal of structured notes	276,084	339,540
Borrowings	44,071	52,897
Gold lease	23,767	594
Others	1,831	497
	2,241,063	3,019,430

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

13 OTHER OPERATING EXPENSES

	Six months ended June 30,	
	2017	2016
	(Unaudited)	(Audited)
Operating lease rentals in respect of rented premises	185,412	159,884
General and administrative expenses	39,109	34,757
Data transmission expenses	80,362	57,609
IT expenses	56,824	45,494
Advertising and promotion expenses	76,656	71,736
Business travel expenses	70,643	54,217
Securities and futures investor protection funds	23,038	26,807
Membership subscription fee	46,473	41,858
Sundry expenses	106,613	72,847
	685,130	565,209

14 IMPAIRMENT LOSSES (REVERSAL OF IMPAIRMENT LOSSES), NET

	Six months ended June 30,	
	2017	2016
	(Unaudited)	(Audited)
Reversal of allowance for impairment loss in respect of accounts receivable, net (note 28)	(2,666)	(405)
Reversal of impairment in respect of advances to customers (note 27)	(4,290)	(31,772)
Impairment loss (reversal of impairment) in respect of financial assets held under resale agreements (note 24)	42,019	(46,900)
	35,063	(79,077)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

15 INCOME TAX EXPENSES

	Six months ended June 30,	
	2017	2016
	(Unaudited)	(Audited)
Current tax:		
— PRC Enterprise Income Tax (“EIT”)	776,381	1,813,410
— Hong Kong Profits Tax	9,035	175
	785,416	1,813,585
(Over) under provision in respect of prior periods:		
— EIT	(272)	1,661
— Hong Kong Profits Tax	(6,156)	(695)
	(6,428)	966
Deferred taxation		
— Origination and reversal of temporary differences (note 25)	(239,807)	(1,205,391)
	539,181	609,160

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

16 EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

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

	Six months ended June 30,	
	2017	2016
	(Unaudited)	(Audited)
Earnings for the purpose of basic earnings per share:		
Profit attributable to Shareholders of the Company and holders of other equity instruments (RMB'000)	2,552,259	2,241,825
Accumulated interest for holders of perpetual subordinated bonds	(187,854)	—
Sub-total	2,364,405	2,241,825
Number of shares:		
Weighted average number of shares in issue (in thousands)	6,699,409	5,808,136
Earnings per share:		
Earnings per share (Expressed in RMB per share)	0.35	0.39

For the six months ended June 30, 2017 and 2016, there were no potential ordinary shares in issue, thus basic earnings per share is same as diluted earnings per share.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

17 PROPERTY AND EQUIPMENT

	Leasehold land and buildings	Motor vehicles	Electronic and communication equipment	Office equipment	Construction in progress	Total
Unaudited						
Cost						
As at January 1, 2017	385,382	65,604	546,777	58,612	1,206,606	2,262,981
Additions	5,499	1,089	25,101	1,505	36,160	69,354
Disposals	—	(2,949)	(458)	(110)	—	(3,517)
Transfer to other non-current assets (note 26)	—	—	—	—	(13,540)	(13,540)
Exchange realignment	—	(96)	(2,295)	(144)	(2,189)	(4,724)
As at June 30, 2017	390,881	63,648	569,125	59,863	1,227,037	2,310,554
Accumulated depreciation and impairment						
As at January 1, 2017	185,095	40,330	220,455	37,931	—	483,811
Charge for the period	6,198	3,601	42,649	5,529	—	57,977
Disposals	—	(2,818)	(338)	(105)	—	(3,261)
Exchange realignment	—	(70)	(1,072)	(674)	—	(1,816)
As at June 30, 2017	191,293	41,043	261,694	42,681	—	536,711
Carrying values						
As at June 30, 2017	199,588	22,605	307,431	17,182	1,227,037	1,773,843
Audited						
Cost						
As at January 1, 2016	359,492	62,817	379,077	75,846	1,067,210	1,944,442
Additions	—	5,919	198,872	3,813	160,221	368,825
Transfer from other non-current assets	25,890	—	—	—	—	25,890
Disposals	—	(3,336)	(34,126)	(23,889)	—	(61,351)
Transfer to other non-current assets (note 26)	—	—	—	—	(21,191)	(21,191)
Exchange realignment	—	204	2,954	2,842	366	6,366
As at December 31, 2016	385,382	65,604	546,777	58,612	1,206,606	2,262,981
Accumulated depreciation and impairment						
As at January 1, 2016	151,837	35,958	189,105	49,027	—	425,927
Charge for the year	11,518	7,363	61,351	10,947	—	91,179
Other additions	21,740	—	—	—	—	21,740
Disposals	—	(3,193)	(32,452)	(23,799)	—	(59,444)
Exchange realignment	—	202	2,451	1,756	—	4,409
As at December 31, 2016	185,095	40,330	220,455	37,931	—	483,811
Carrying values						
As at December 31, 2016	200,287	25,274	326,322	20,681	1,206,606	1,779,170

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

18 GOODWILL

	As at June 30, 2017 (Unaudited)	As at December 31, 2016 (Audited)
Cost		
At beginning and end of the period/year		
Unit A — Shanghai securities brokerage branch	4,500	4,500
Unit B — Jutian securities brokerage branch	18,367	18,367
Unit C — China Merchants Futures Co., Limited	9,671	9,671
	32,538	32,538
Accumulated impairment losses		
At beginning and end of the period/year		
Unit A — Shanghai securities brokerage branch	4,500	4,500
Unit B — Jutian securities brokerage branch	18,367	18,367
Unit C — China Merchants Futures Co., Limited	—	—
	22,867	22,867
Carrying values		
At beginning and end of the period/year		
Unit A — Shanghai securities brokerage branch	—	—
Unit B — Jutian securities brokerage branch	—	—
Unit C — China Merchants Futures Co., Limited	9,671	9,671
	9,671	9,671

Impairment test

For the purpose of impairment testing, goodwill has been allocated into three individual cash generating units (“CGUs”), including Shanghai securities brokerage branch (“Unit A”), Jutian securities brokerage branch (“Unit B”) and China Merchants Futures Co., Limited (“Unit C”) acquired by the Company.

Unit A and B are securities brokerage branches acquired where the acquisition cost exceeds the fair value of net identifiable assets. As the CGU no longer generated future cash flows, Units A and B were fully impaired.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

18 GOODWILL (Continued)

Impairment test (Continued)

The directors of the Company had performed impairment testing on the goodwill acquired from Unit C as at June 30, 2017 and December 31, 2016. As the fair value of the CGU of China Merchants Futures Co., Limited exceeded its carrying amount, therefore no impairment was recognised.

The recoverable amounts of the CGUs have been determined on the basis of value-in-use calculation. The calculation used cash flow projections based on financial budgets approved by management covering a five-year period which reflected specific risks related to the CGU. Cash flows beyond the five-year period are extrapolated using an estimated annual growth rate based on industry growth forecasts. Management determined the budgeted gross margin based on past performance and its expectations on the market development. The discount rates used are the CGUs' specific weighted average cost of capital, adjusted for the risks of the specific CGUs.

Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of the CGUs to exceed its recoverable amount.

19 OTHER INTANGIBLE ASSETS

	As at June 30, 2017 (Unaudited)		
	Trading rights	Membership and others	Total
Cost			
As at January 1, 2017	82,805	1,624	84,429
Exchange realignment	(585)	(7)	(592)
As at June 30, 2017	82,220	1,617	83,837
Accumulated amortization and impairment			
As at January 1, 2017	60,776	224	61,000
Charge for the period	645	—	645
Exchange realignment	(38)	(7)	(45)
As at June 30, 2017	61,383	217	61,600
Carrying values			
As at June 30, 2017	20,837	1,400	22,237

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

19 OTHER INTANGIBLE ASSETS (Continued)

	As at December 31, 2016 (Audited)		
	Trading rights	Membership and others	Total
Cost			
As at January 1, 2016	81,557	1,609	83,166
Exchange realignment	1,248	15	1,263
As at December 31, 2016	82,805	1,624	84,429
Accumulated amortization and impairment			
As at January 1, 2016	58,706	209	58,915
Charge for the year	1,988	—	1,988
Exchange realignment	82	15	97
As at December 31, 2016	60,776	224	61,000
Carrying values			
As at December 31, 2016	22,029	1,400	23,429

Trading rights mainly comprise the trading rights in Shanghai Stock Exchange, Shenzhen Stock Exchange, Hong Kong Stock Exchange (the “**HKEX**”), the Hong Kong Futures Exchange Limited (the “**HKFE**”) and CME Group Inc. (the “**CME**”). These rights allow the Group to trade securities and futures contracts on or through these exchanges.

Membership and others held by the Group mainly comprises the membership with indefinite useful lives for the purposes of futures business in Futures Exchange.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

20 INTERESTS IN CONSOLIDATED STRUCTURED ENTITIES

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

The financial impact of these asset management products on the Group's financial position as at June 30, 2017 and December 31, 2016, and the results and cash flows for the period ended June 30, 2017 and for the year ended December 31, 2016, though consolidated, are not significant and therefore not disclosed separately.

As at June 30, 2017 and December 31, 2016, the Group consolidated 6 structured entities. The total assets of the consolidated structured entities are approximately RMB5,111,568 thousand (December 31, 2016: RMB4,689,802 thousand) within which are approximately RMB3,509,890 thousand (December 31, 2016: RMB3,513,471 thousand) of investments accounted for as available-for-sale investments and financial assets at fair value through profit or loss.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

21 INTERESTS IN ASSOCIATES

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Cost of unlisted investments in associates	5,050,941	4,105,535
Share of post-acquisition profits and other comprehensive income, net of dividends received	2,382,693	1,852,121
Impairment loss	(669,150)	(669,150)
	6,764,484	5,288,506

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

Name of associate	Place and date of incorporation/ establishment	Equity interest held by the Group		Principal Activities
		June 30, 2017	December 31, 2016	
Bosera Asset Management Co., Ltd.	PRC July 13, 1998	49.00%	49.00%	Fund Management
China Merchants Fund Management Limited	PRC December 27, 2002	45.00%	45.00%	Fund Management
Guangdong Equity Exchange Co., Ltd	PRC October 29, 2013	32.50%	32.50%	Transaction settlement services
China Merchants Xiangjiang Industrial Investment Management Co., Ltd.	PRC March 13, 2008	40.00%	40.00%	Investment Management
Qingdao Asset Management Co., Ltd*	September 21, 2015	30.00%	—	Investment Trading
Twenty-first Century Technology Investment Co., Ltd ⁽¹⁾	PRC June 19, 2000	23.88%	23.88%	Investment holding

* This associate does not have official English name, English translated is for identification only.

(1) The associate has been suspended from business and the losses have been recognised to the consolidated statements of profit or loss.

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22 INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

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

(a) Structured entities sponsored by the Group

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

As at June 30, 2017, the total assets of these unconsolidated structured entities managed by the Group amounted to approximately RMB649,607,000 thousand (December 31, 2016: RMB631,739,000 thousand).

Investments and income derived from these unconsolidated structured entities held by the Group were not significant.

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22 INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES (Continued)

(b) Structured entities sponsored by third party institutions

The types of structured entities that the Group does not consolidate but in which it holds an interest include funds, asset management schemes, trust schemes, and wealth management products issued by banks or other financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These vehicles are financed through the issue of units to investors.

The carrying amount of the related accounts in the consolidated statement of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by third party institutions as at June 30, 2017 and December 31, 2016, which are listed below:

	As at June 30, 2017 (Unaudited)		
	Available- for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	12,509	4,107,267	4,119,776
Trust schemes	681,578	—	681,578
Wealth management products	90,025	326,822	416,847
Others	6,966,042	—	6,966,042
	7,750,154	4,434,089	12,184,243

	As at December 31, 2016 (Audited)		
	Available- for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	13,153	17,306,828	17,319,981
Trust schemes	349,645	—	349,645
Wealth management products	100,790	852,847	953,637
Others	8,718,045	—	8,718,045
	9,181,633	18,159,675	27,341,308

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23 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at June 30, 2017 (Unaudited)	As at December 31, 2016 (Audited)
Non-current portion		
Measure at fair value		
— Others ⁽¹⁾⁽²⁾	7,696,072	8,809,469
Measure at cost		
Unlisted equity securities ⁽³⁾	80,000	—
	7,776,072	8,809,469
Current portion		
Measure at fair value		
— Equity securities	858,273	1,657,485
— Funds	12,509	13,153
— Debt securities	16,669,855	13,462,285
— Others ⁽¹⁾	483,218	779,794
	18,023,855	15,912,717
Analyzed as:		
Listed outside Hong Kong	11,606,790	11,689,891
Unlisted	6,417,065	4,222,826
	18,023,855	15,912,717

- (1) Others mainly represent investments in collective wealth management products, trust products, targeted asset management schemes and special accounts in China Securities Finance Corporation Limited (the “CSFCL”). The fair value are calculated by reference to the underlying assets and liabilities’ fair value or maintain the leverage to a certain proportion as a product manager.

As at June 30, 2017, the Group has committed to hold its investments in collective asset management schemes and trust products and other wealth management products amounted to approximately RMB7,959,569 thousand (December 31, 2016: RMB9,358,016 thousand) that managed by the Company till the end of the investment period.

- (2) Others include an investment in a special account managed by the CSFCL. As at June 30, 2017, the fair value of the Company’s contribution are approximately RMB6,966,042 thousand.
- (3) The unlisted equity securities held by the Group are issued by private companies in others sectors. As the reasonable range of fair value estimation is so significant that the directors of the Company are of the opinion that the fair value cannot be measured reliably, these equity securities are measured at cost less impairment at the end of each reporting period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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23 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

- (4) As at June 30, 2017, the listed equity securities of the Group included nil (December 31, 2016: RMB392,719 thousand) of restricted shares. The restricted shares are listed in the PRC with a legally enforceable restriction on these securities that prevents the Group to dispose of within the specified period. The fair value of the securities is determined by reference to the quoted market prices and discounted to reflect the effect of the restrictions.
- (5) As at June 30, 2017, the Group entered into securities lending arrangement with clients that resulted in the transfer of available-for-sale equity securities with total fair values of approximately RMB2,577 thousand (December 31, 2016: RMB2,662 thousand) to clients. These securities continued to be recognised as financial assets of the Group.

The fair values of the Group's available-for-sale investments are determined in the manner described in note 57.

In the opinion of the directors of the Company, non-current available-for-sale financial assets are expected to be realised or restricted for sale beyond one year from the end of the respective reporting periods.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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24 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

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

	As at June 30, 2017 (Unaudited)	As at December 31, 2016 (Audited)
Non-current portion		
Analyzed by collateral type:		
Stock (Note)	8,897,927	6,479,114
Analyzed by market:		
Stock exchanges	8,897,927	6,479,114
Less: Allowance for impairment losses	(35,935)	(16,903)
	8,861,992	6,462,211
Current portion		
Analyzed by collateral type:		
Stock (Note)	14,807,359	10,312,528
Bond	1,178,449	2,248,836
	15,985,808	12,561,364
Analyzed by market:		
Stock exchanges	15,870,808	10,452,431
Interbank bond market	115,000	2,108,933
	15,985,808	12,561,364
Less: Allowance for impairment losses	(93,419)	(70,432)
	15,892,389	12,490,932

Note: The financial assets (pledged by stock) held under resale agreements and securities back-lending are those resale agreements which the qualified investors entered into with the Group with a commitment to purchase the specified securities at a future date with an agreed price. As at June 30, 2017 the fair value of securities of the Group which have been received as collateral were approximately RMB58,372,626 thousand (December 31, 2016: RMB43,886,429 thousand).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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24 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

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

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
At beginning of the period/year	87,335	102,450
Impairment losses recognised	42,019	—
Reversal of impairment losses	—	(15,115)
At end of the period/year	129,354	87,335

The Group determines the impairment losses based on: (i) the evaluation of collectability; (ii) the ageing analysis of accounts; and (iii) management judgment, including the assessment of liquidity of collateral and the past collection history of each client etc.

25 DEFERRED TAX ASSETS (LIABILITIES)

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

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Deferred tax assets	1,289,958	1,207,996
Deferred tax liabilities	(105,625)	(98,754)
	1,184,333	1,109,242

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25 DEFERRED TAX ASSETS (LIABILITIES) (Continued)

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

	Financial instruments at fair value through profit and loss/ derivatives	Accrued staff cost	Deferred income	Allowance for impairment loss	Fair value change of available-for-sale financial assets	Property and equipment	Others	Total
Unaudited								
At January 1, 2017	154,112	681,175	31,500	81,656	123,586	(545)	37,758	1,109,242
(Charge) credit to profit or loss	(140,925)	399,022	—	(2,539)	—	—	(15,751)	239,807
Charge to other comprehensive income	—	—	—	—	(164,731)	—	—	(164,731)
Exchange difference	—	—	—	—	—	15	—	15
At June 30, 2017	13,187	1,080,197	31,500	79,117	(41,145)	(530)	22,007	1,184,333
Audited								
At January 1, 2016	(286,573)	603,651	31,500	65,101	(154,525)	(950)	21,685	279,889
Credit to profit or loss	440,685	77,524	—	16,555	—	454	16,073	551,291
Charge to other comprehensive income	—	—	—	—	278,111	—	—	278,111
Exchange difference	—	—	—	—	—	(49)	—	(49)
At December 31, 2016	154,112	681,175	31,500	81,656	123,586	(545)	37,758	1,109,242

26 OTHER NON-CURRENT ASSETS

(1) Analyzed by nature

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Leasehold improvements and deferred expenses	177,704	195,050

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017
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26 OTHER NON-CURRENT ASSETS (Continued)

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

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
At the beginning of period/year	195,050	184,082
Additions	3,840	57,480
Transfer from construction in progress (note 17)	13,540	21,191
Amortization	(34,726)	(67,703)
At the end of period/year	177,704	195,050

27 ADVANCES TO CUSTOMERS

(1) Analyzed by nature

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Loans to margin clients	52,344,974	53,462,881
Less: impairment loss in respect of advance to customers	(106,909)	(111,343)
	52,238,065	53,351,538

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

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

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27 ADVANCES TO CUSTOMERS (Continued)

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

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Collateral measured at fair value		
Cash	5,953,561	6,540,993
Debt securities	1,093,862	7,634,119
Equity securities	153,452,030	148,029,271
Funds	209,868	413,453
	160,709,321	162,617,836

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

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
At beginning of the period/year	111,343	130,800
Others	(144)	10,487
Reversal of impairment losses	(4,290)	(29,944)
At end of the period/year	106,909	111,343

The Group determines the impairment loss of the advance to financing customers based on: (i) the evaluation of collectability; (ii) the ageing analysis of accounts; and (iii) management judgment, they include the assessment of changes in credit quality, collateral and the past collection history of each client.

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

The concentration of credit risk is limited due to the size and uncorrelated nature of the customer base.

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28 ACCOUNTS AND OTHER RECEIVABLES

(1) Analyzed by nature

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Accounts and other receivables from/related to:		
Clearing houses, brokers and dealers	2,888,003	3,765,254
Commission and fee income	655,216	500,011
Other receivables	93,835	82,860
Interest receivables	1,431,103	1,261,981
Prepayments	73,662	51,546
Deposit for acquisition for interest in an associate	—	945,405
Other tax assets	—	43,146
Others	109,177	184,647
	5,250,996	6,834,850
Less: Allowance for doubtful debts	(4,824)	(7,490)
	5,246,172	6,827,360

(2) Analyzed by ageing

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

	As at June 30, 2017		As at December 31, 2016	
	Amount	Impairment allowance	Amount	Impairment allowance
Within 1 year	3,480,409	(190)	618,637	(216)
Between 1 and 2 years	58,321	(963)	45,881	(4,156)
Between 2 and 3 years	4,489	(553)	—	—
After 3 years	—	—	—	—
	3,543,219	(1,706)	664,518	(4,372)

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28 ACCOUNTS AND OTHER RECEIVABLES (Continued)

(3) The movement in the allowance for doubtful debts:

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
At beginning of the period/year	7,490	14,020
Impairment loss recognised	—	3,648
Reversal of impairment losses	(2,666)	—
Others	—	(10,487)
Exchange realignment	—	309
At end of the period/year	4,824	7,490

(4) Accounts receivable that is not impaired

Accounts receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

29 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(1) Analyzed by type

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Financial assets held-for-trading	47,261,099	46,973,821
Financial assets designated at fair value through profit or loss	1,611,526	1,270,634
	48,872,625	48,244,455

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

(2) Financial assets held-for-trading

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Debt securities	31,173,521	17,512,973
Equity securities	10,648,376	9,874,657
Funds	4,107,267	17,786,171
Others ⁽¹⁾	1,331,935	1,800,020
	47,261,099	46,973,821
Analyzed as:		
Listed in Hong Kong	220,527	221,033
Listed outside Hong Kong ⁽²⁾	15,412,085	16,464,160
Unlisted ⁽³⁾	31,628,487	30,288,628
	47,261,099	46,973,821

- (1) Others mainly represent investments in collective asset management schemes, commodities, wealth management products issued and managed by bank.
- (2) Equity securities and funds traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange are included in the “Listed outside Hong Kong” category.
- (3) Unlisted securities mainly comprise of debt securities traded on Interbank Bond Market. The fair value of these securities is estimated using valuation techniques.

As at June 30, 2017, the Group entered into securities lending arrangement with clients that resulted in the transfer of equity securities under held for trading with total fair values of approximately RMB253,435 thousand (December 31, 2016: RMB197,405 thousand) to clients. These securities continued to be recognised as financial assets of the Group.

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

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

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Equity securities	438,914	354,798
Others ⁽¹⁾	1,172,612	915,836
	1,611,526	1,270,634
Analyzed as:		
Unlisted ⁽²⁾	1,611,526	1,270,634

(1) Others mainly represent investments in funds and partnership by the Group.

(2) Unlisted securities mainly comprise of unlisted equity securities, funds and partnerships invested by the Group.

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30 DERIVATIVE FINANCIAL INSTRUMENTS

	As at June 30,		As at December 31,	
	2017	2017	2016	2016
	Assets	Liabilities	Assets	Liabilities
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Interest derivative instrument				
Interest rate swaps ⁽¹⁾	12,825	10,485	162,268	211,660
Bond futures ⁽²⁾	1,219	6	210	1,347
Equity derivative instrument				
Equity return swaps ⁽³⁾	1,122	41,824	9,393	98,414
Stock index futures ⁽⁴⁾	314	576	467	173
Options ⁽⁵⁾	26,267	97,350	12,456	55,831
Credit derivatives				
Credit default swaps	—	4,599	404	146
Other derivative instrument				
Commodity futures ⁽²⁾	276,203	402,325	813,111	1,475,232
Commodity swaps ⁽⁶⁾	226,327	68,681	105,608	—
Forward contracts ⁽⁷⁾	5	129,712	5,696	—
	544,282	755,558	1,109,613	1,842,803

(1) Interest rate swaps: The notional principal amounts of the Group's interest rate swaps contracts as at June 30, 2017 were approximately RMB19,420,000 thousand (December 31, 2016: RMB18,780,000 thousand).

(2) Bond futures and commodity futures: As at June 30, 2017, the Group's principal of bond futures were approximately RMB3,918,678 thousand (December 31, 2016: RMB1,082,978 thousand). The Group's principal commodity futures were approximately RMB15,759,860 thousand (December 31, 2016: RMB26,173,131 thousand).

(3) Equity return swaps: The notional principal amounts of the Group's equity return swaps contracts as at June 30, 2017 were approximately RMB920,280 thousand (December 31, 2016: RMB1,045,073 thousand).

(4) Stock index futures: The notional principal amounts of the Group's stock futures contracts as at June 30, 2017 were approximately RMB1,136,899 thousand (December 31, 2016: RMB956,299 thousand).

(5) Options: Included in options are over-the counter options, exchange-traded options and embedded options.

The notional principal amounts of the Group's options contracts as at June 30, 2017 were approximately RMB3,224,126 thousand (December 31, 2016: RMB3,141,120 thousand).

(6) Commodity swaps: As at June 30, 2017, the notional principal of commodity swap contracts the Group invested are RMB6,712,813 thousand (December 31, 2016: RMB10,527,965 thousand).

(7) Forward contracts: As at June 30, 2017, the notional principal of forward contracts the Group invested are RMB2,434,255 thousand (December 31, 2016: RMB206,385 thousand).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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31 DEPOSITS WITH EXCHANGES AND NON-BANK FINANCIAL INSTITUTIONS

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Deposits with stock exchanges and clearing house:		
Shanghai Clearing House	15,850	13,199
China Beijing Equity Exchange	4,534	3,556
London Stock Exchange	31,987	50,579
Hong Kong Stock Exchange	1,370	716
Hong Kong Securities Clearing Company Limited	16,539	17,167
China Securities Depository and Clearing Corporation Limited	368,345	373,027
Deposits with futures and commodity exchanges and financial institutions:		
China Financial Futures Exchange	10,058	10,057
Shanghai Gold Exchange	22,641	5,345
Chicago Mercantile Exchange	—	3,469
Hong Kong Futures Exchange	5,758	16,507
Yongan Futures Co., Ltd.	43,180	12,186
CITIC Futures Co., Ltd.	39,868	31,359
Nanhua Futures Co., Ltd.	—	3,275
Haitong Futures Co., Ltd.	8,120	—
Others	694	—
	568,944	540,442

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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32 CLEARING SETTLEMENT FUNDS

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Clearing settlement funds held with clearing house for:		
House accounts	3,091,186	1,574,905
Clients	11,693,079	17,468,564
	14,784,265	19,043,469

33 CASH AND BANK BALANCES

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
House accounts	10,066,000	10,750,913
Pledge and restricted bank deposits		
— Restricted bank deposit for purchase of bond and stock	874,068	194,364
Bank balances — house account	10,940,068	10,945,277
Cash held on behalf of customers	48,716,177	50,326,986
	59,656,245	61,272,263

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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34 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the followings:

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Bank balances — house accounts	10,940,068	10,945,277
Clearing settlement funds — house accounts	3,091,186	1,574,905
Less: Pledged and restricted bank deposit	(874,068)	(194,364)
	13,157,186	12,325,818

35 BORROWINGS

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Secured bank loan ⁽²⁾	1,735,840	—
Unsecured bank loan ⁽¹⁾	3,612,521	3,251,970
	5,348,361	3,251,970

(1) As at June 30, 2017, the Group's current bank borrowings are bearing market interest rates. The effective interest rate for the borrowings was ranged from 1.10% to 3.17% (December 31, 2016: 2.00% to 2.50%) per annum. The short-term borrowing is repayable on demand or within one year.

(2) As at June 30, 2017, the Group's short-term loan is bearing interest of 1.18% per annum.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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36 SHORT-TERM DEBT INSTRUMENTS

	Nominal interest rate	As at January 1, 2017 (Audited)	Issuance/ Transfer in	Redemption	As at June 30, 2017 (Unaudited)
Unaudited					
Short-term bond payables ⁽¹⁾	4.60%	1,000,000	12,020,000	(11,020,000)	2,000,000
Principals of structured notes ⁽²⁾	3.70%–5.25%	20,782,330	12,666,730	(23,835,940)	9,613,120
		21,782,330	24,686,730	(34,855,940)	11,613,120

	Nominal interest rate	As at January 1, 2016 (Audited)	Issuance/ Transfer in	Redemption	As at December 31, 2016 (Audited)
Audited					
Short-term financing bill payables	3.05%	2,000,000	—	(2,000,000)	—
Short-term bond payables ⁽¹⁾	4.65%–5.40%	11,000,000	1,000,000	(11,000,000)	1,000,000
Principals of structured notes ⁽²⁾	2.85%–6.10%	14,878,320	22,495,710	(16,591,700)	20,782,330
		27,878,320	23,495,710	(29,591,700)	21,782,330

(1) Short-term bond payables

As at June 30, 2017, the annual interest rate of short-term bond payables issued by the Company was 4.60% per annum. The short-term bond payables are for a period of one month to three months.

(2) Principals of structured notes

As at June 30, 2017, the amount represents principals received from investors for subscription of structured notes issued by the Group. The structured notes bear fixed rate interest ranging from 3.70%–5.25% per annum (December 31, 2016: 2.85%–6.10% per annum), or variable rate linked to certain stock index. The interests are repayable upon maturity within one year. The notes with variable rate contain non-closely related derivative as their returns are linked to the fluctuation of stock index. For those embedded derivatives, they are accounted for in this Condensed Interim Financial Information under note 30 after being bifurcated from their respective host contracts.

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37 PLACEMENTS FROM OTHER FINANCIAL INSTITUTIONS

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Placements from banks	1,750,000	1,500,000

38 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Clients' deposits for margin financing and securities lending	5,953,561	6,540,993
Clients' deposits for other brokerage business	53,950,908	61,040,727
	59,904,469	67,581,720

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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39 ACCRUED STAFF COSTS

	As at June 30, 2017 (Unaudited)	As at December 31, 2016 (Audited)
Non-current portion		
Salaries, bonus and allowances	787,540	787,540
Current portion		
Salaries, bonus and allowances	4,883,302	4,635,863
Social welfare	864	44,152
Others	36,270	27,647
	4,920,436	4,707,662

40 OTHER PAYABLES AND ACCRUED CHARGES

	As at June 30, 2017 (Unaudited)	As at December 31, 2016 (Audited)
Deposits of equity return swaps ⁽¹⁾	591,171	1,036,441
Settlement payables to clearing house	3,510,832	2,395,811
Commission and handling fee payable	155,180	99,076
Futures risk reserve	61,007	55,832
Other tax payable	154,013	197,786
Interest payables	711,887	2,780,945
Dividend payables	1,266,188	—
Others ⁽²⁾	159,631	153,234
	6,609,909	6,719,125

(1) As at June 30, 2017 and December 31, 2016, the balance represents deposits received from investors for equity return swaps which is refundable with the contract terms upon the expiry date. The deposit will be mature within one year from the end of the reporting period. These instruments contain non-closely related embedded derivatives as their returns are linked to the fluctuation of certain stock index or specific stock price. For those embedded derivatives with significant fair values, they are accounted for in this condensed interim financial information under note 30 after being bifurcated from their respective host contracts.

(2) Others mainly represent payable to joint bonds underwriters, non-public offering cost payable, and other payables arising from normal course of business.

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41 PROVISION

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
At the beginning of the period/year	—	96
Addition for the period/year	29,367	—
Reversal for the period/year	—	(96)
At the end of the period/year	29,367	—

As at June 30, 2017, the provision represents several pending litigations against the Group. By the best estimation of the directors of the Company, provision amounted to approximately of RMB29, 367 thousand was made for the period ended June 30, 2017 (2016: nil). The amount is of best estimate and close to its maximum potential amount paid.

42 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Financial liabilities held for trading		
— Equity securities	124,306	192,538
— Debt securities	1,281,717	2,565,535
— Commodities	4,014,108	—
— Others	40,567	38,512
Financial liabilities designated at fair value through profit or loss		
— Structured entities	1,749,317	1,643,371
	7,210,015	4,439,956

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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43 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Current		
Analyzed by collateral type:		
Bonds	24,912,175	8,533,988
Rights and interests in margin loans	2,000,000	10,865,000
	26,912,175	19,398,988
Analyzed by market:		
Stock exchange	18,456,123	7,359,988
Interbank bond market	6,456,052	1,174,000
Over-the-counter	2,000,000	10,865,000
	26,912,175	19,398,988

Sales and repurchase agreements are transactions in which the Group sell a security as well as rights and interests in margin loans and simultaneous agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group are still exposed to substantially all the credit risks, market risk and rewards of those securities sold. These securities are not derecognised from the financial statements but regarded as “collateral” for the liabilities because the Group retain substantially all the risk and rewards of these securities and margin loans.

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44 SHARE CAPITAL

All shares issued by the Company are fully paid common shares. The par value per share is RMB1. The Company's number of shares issued and their nominal value are as follows:

	As at June 30, 2017 (Unaudited)	As at December 31, 2016 (Audited)
Registered, issued and fully paid ordinary shares of RMB1 each:		
— Domestic shares	5,719,009	5,719,009
— Foreign invested shares	980,400	980,400
	6,699,409	6,699,409
At beginning of the period/year	6,699,409	5,808,136
Issuance of shares ⁽¹⁾	—	891,273
At the end of the period/year	6,699,409	6,699,409

- (1) On October 7, 2016, the Company completed its initial public offering of 891,273 thousand H shares to foreign investors on the Main Board of the Hong Kong Stock Exchange with the offer price of HK\$12 per share. Through the issuance of the H shares, the total funds raised was HK\$10,695,285 thousand (equivalent to RMB9,208,320 thousand), and after deducting underwriting and sponsorship and other transaction costs of RMB260,881 thousand in all (included in the transaction costs, an amount of RMB73,896 thousand was paid to the Group's subsidiary, China Merchants Securities International Company Limited. The cost was eliminated at consolidation and the net transaction cost is RMB186,985 thousand), includes the increased registered capital of RMB891,273 thousand and the capital reserve of RMB8,130,062 thousand.

45 OTHER EQUITY INSTRUMENTS

The Company issued its perpetual subordinated bonds with a total principal amount of RMB4,000,000 thousand, RMB5,000,000 thousand, RMB3,700,000 thousand and RMB2,300,000 thousand in February, March, May and June 2017, which are bearing interest of 5.18%, 5.15%, 5.65% and 5.58% per annum, respectively. The price of the perpetual subordinated bonds reset every 5 years as a repricing cycle thereafter.

The perpetual subordinated bonds are unsecured, upon the maturity of every repricing cycle, the Company has the right to choose by extending the maturity of the bonds for another repricing cycle, i.e. for five years, or redeem the bonds entirely. When the Company elects to declared dividends to their ordinary shareholders or propose to reduce in its share capital, the Company shall make distribution to the holders of the perpetual subordinated bonds at the distribution rate as defined in the subscription agreement.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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46 INVESTMENT REVALUATION RESERVE

The movement in the Group's investment revaluation reserve is set out as below:

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
At beginning of the period/year	(315,695)	462,366
Available-for-sale financial assets		
Net fair value changes during the period/year	768,491	(494,632)
Reclassification adjustment to profit or loss	(108,283)	(566,505)
Income tax impact	(164,731)	278,111
Share of fair value gain on available-for-sale financial assets of associates	2,443	4,965
At end of the period/year	182,225	(315,695)

47 GENERAL RESERVES

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

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

In accordance with the Financial Rules for Financial Enterprises, the Company is required to appropriate 10% of net profit derived in accordance with PRC GAAP before distribution to shareholders as general risk reserve from retained profits.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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47 GENERAL RESERVES (Continued)

The movements of the general reserves are set out below:

For the period ended June 30, 2017 (Unaudited)

	Opening	Addition	Closing
Statutory reserve	3,875,865	—	3,875,865
Reserve for general risk	3,875,865	—	3,875,865
Transaction risk reserve	3,747,053	—	3,747,053
	11,498,783	—	11,498,783

For the year ended December 31, 2016 (Audited)

	Opening	Addition	Closing
Statutory reserve	3,415,540	460,325	3,875,865
Reserve for general risk	3,415,540	460,325	3,875,865
Transaction risk reserve	3,286,727	460,326	3,747,053
	10,117,807	1,380,976	11,498,783

48 DEFERRED INCOME

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Government grant (Note)	126,000	126,000

Note: In 2009, the Group received a government subsidy from Shenzhen Municipal Finance Bureau of RMB126,000 thousand towards the cost of building including construction in progress. The amount is transferred to income over the useful lives of the relevant assets once completed.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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49 LONG-TERM BORROWINGS DUE WITHIN ONE YEAR

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Secured bank loan	374,034	368,596

50 BONDS PAYABLE DUE WITHIN ONE YEAR

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Non-convertible corporate bonds ⁽¹⁾	4,499,651	—
Subordinated bonds ⁽²⁾	10,000,000	5,000,000
	14,499,651	5,000,000

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

Name	Issue amount	Value date	Maturity date	Coupon rate
12CM01	3,000,000	5/3/2013	5/3/2018	4.45%
12CM02	1,500,000	5/3/2013	5/3/2018	4.80%

Pursuant to the approval by the CSRC, shareholders and the directors of the Company, the Company issued non-convertible corporate bonds with face value of RMB4,500,000 thousand on March 5, 2013. These bonds, which are bearing fixed interest rate, comprise a 3 plus 2-year bond with a face value of RMB3,000,000 thousand, a 5-year bond with a face value of RMB1,500,000 thousand. These bonds were listed in Shanghai Stock Exchange on March 15, 2013, which are due within one year.

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

Name	Issue amount	Value date	Maturity date	Coupon rate
15CM04	5,000,000	13/4/2015	13/4/2018	5.75%
15CM05	5,000,000	24/4/2015	24/10/2017	5.57%

Pursuant to the approval by shareholders meeting and the board of directors meeting, the Company was authorised to issue up to RMB35,000,000 thousand (inclusive) subordinated corporate bonds. The Company issued subordinated corporate bonds of 2.5 to 3 years with aggregate face value of RMB10,000,000 thousand in April 2015. As at June 30, 2017, the subordinated bonds — 15CM04 and 15CM05, which are due within one year.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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51 BONDS PAYABLE

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Non-convertible corporate bonds ⁽¹⁾	10,967,712	15,465,206
Subordinated corporate bonds ⁽²⁾	10,000,000	30,000,000
Principal of structured note	4,200,000	—
	25,167,712	45,465,206

(1) The following table presents an analysis of non-convertible corporate bonds.

Name	Issue amount	Value date	Maturity date	Coupon rate
12CM03	5,500,000	5/3/2013	5/3/2023	5.15%
14CM bond	5,500,000	26/5/2015	26/5/2025	5.08%

Pursuant to the approval by the CSRC, shareholders and the directors of the Company, the Company issued a 10-year fixed interest rate non-convertible corporate bonds with face value of RMB5,500,000 thousand on March 5, 2013. The bond was listed in Shanghai Stock Exchange on March 15, 2013.

Pursuant to the approval by the CSRC, shareholders and directors of the Company, the Company issued 10-year non-convertible bond with face value of RMB5,500,000 thousand and interest rates 5.08% per annum on May 26, 2015. The bond was listed on Shanghai Exchange on June 9, 2015.

(2) The following table presents an analysis of subordinated corporate bonds.

Name	Issue amount	Value date	Maturity date	Coupon rate
15CM02	10,000,000	24/3/2015	24/3/2020	5.58%

Pursuant to the approval by shareholders meeting and board of directors meeting, the Company was authorized to issue up to RMB35,000,000 thousand (inclusive) subordinated corporate bonds. The Company issued five tranches of 3 to 5 years bonds with aggregate face value of RMB35,000,000 thousand in March and April 2015. As at June 30, 2017, the subordinated bond 15CM01 and 15CM03, which are due and redeemed on March and April 2017, respectively. For bonds payable which are due within one year was disclosed in note 50.

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52 DIVIDENDS

	For the period ended June 30,	For the year ended December 31,
	2017	2016
	(Unaudited)	(Audited)
Dividend recognised as distribution	1,266,188	2,329,062

Pursuant to the resolution of the shareholders meeting of 2015, the Company distributed cash dividends of RMB2.47 for every 10 shares (tax included) based on 5,808,135,529 shares held amounting to approximately RMB1,434,610 thousand in 2016.

Pursuant to the resolution of the shareholders meeting of 2016, the Company distributed cash dividends of RMB1.54 for every 10 shares (tax included) based on 5,808,135,529 shares held amounting to approximately RMB894,452 thousand in 2016.

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

53 COMMITMENTS

(1) Capital commitments

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Commitments contracted but not provided for in respect of		
— Construction in progress	236,128	244,923

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53 COMMITMENTS (Continued)

(2) Operating lease commitments

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of renting of premises which fall due as follows:

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Within one year (inclusive)	269,354	256,764
One to two years (inclusive)	177,129	195,197
Two to three years (inclusive)	115,353	117,044
Over three years	351,574	354,613
Total	913,410	923,618

Operating lease payments represent rentals payable by the Group for certain of its office properties. Lease of rented premises are negotiated with fixed lease term for 1 to 20 years.

The Group as lessor

At the end of the reporting period, the Group (as lessor) has no significant lease commitments.

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54 SIGNIFICANT RELATED PARTY TRANSACTIONS

(1) Relationship of related parties

(a) *Major shareholders*

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

Share percentage in the Company

	As at June 30, 2017	As at December 31, 2016
China Merchants Finance Investment Holdings Co., Ltd.	20.93%	20.93%
Shenzhen Jisheng Investment Development Co., Ltd.	19.56%	19.56%
China Ocean Shipping (Group) Company	6.25%	6.25%

(b) *Other related parties*

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

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54 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(2) Related parties transaction and balances

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

Transaction between the Group and the associates:

	Six months ended June 30,	
	2017	2016
	(Unaudited)	(Audited)
Commission and fee income		
— Funds managed by Bosera Asset Management Co., Ltd. and China Merchants Fund Management Limited	44,777	33,795

Balance between the Group and the associates:

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Commission receivables		
— Funds managed by Bosera Asset Management Co., Ltd. and China Merchants Fund Management Limited	27,617	27,288

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54 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(2) Related parties transaction and balances (Continued)

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

Transactions between the Group and other related parties:

	Six months ended June 30,	
	2017	2016
	(Unaudited)	(Audited)
Commission and fee income		
— China Merchants Bank Co., Ltd.	27,435	12,769
— China Merchants Expressway Network & Technology Holdings Co., Ltd	6,604	—
— China Merchants Chongqing Communications Technology Research & Design Institute Co., Ltd	—	456
— China Merchants Shekou Industrial Zone Holdings Co., Ltd	557	—
— China Merchants Finance Holdings Co., Ltd	283	—
— China Merchants Port Holdings Co., Ltd	1,226	—
Interest income		
— China Merchants Bank Co., Ltd.	197,869	283,911
Rental expenses		
— China Merchants (Shanghai) Investment Co., Ltd	(4,312)	—
— China Merchants Chongqing Communications Technology Research & Design Institute Co., Ltd	(96)	—
Commission and fee expenses		
— China Merchants Bank Co., Ltd.	(154,754)	(150,219)
Interest expenses		
— China Merchants Bank Co., Ltd.	(13,762)	(16,044)

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54 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(2) Related parties transaction and balances (Continued)

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

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

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Accounts and other receivables		
— China Merchants Land Limited	347	346
— China Merchants Chongqing Communications Technology Research & Design Institute Co., Ltd	16	16
— China Merchants (Shanghai) Investment Co., Ltd	2,508	3,643
— Bosera Asset Management Co., Ltd	83,300	83,300
— China Merchants Fund Management Limited	—	76,996
Bank balances		
— China Merchants Bank Co., Ltd.	20,829,523	25,730,016
Borrowings		
— China Merchants Bank Co., Ltd.	712,522	645,894
Placements from banks		
— China Merchants Bank Co., Ltd.	—	500,000
Other payables and accrued charges		
— China Merchants Bank Co., Ltd.	28	567

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54 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)

(3) Key management personnel

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

	Six months ended June 30,	
	2017	2016
	(Unaudited)	(Audited)
Short-term benefits:		
— Salaries, allowance and bonuses	7,114	7,400
Post-employment benefits:		
— Contribution to retirement schemes	1,092	1,125
	8,206	8,525

(4) Other related party transactions

In December 2015, China Merchants Shekou Industrial Zone Holdings Co., Ltd. issued A Shares for the purpose to acquire China Merchants Property Development Co., Ltd. and issued A Shares to certain specific targets for fund raising purpose. The Company, through its wholly-owned subsidiary, China Merchants Zhiyuan Capital Investment Co., Ltd. and its corporate entities to indirectly subscribed China Merchants Shekou Industrial Zone Holdings Co., Ltd. non-public offering 84,746 thousand shares. As at June 30, 2017, the fair value of the above shares was approximately RMB1,810,169 thousand.

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55 SEGMENT INFORMATION

(1) Business segment

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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55 SEGMENT INFORMATION (Continued)

(1) Business segment (Continued)

The operating and reportable segment information provided to the chief operating decision maker (hereinafter refer to as the “CODM”) for the six months ended June 30, 2017 and 2016 is as follows:

	Brokerage and wealth management	Investment banking	Investment management	Investment and trading	Others	Elimination	Total
Unaudited							
For the six months ended June 30, 2017							
Segment revenue	5,752,699	1,206,528	931,533	556,851	165,968	(30,525)	8,583,054
Segment other income and gains or loss	6,369	—	—	—	(47,406)	—	(41,037)
Segment revenue and other income	5,759,068	1,206,528	931,533	556,851	118,562	(30,525)	8,542,017
Segment expenses	(4,050,949)	(759,131)	(179,466)	(358,335)	(588,924)	30,525	(5,906,280)
Segment result	1,708,119	447,397	752,067	198,516	(470,362)	—	2,635,737
Share of results of associates	—	—	339	8,716	442,078	—	451,133
Profit (loss) before income tax	1,708,119	447,397	752,406	207,232	(28,284)	—	3,086,870
As at June 30, 2017 (Unaudited)							
Segment assets and liabilities							
Segment assets	117,690,832	551,526	8,548,404	99,508,538	21,171,650	(4,653,800)	242,817,150
Segment liabilities	(104,700,696)	(1,287,365)	(6,677,277)	(34,034,441)	(24,145,403)	4,653,800	(166,191,382)
Other segment information							
Amounts included in the measure of segment profit or loss or segment assets:							
Interest income	2,999,992	—	27,539	34,825	165,968	(30,525)	3,197,799
Interest expense	(1,545,736)	—	(32,357)	(239,468)	(454,027)	30,525	(2,241,063)
Capital expenditure	(48,553)	(587)	(317)	(893)	(22,081)	—	(72,431)
Depreciation and amortization	(78,154)	(1,041)	(1,111)	(1,626)	(11,416)	—	(93,348)
Impairment losses recognised	(35,063)	—	—	—	—	—	(35,063)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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55 SEGMENT INFORMATION (Continued)

(1) Business segment (Continued)

	Brokerage and wealth management	Investment banking	Investment management	Investment and trading	Others	Elimination	Total
Audited							
For the six months ended June 30, 2016							
Segment revenue	6,405,195	1,124,430	413,323	546,779	198,289	—	8,688,016
Segment other income and gains	218	—	—	—	40,522	—	40,740
Segment revenue and other income	6,405,413	1,124,430	413,323	546,779	238,811	—	8,728,756
Segment expenses	(4,416,704)	(536,302)	(244,618)	(410,312)	(615,638)	—	(6,223,574)
Segment result	1,988,709	588,128	168,705	136,467	(376,827)	—	2,505,182
Share of results of associates	—	—	481	—	339,071	—	339,552
Profit/(loss) before income tax	1,988,709	588,128	169,186	136,467	(37,756)	—	2,844,734
As at December 31, 2016							
Segment assets and liabilities							
Segment assets	128,337,161	379,108	7,820,342	90,714,086	20,496,715	(4,688,984)	243,058,428
Segment liabilities	(109,073,344)	(1,112,938)	(6,583,650)	(47,055,471)	(24,006,970)	4,688,984	(183,143,389)
For the six months ended June 30, 2016							
Other segment information							
Amounts included in the measure of segment profit or loss or segment assets:							
Interest income	3,084,561	—	8,045	7,171	198,290	—	3,298,067
Interest expense	(2,279,214)	—	(49,743)	(274,130)	(416,343)	—	(3,019,430)
Capital expenditure	(41,642)	(464)	(1,048)	(607)	(79,218)	—	(122,979)
Depreciation and amortization	(65,696)	(865)	(1,013)	(1,183)	(10,657)	—	(79,414)
Reversal impairment losses	79,077	—	—	—	—	—	79,077

(2) Geographical segments

The Group has two major geographical operations in the PRC, namely Mainland China and Hong Kong, which is also the Group's revenue from external customers and the Group's assets located. The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property and equipment, investment properties, goodwill, other intangible assets, interests in associates and other non-current assets ("**specified non-current assets**"). The geographical location of customers is based on the location at which the services were provided. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property and equipment and other non-current assets, they are based on the location of operation to which they are allocated, in the case of goodwill and other intangible assets, they are based on the location of operations.

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55 SEGMENT INFORMATION (Continued)

(2) Geographical segments (Continued)

	Mainland China	Outside Mainland China	Total
For the six months ended June 30, 2017 (Unaudited)			
Segment Revenue			
Revenue from external customers	7,964,542	618,512	8,583,054
Other income and gains	(42,804)	1,767	(41,037)
	7,921,738	620,279	8,542,017
For the six months ended June 30, 2016 (Audited)			
Segment Revenue			
Revenue from external customers	8,471,905	216,111	8,688,016
Other income and gains	53,254	(12,514)	40,740
	8,525,159	203,597	8,728,756

Specific non-current assets

	Mainland China	Outside Mainland China	Total
As at June 30, 2017 (Unaudited)			
Specified non-current assets	8,692,377	55,562	8,747,939
As at December 31, 2016 (Audited)			
Specified non-current assets	7,227,722	68,104	7,295,826

(3) Information about major customers:

There were no customers for each of the six months period ended June 30, 2017 and 2016 contributing over 10% of the total revenue of the Group.

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56 FINANCIAL RISK MANAGEMENT

(1) Risk management structure

The Group has been engaged in developing an all around, innovative and forward-looking risk management system aligning with its operation strategy and focusing on departments at the business level since its establishment. The structure of the risk management of the Company consists of five levels, including the strategical arrangement by the Board of Directors, supervision and scrutiny by the Supervisory Committee, risk management decision-making by the senior management and the Risk Management Committee, collaboration and internal control maintained by relevant risk management departments and direct management on other departments, branches and its wholly-owned subsidiaries.

The Group adopts a three-level risk management organization structure system. First level refers to self-implementation of effective control on risk management on all departments and branches. Second level refers to risk management and internal control measures implemented by relevant risk management departments. Third level refers to supervisory follow-up supervision and evaluation by the Audit and Supervision Department.

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

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56 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk

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

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

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

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

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

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56 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

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

(a) Maximum credit risk exposure

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Available-for-sale financial assets ⁽¹⁾	17,354,011	13,814,592
Financial assets at fair value through profit or loss ⁽²⁾	31,426,956	17,710,378
Derivative financial assets	544,282	1,109,613
Advances to customers	52,238,065	53,351,538
Financial assets held under resale agreements	24,754,381	18,953,143
Loan receivables	25,833	64,725
Accounts and other receivables	5,172,510	5,787,264
Deposit with exchanges and non-bank financial institutions	568,944	540,442
Clearing settlement funds	14,784,265	19,043,469
Cash and bank balances	59,656,245	61,272,263
	206,525,492	191,647,427

- (1) Available-for-sale financial assets represent the investment in debt securities, trust products and equity securities lent to customers.
- (2) Financial assets at fair value through profit or loss subjected to credit risk represent the investment in debt securities, trust products and equity securities lent to customers.

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56 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(b) Risk concentration

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

As at June 30, 2017

	Mainland China	Outside Mainland China	Total (Unaudited)
Available-for-sale financial assets	17,354,011	—	17,354,011
Financial assets at fair value through profit or loss	28,489,127	2,937,829	31,426,956
Derivative financial assets	38,837	505,445	544,282
Advances to customers	48,015,393	4,222,672	52,238,065
Financial assets held under resale agreements	24,754,381	—	24,754,381
Loan receivables	—	25,833	25,833
Accounts and other receivables	1,923,550	3,248,960	5,172,510
Deposit with exchanges and non-bank financial institutions	510,995	57,949	568,944
Clearing settlement funds	14,784,265	—	14,784,265
Cash and bank balances	53,147,823	6,508,422	59,656,245
	189,018,382	17,507,110	206,525,492

As at December 31, 2016

	Mainland China	Outside Mainland China	Total (Audited)
Available-for-sale financial assets	13,814,592	—	13,814,592
Financial assets at fair value through profit or loss	15,347,505	2,362,873	17,710,378
Derivative financial assets	184,151	925,462	1,109,613
Advances to customers	50,744,636	2,606,902	53,351,538
Financial assets held under resale agreements	18,953,143	—	18,953,143
Loan receivables	—	64,725	64,725
Accounts and other receivables	2,050,061	3,737,203	5,787,264
Deposit with exchanges and non-bank financial institutions	448,430	92,012	540,442
Clearing settlement funds	19,043,469	—	19,043,469
Cash and bank balances	55,989,805	5,282,458	61,272,263
	176,575,792	15,071,635	191,647,427

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56 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(c) Credit rating analysis of financial assets

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

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Rating		
Issuers in Mainland China		
— PRC sovereign bonds	14,075,683	8,748,217
— AAA	9,671,819	6,489,911
— AA+	4,805,235	4,529,270
— AA	1,396,478	1,861,249
— AA-	—	—
— AA- below	—	—
— A-1	388,665	—
Non-rated	14,567,667	6,983,738
Sub-total	44,905,547	28,612,385
Issuers in Hong Kong and other regions		
— A	100,717	82,669
— B	2,555,828	1,535,375
— C	—	434,703
— D	—	—
Non-rated	281,284	310,126
Sub-total	2,937,829	2,362,873
Total	47,843,376	30,975,258

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

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56 FINANCIAL RISK MANAGEMENT (Continued)

(2) Credit risk (Continued)

(c) Credit rating analysis of financial assets (Continued)

Credit rating of the bonds issued in Hong Kong and other regions were derived from the lowest of Moody's, Standard & Poor's and Fitch Rating, if any. The bonds, which are not rated by the above agencies, are classified as non-rated. Including in A rating are the bonds comprising Aaa~Aa3 rating of Moody's, AAA~AA- rating of Standard & Poor's and AAA~AA- rating of Fitch; and including in B rating are the bonds comprising A1~Baa3 rating of Moody's, A+~BBB- rating of Standard & Poor's and A+~BBB- rating of Fitch; including in C rating are the bonds comprising Ba1~B3 rating of Moody's, BB+~B- rating of Standard & Poor's and BB+~B- rating of Fitch; and including D rating are the bonds comprising Caa1~D rating of Moody's, CCC+~C rating of Standard & Poor's and CCC+~C- rating of Fitch.

(3) Liquidity risk

(a) Origin and management of market risk

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

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

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56 FINANCIAL RISK MANAGEMENT (Continued)

(3) Liquidity risk (Continued)

(b) Undiscounted cash flow by contractual maturities

	As at June 30, 2017 (Unaudited)						
	Carrying amount	On demand	Less than 1 months	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years
Borrowings	5,722,395	4,115,076	561,891	9,744	1,053,439	—	5,740,150
Short-term debt instruments	11,613,120	—	234,900	6,031,087	5,617,125	—	11,883,112
Placements from other financial institutions	1,750,000	—	1,751,208	—	—	—	1,751,208
Bonds payable (note)	39,667,363	—	—	—	16,392,150	16,749,402	45,263,002
Financial assets sold under repurchase agreements	26,912,175	—	26,949,848	—	—	—	26,949,848
Derivative financial liabilities	755,558	755,558	—	—	—	—	755,558
Financial liabilities at fair value through profit or loss	7,210,015	2,168,773	1,033,724	1,620,601	2,542,269	—	7,365,367
Accounts payable to brokerage clients	59,904,469	59,904,469	—	—	—	—	59,904,469
Other payables and accrued charges	4,353,286	4,353,286	—	—	—	—	4,353,286
Total	157,888,381	71,297,162	30,531,571	7,661,432	25,604,983	16,749,402	163,966,000

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56 FINANCIAL RISK MANAGEMENT (Continued)

(3) Liquidity risk (Continued)

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

	As at December 31, 2016 (Audited)						
	Carrying amount	On demand	Less than 1 months	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	Total
Borrowings	3,620,566	1,047,015	1,066,773	13,175	1,544,637	—	3,671,600
Short-term debt instruments	21,782,330	—	9,505,928	11,624,098	1,052,996	—	22,183,022
Placements from other financial institutions	1,500,000	—	1,501,074	—	—	—	1,501,074
Bonds payable (note)	50,465,206	—	—	11,594,750	11,125,400	22,801,600	58,205,850
Financial assets sold under repurchase agreements	19,398,988	—	11,518,085	613,236	7,891,435	—	20,022,756
Derivative financial liabilities	1,842,803	1,842,803	—	—	—	—	1,842,803
Financial liabilities at fair value through profit or loss	4,439,956	2,816,736	—	—	—	1,624,572	4,441,308
Accounts payable to brokerage clients	67,581,720	67,581,720	—	—	—	—	67,581,720
Other payables and accrued charges	3,624,750	3,624,750	—	—	—	—	3,624,750
Total	174,256,319	76,913,024	23,591,860	23,845,259	21,614,468	24,426,172	183,074,883

Note: For the bonds payable that includes redemption rights held by the Group, for the presentation in the undiscounted cash flow by contractual maturities above, the respective original contractual maturity date of the underlying instruments are over than 1 year.

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56 FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk

(a) Origin and management of market risk

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

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56 FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk (Continued)

(a) *Origin and management of market risk (Continued)*

The Group collectively allocates the economic capital in accordance with the risk preference and risk tolerance indicators set by the directors of the Group. By considering the risk associated with each type of investments and their interrelationship, the Group diversifies the overall risk limitation to different business departments/business lines. The front-office business departments are responsible for market risk management. The person in charge and investment manager shall utilise their extensive experience and in-depth knowledge of the markets and products to conduct risk management in trading transactions within their authorities and dynamic regulate the risk exposures to the securities held in open position by taking initiative measures to mitigate or hedge against the associated market risks. The chief risk management officer (the “CRMO”) is in charge of the risk management department of the Group (the “Risk Management Department”), which is independent from other business departments. By applying professional risk management tools and methods to the investment strategies, business departments/business lines and to the whole Group, Risk Management Department aims to control, evaluate and manage market risk at different levels. Reports of evaluation and risk analysis are generated and delivered to the responsible officers of the business departments/business lines and operation management of the Group on a daily, monthly or quarterly basis to facilitate decision making. When risk level is approaching or exceeds the threshold values, the Risk Management Department will warn relevant management officers in advance and discuss with the respective business management officers. According to the opinion reached through discussions, the business departments/business lines will mitigate the exposures to a level within the limits, or the respective business departments/business lines may apply for a temporary or permanent upgrade in the limits, subject to the resolutions of the relevant committees. Risk Management Department will continuously monitor and communicate directly with the respective business departments/business lines with regard to information on risk exposures, and discuss the status of risk portfolios and the losses in extreme situations.

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56 FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk (Continued)

(b) Price risk

Value at Risk ("VaR")

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

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

	As at June 30, 2017 (Unaudited)	As at December 31, 2016 (Audited)
Market risk of equity	150,255	442,101
Market risk of interest rate	75,733	32,583
Market risk of commodity	3,918	5,178
Market risk of foreign exchange	183	829
Diluted effect	(61,783)	(37,360)
Total portfolio VaR	168,306	443,331

Note: The VaR of market risk of equity included the specific direction investment for 2015 market stabilisation and the equity investments produced by Trusted Certificates Companies, these Trusted Certificates Investments' VaR are calculated based on CSI 300 Index floating rate.

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56 FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk (Continued)

(c) Interest rate risk

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

	At June 30, 2017 (Unaudited)						
	Less than 1 month	More than 1 month but less than 3 months	More than 3 month but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
Financial assets							
Available-for-sale financial assets	—	609,739	2,608,053	13,228,596	223,467	9,130,072	25,799,927
Financial assets at fair value through profit or loss	1,467,459	4,150,505	12,181,153	10,705,358	2,595,231	17,772,919	48,872,625
Derivative financial assets	—	—	—	—	—	544,282	544,282
Advances to customers	5,777,425	8,356,584	38,104,056	—	—	—	52,238,065
Financial assets held under resale agreements	1,747,614	1,076,651	13,068,124	8,861,992	—	—	24,754,381
Loan receivables	—	25,833	—	—	—	—	25,833
Accounts and other receivables	—	—	—	—	—	3,541,513	3,541,513
Deposit with exchanges and non-bank financial institutions	568,944	—	—	—	—	—	568,944
Clearing settlement funds	14,784,265	—	—	—	—	—	14,784,265
Cash and bank balances	59,656,245	—	—	—	—	—	59,656,245
Sub-total	84,001,952	14,219,312	65,961,386	32,795,946	2,818,698	30,988,786	230,786,080
Financial liabilities							
Borrowings	4,675,723	672,638	374,034	—	—	—	5,722,395
Short-term debt instruments	233,410	5,929,460	5,450,250	—	—	—	11,613,120
Placements from other financial institutions	1,750,000	—	—	—	—	—	1,750,000
Bonds payable	—	—	14,499,651	14,200,000	10,967,712	—	39,667,363
Financial assets sold under repurchase agreements	26,912,175	—	—	—	—	—	26,912,175
Derivative financial liabilities	—	—	—	—	—	755,558	755,558
Financial liabilities at fair value through profit or loss	1,027,133	1,584,116	2,429,993	—	—	2,168,773	7,210,015
Accounts payable to brokerage clients	59,904,469	—	—	—	—	—	59,904,469
Other payables and accrued charges	374	—	—	—	—	4,352,912	4,353,286
Sub-total	94,503,284	8,186,214	22,753,928	14,200,000	10,967,712	7,277,243	157,888,381
Net position	(10,501,332)	6,033,098	43,207,458	18,595,946	(8,149,014)	23,711,543	72,897,699

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56 FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk (Continued)

(c) Interest rate risk (Continued)

	At December 31, 2016 (Audited)						
	Less than 1 month	More than 1 month but less than 3 months	More than 3 month but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
Financial assets							
Available-for-sale financial assets	972,824	689,490	1,519,322	8,309,948	1,970,701	11,259,901	24,722,186
Financial assets at fair value through profit or loss	759,672	1,919,665	3,835,255	8,151,351	2,581,310	30,997,202	48,244,455
Derivative financial assets	—	—	—	—	—	1,109,613	1,109,613
Advances to customers	4,503,245	6,817,636	42,030,657	—	—	—	53,351,538
Financial assets held under resale agreements	2,749,087	1,067,422	8,674,423	6,462,211	—	—	18,953,143
Loan receivables	—	—	64,725	—	—	—	64,725
Accounts and other receivables	—	—	—	—	—	660,146	660,146
Deposit with exchanges and non-bank financial institutions	540,442	—	—	—	—	—	540,442
Clearing settlement funds	19,043,469	—	—	—	—	—	19,043,469
Cash and bank balances	61,272,263	—	—	—	—	—	61,272,263
Sub-total	89,841,002	10,494,213	56,124,382	22,923,510	4,552,011	44,026,862	227,961,980
Financial liabilities							
Borrowings	2,111,469	—	1,509,097	—	—	—	3,620,566
Short-term debt instruments	9,425,290	11,318,930	1,038,110	—	—	—	21,782,330
Placements from other financial institutions	1,500,000	—	—	—	—	—	1,500,000
Bonds payable	—	10,000,000	10,000,000	19,499,396	10,965,810	—	50,465,206
Financial assets sold under repurchase agreements	11,498,988	500,000	7,400,000	—	—	—	19,398,988
Derivative financial liabilities	—	—	—	—	—	1,842,803	1,842,803
Financial liabilities at fair value through profit or loss	2,447,097	—	—	—	—	1,992,859	4,439,956
Accounts payable to brokerage clients	67,581,720	—	—	—	—	—	67,581,720
Other payables and accrued charges	374	—	—	—	—	3,624,376	3,624,750
Sub-total	94,564,938	21,818,930	19,947,207	19,499,396	10,965,810	7,460,038	174,256,319
Net position	(4,723,936)	(11,324,717)	36,177,175	3,424,114	(6,413,799)	36,566,824	53,705,661

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56 FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk (Continued)

(c) Interest rate risk (Continued)

Sensitivity analysis

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

Sensitivity to revenue

	Six months ended June 30,	
	2017	2016
	Unaudited	Audited
Change in basis points		
Increase by 100bps	(474,167)	(929,555)
Decrease by 100bps	507,880	931,852

Sensitivity to equity

	Six months ended June 30,	
	2017	2016
	Unaudited	Audited
Change in basis points		
Increase by 100bps	(882,792)	(1,431,058)
Decrease by 100bps	934,730	1,435,817

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56 FINANCIAL RISK MANAGEMENT (Continued)

(4) Market risk (Continued)

(d) Foreign currency rate risk

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

Sensitivity analysis of exchange rate

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Change in exchange rate		
Depreciation of USD by 3%	(74,311)	(91,058)
Depreciation of HKD by 3%	(69,047)	(42,283)

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

(5) Operational risk

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

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56 FINANCIAL RISK MANAGEMENT (Continued)

(5) Operational risk (Continued)

The Company emphasis on balance of the business scale, profitability and risk tolerance level, adhere to carry out various operations in the context of prudent operation, and will not expense the operational risk management and control. During the six months ended June 30, 2017, the Company continued to strengthen the operational risk management, and established a sound operational risk management system gradually, which was matched with the business nature, scale and complexity so as to improve the operation management system. Through the implementation on operational risk self-examination process and data collection tools in relation to the operational risk events and losses, the Company gradually began to set up a pilot application with key operational risk indicators in order to achieve the operational risk in the next three endogenous closed-loop management tools.

(6) Capital Management

The Group's objectives of capital management are:

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

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56 FINANCIAL RISK MANAGEMENT (Continued)

(6) Capital Management (Continued)

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

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

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

During the reporting period, the Company’s net capital and other risk control indicators, both comply with 《證券公司管理辦法》 and 《證券公司控制指標管理辦法》.

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(Expressed in thousands of Renminbi, unless otherwise stated)

56 FINANCIAL RISK MANAGEMENT (Continued)

(6) Capital Management (Continued)

As at June 30, 2017 and December 31, 2016, the Company maintained the above ratios as follows:

	As at June 30,	As at December 31,
	2017	2016
Net Capital	52,233,457	45,524,144
Net Asset Value	72,934,160	56,884,319
Sum of Risk Base Capital Provisions	14,716,690	14, 258,394
On Balance Sheet and Off Balance Sheet Total Assets	174,069,702	168,000,436
Ratio 1	354.93%	319.28%
Ratio 2	23.57%	24.30%
Ratio 3	207.66%	151.00%
Ratio 4	132.06%	134.94%
Ratio 5	71.62%	80.03%
Ratio 6	55.54%	43.03%
Ratio 7	77.56%	53.77%
Ratio 8	28.88%	37.01%
Ratio 9	93.85%	98.12%

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

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

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57 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

The directors of the Company consider that the carrying amounts of the financial assets and financial liabilities not measured at fair value on a recurring basis (including available-for-sale financial assets and financial liabilities included in the statement of financial position of the Group at amortised cost or at cost less impairment) approximate their fair values as at June 30, 2017 and December 31, 2016.

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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57 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

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57 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

Financial assets/ financial liabilities	Fair value as at June 30,	Fair value as at December 31,	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2017	2016				
	(Unaudited)	(Audited)				
1) Financial assets at fair value through profit or loss						
<i>Debt securities</i>						
— Traded on stock exchanges	3,885,397	4,008,889	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded on interbank market	27,288,124	13,504,084	Level 2	Discounted cash flows with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	N/A	N/A
<i>Equity securities</i>						
— Traded on stock exchanges	8,078,792	7,631,195	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded National Securities Exchange and Quotation System	759,415	854,479	Level 1	Based on recent trading prices in an active market.	N/A	N/A
— Traded on stock exchange (Restricted share)	1,810,169	1,388,983	Level 2	Based on quoted market prices with an adjustment of discount for lack of marketability.	N/A	N/A
— Unlisted	179,183	78,270	Level 3	Recent transaction prices.	Recent transaction prices	The higher the recent transaction price, the higher the fair value.
	259,731	276,528	Level 3	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	Third party valuation.	The higher the third party valuation, the higher the fair value.
<i>Funds</i>						
— Listed	950,646	2,547,904	Level 1	Quoted closing prices in an active market.	N/A	N/A

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57 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Financial assets/ financial liabilities	Fair value as at June 30,	Fair value as at December 31,	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2017	2016				
	(Unaudited)	(Audited)				
— Unlisted	3,156,621	15,238,267	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
<i>Other investment</i>						
— Wealth management and trust products and others	148,193	253,743	Level 1	Quoted closing prices in an active market.	N/A	N/A
	1,169,657	1,543,113	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
	1,186,697	919,000	Level 3	Based on the net asset values of the investment, determined with reference to third party valuation of underlying investment portfolio and adjustments of related expenses.	Third party valuation of underlying investment portfolio.	The higher the third party valuation, the higher the fair value
2) Available-for-sale financial assets						
<i>Debt securities</i>						
— Traded on stock exchanges	10,745,619	10,029,318	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded on interbank market	5,924,236	3,432,967	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
<i>Equity securities</i>						
— Traded on stock exchanges	432,819	1,164,766	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded National Securities Exchange and Quotation System	425,454	100,000	Level 1	Based on recent trading prices in an active	N/A	N/A

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57 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Financial assets/ financial liabilities	Fair value as at June 30,	Fair value as at December 31,	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2017	2016				
	(Unaudited)	(Audited)				
— Restricted share	—	190,177	Level 2	Discounted cash flows. The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability.	N/A	N/A
— Traded on National Securities Exchange and Quotation System (Restricted share)	—	202,542	Level 2	Discounted cash flows. The fair value is determined with reference to the quoted market prices with an adjustment of discount for lack of marketability	N/A	N/A
Funds						
— Listed	2,898	3,088	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Unlisted	9,611	10,065	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
Others	8,179,290	9,589,263	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
3) Derivative financial instruments						
— Interest rate swap — assets	12,825	162,268	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A

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57 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Financial assets/ financial liabilities	Fair value as at June 30,	Fair value as at December 31,	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2017	2016				
	(Unaudited)	(Audited)				
— Interest rate swap — liabilities	10,485	211,660	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
— Equity return swap — assets	1,122	9,393	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
— Equity return swap — liabilities	41,824	98,414	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
— Stock index future — assets (note)	314	467	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Stock index future — liabilities (note)	576	173	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Treasury bond futures — assets	1,219	210	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Treasury bond futures — liabilities (note)	6	1,347	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Commodity swap — assets	226,327	105,608	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty.	N/A	N/A

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57 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Financial assets/ financial liabilities	Fair value as at June 30,	Fair value as at December 31,	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2017	2016				
	(Unaudited)	(Audited)				
— Commodity swap — liabilities	68,681	—	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty	N/A	N/A
— Commodity futures — assets (note)	276,203	813,111	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Commodity futures — liabilities (note)	402,325	1,475,232	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Options — assets	13,692	9,400	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Options — liabilities	49,725	43,823	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Over-the-counter options — assets	12,575	3,056	Level 2	Option pricing model	N/A	N/A
— Over-the-counter options — liabilities	47,625	12,008	Level 2	Option pricing model	N/A	N/A
— Forward contracts — assets	—	5,564	Level 2	Measured at fair value based on brokers quoted prices — Market brokers' quoted price	N/A	N/A
	5	132	Level 2	Discounted cash flows with future cash flows that are estimated based on future rates and contractual rates, discounted at a rate that reflects the credit risk of counterparty		
— Forward contracts — liabilities	129,712	—	Level 2	Discounted cash flows with future cash flows that are estimated based on future rates and contractual rates, discounted at a rate that reflects the credit risk of counterparty	N/A	N/A
— Credit default swap — assets	—	404	Level 2	Measured at fair value based on brokers quoted price — Market brokers' quoted price	N/A	N/A

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57 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Financial assets/ financial liabilities	Fair value as at June 30,	Fair value as at December 31,	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2017	2016				
	(Unaudited)	(Audited)				
— Credit default swap — liabilities	4,599	146	Level 2	Measured at fair value based on brokers quoted price — Market brokers' quoted price	N/A	N/A
4) Financial liabilities at fair value through profit or loss						
— Designated at fair value through profit or loss	1,749,317	1,643,371	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
— Financial liabilities held for trading	4,178,981	231,050	Level 1	Quoted closing prices in an active market.	N/A	N/A
	1,281,717	2,565,535	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A

Note: Under the daily mark-to-market and settlement arrangement, any gains or losses of the stock index futures, treasury bond futures, commodity futures and options were settled daily and the corresponding receipts and payments were included in “clearing settlement funds” as at June 30, 2017 and December 31, 2016. Accordingly, the net position of the stock index futures contracts was nil at the end of each reporting period.

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57 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

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

	At June 30, 2017 (Unaudited)			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
— Debt securities	3,885,397	27,288,124	—	31,173,521
— Equity investments	8,838,207	1,810,169	438,914	11,087,290
— Funds	950,646	3,156,621	—	4,107,267
— Others	148,193	1,169,657	1,186,697	2,504,547
Derivative financial assets	291,428	252,854	—	544,282
Available-for-sale financial assets				
— Debt securities	10,745,619	5,924,236	—	16,669,855
— Equity investments	858,273	—	—	858,273
— Funds	2,898	9,611	—	12,509
— Others	—	8,179,290	—	8,179,290
Total	25,720,661	47,790,562	1,625,611	75,136,834
Financial liabilities				
Financial liabilities at fair value through profit or loss	4,178,981	3,031,034	—	7,210,015
Derivative financial liabilities	452,632	302,926	—	755,558
Total	4,631,613	3,333,960	—	7,965,573

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57 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

	At December 31, 2016(Audited)			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through profit or loss				
— Debt securities	4,008,889	13,504,084	—	17,512,973
— Equity investments	8,485,674	1,388,983	354,798	10,229,455
— Funds	2,547,904	15,238,267	—	17,786,171
— Others	253,743	1,543,113	919,000	2,715,856
Derivative financial assets	823,188	286,425	—	1,109,613
Available-for-sale financial assets				
— Debt securities	10,029,318	3,432,967	—	13,462,285
— Equity investments	1,264,766	392,719	—	1,657,485
— Funds	3,088	10,065	—	13,153
— Others	—	9,589,263	—	9,589,263
Total	27,416,570	45,385,886	1,273,798	74,076,254
Financial liabilities				
Financial liabilities at fair value through profit or loss	231,050	4,208,906	—	4,439,956
Derivative financial liabilities	1,520,575	322,228	—	1,842,803
Total	1,751,625	4,531,134	—	6,282,759

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

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57 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Reconciliation of Level 3 fair value measurements

	Financial assets at fair value through profit or loss	Available- for-sale financial assets	Total
			(Unaudited)
As at January 1, 2017	1,273,798	—	1,273,798
Gain or losses for the period	(34,744)	—	(34,744)
Purchases	448,726	—	448,726
Sales and settlements	(62,169)	—	(62,169)
As at June 30, 2017	1,625,611	—	1,625,611
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	(34,744)	—	(34,744)

	Financial assets at fair value through profit or loss	Available- for-sale financial assets	Total
			(Audited)
As at January 1, 2016	1,649,518	—	1,649,518
Gain or losses for the year	26,846	—	26,846
Changes in fair value recognised in other comprehensive income	—	—	—
Purchases	461,005	—	461,005
Sales and settlements	(863,571)	—	(863,571)
As at December 31, 2016	1,273,798	—	1,273,798
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	26,846	—	26,846

58 CONTINGENCIES

As at June 30, 2017, the Group was not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, the Group expect would materially adversely affect its financial position or results of operations.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

59 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

	As at June 30,	As at December 31,
	2017	2016
	(Unaudited)	(Audited)
Unlisted shares, at cost	6,108,019	6,108,019

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of subsidiary	Place of incorporation/ establishment/ date of establishment	Proportion ownership interest held by the Company		Issued and fully paid share capital (in dollars)	Principal Activities
		As at June 30, 2017	As at December 31, 2016		
China Merchants Securities International Company Limited ⁽¹⁾	HK July 14, 1999	100%	100%	HK\$1,803,627,390	Investment holding
China Merchants Securities (HK) Co., Limited	HK October 4, 1986	100%	100%	HK\$3,500,000,000	Securities brokerage
China Merchants Futures (HK) Co., Limited	HK January 19, 2001	100%	100%	HK\$200,000,000	Futures brokerage
China Merchants Securities Investment Management (HK) Co., Limited	HK September 18, 2006	100%	100%	HK\$400,000,000	Investment holding
CMS Capital (HK) Co., Limited	HK August 1, 2003	100%	100%	HK\$5,000,000	Assets management
CMS Asset Management (HK) Co., Limited	HK August 13, 2008	100%	100%	HK\$10,000,000	Assets management
China Merchants Futures Co., Ltd. ⁽¹⁾	PRC April 4, 1993	100%	100%	RMB630,000,000	Futures brokerage
China Merchants Zhiyuan Capital Investment Co., Ltd. ⁽¹⁾	PRC August 28, 2009	100%	100%	RMB1,700,000,000	Investment advisory
Shenzhen China Merchants Zhiyuan Consultancy Services Co., Ltd.	PRC July 25, 2011	100%	100%	RMB3,000,000	Consulting services
Shenzhen Yuansheng Investment Management Co., Ltd.	PRC December 20, 2012	60%	60%	RMB5,000,000	Investment management
Beijing Zhiyuan Lixin Investment Management Co., Ltd.	PRC April 23, 2013	100%	100%	RMB10,000,000	Investment management

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

59 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation/ establishment/ date of establishment	Proportion ownership interest held by the Company		Issued and fully paid share capital (in dollars)	Principal Activities
		As at June 30, 2017	As at December 31, 2016		
Shenzhen China Merchants Zhiyuan Equity Investment and Funds Management Co., Ltd.	PRC May 29, 2013	70%	70%	RMB15,000,000	Investment management
Ganzhou China Merchants Zhiyuan No. 1 Fund Management Co., Ltd.	PRC June 7, 2013	100%	100%	RMB10,000,000	Investment management
Jiangxi Zhiyuan Development Investment Management Co., Ltd.	PRC July 2, 2013	51%	51%	RMB10,000,000	Investment management
Ganzhou Zhaoyuan Investment Management Co., Ltd	PRC October 14, 2013	100%	100%	RMB10,000,000	Investment management
Anhui China Merchants Innovative Investment Management Co., Ltd.	PRC March 4, 2015	100%	100%	RMB25,000,000	Investment management
Shenzhen Zhiyuan Business Development and Funds Investment Management Co., Ltd.	PRC January 23, 2015	53.85%	53.85%	RMB10,000,000	Investment management
Qingdao Guoxin China Merchants and Business Development Investment Management Co., Ltd.	PRC February 6, 2015	65%	65%	RMB10,000,000	Investment management
Shenzhen China Merchants Business Development Investment Co., Ltd	PRC June 24, 2015	100%	100%	RMB5,000,000	Investment management
Shenyang China Merchants Business and Development Investment Management Co., Ltd	PRC July 10, 2015	70%	70%	RMB4,000,000	Investment management
China Merchants Securities Investment Co., Ltd. ⁽¹⁾	PRC December 2, 2013	100%	100%	RMB1,200,000,000	Investment holding
China Merchants Securities Asset Management Co., Ltd. ⁽¹⁾	PRC April 3, 2015	100%	100%	RMB1,000,000,000	Assets management
China Merchants Securities (UK) Limited	UK October 25, 2013	100%	100%	US\$22,000,000	Futures brokerage
Qingdao China Merchants Zhiyuan Investment Management Co., Ltd.	PRC January 12, 2016	100%	100%	RMB10,000,000	Venture capital, investment in fund and financial assets

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017
(Expressed in thousands of Renminbi, unless otherwise stated)

59 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation/ establishment/ date of establishment	Proportion ownership interest held by the Company		Issued and fully paid share capital (in dollars)	Principal Activities
		As at June 30, 2017	As at December 31, 2016		
Anhui Zhiyuan Smart City Fund Management Co., Ltd.	PRC March 15, 2016	100%	100%	RMB4,500,000	Equity fund management, investment advisory service, investment management, financial consultancy service
China Merchants Securities (HK) Finance Co., Limited	HK May 14, 2016	100%	100%	HK\$500,000	Investment and financing Management
China Merchants Securities Capital Investment Co., Ltd*	PRC August 8, 2016	100%	100%	—	Financial services
Shenzhen China Merchants Zhiyuan Culture Investment Management Co., Ltd*	PRC November 16, 2016	72%	72%	RMB10,000,000	Investment management and financial consultancy
Anhui Jiaokong China Merchants Fund Management Co., Ltd*	PRC April 6, 2017	70%	—	RMB30,000,000	Investment management
China Merchants Securities (Korea) Co., Ltd	South Korea January 9, 2017	100%	—	KRW8,523,900,000	Securities brokerage and futures brokerage

* These subsidiaries do not have official English names. English translated names are for identification only.

(1) These subsidiaries are directly held by the Company.

(2) The directors of the Company considered that none of the non-wholly owned subsidiaries is having material non-controlling interests at the end of the period, therefore there are no further information presented.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

60 EVENTS AFTER THE REPORTING PERIOD

(1) Issuance of Short-term Corporate Bonds of Securities Company and Payment of Principal and Interest on Due

From July 2017 to the date of approval for the publication of this report, the Group has issued the fifth and sixth tranches of 2017 Short-term Corporate Bonds of Securities Company of RMB3,000,000 thousand and RMB3,240,000 thousand respectively. The maturities of the bonds are 120 days and 280 days, and coupon rates are 4.50% per annum and 4.60% per annum, respectively. The third tranche of 2017 Short-term Corporate Bonds of the Group of RMB2,000,000 thousand with a maturity term of 5 months and coupon rate of 4.60%, was due and the principals and interests were settled.

(2) Issuance of Structured Notes and Payment of Principal and Interest on Due

From July 2017 to the date of approval for the publication of this report, the Group has issued a total of 33 tranches of structured notes of RMB1,217,000 thousand with a term less than 1 year and coupon rates of 4.00% to 4.40% per annum. 27 tranches of structured notes of RMB460,000 thousand with coupon rates of 3.70% to 4.50%, were due.

(3) Application to China Merchants Bank for Extension of Loans used for China Merchants Securities Building

As approved by the fourth meeting of the sixth session of the Board of the Company on August 24, 2017, the Company has applied to Shenzhen Binhe Shidai sub-branch of China Merchants Bank for extending the loans used for China Merchants Securities Building for 1 year (maturity date of which is subject to the actual agreement) for the purpose of the construction project of China Merchants Securities Building. The loan will be secured by a parcel of commercial land of the Company known as Lot No. B116-0075 and located at Fuhua Yi Road, Futian District, Shenzhen (real estate title certificate no.: Shen Fang Di Zi No. 3000529581).

(4) Application to China Merchants Bank for Credit Facility for Non-financing Letters of Guarantee

As approved by the fourth meeting of the sixth session of the Board of the Company on August 24, 2017, the Company has applied to Shenzhen Binhe Shidai sub-branch of China Merchants Bank for a grant of credit facility for non-financing letters with less than RMB500,000 thousand guarantee for a term of three years (maturity date is subject to the actual agreement) for the purpose of the construction project of China Merchants Securities Building, which will be guaranteed by the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

FOR THE PERIOD ENDED JUNE 30, 2017

(Expressed in thousands of Renminbi, unless otherwise stated)

60 EVENTS AFTER THE REPORTING PERIOD (Continued)

(5) Profit Distribution

According to the profit distribution plan for 2016 approved on May 26, 2017, a cash dividend of RMB1.89 (tax included) will be distributed for every 10 shares. The Group has implemented the plan in July 2017 and total cash dividends of RMB1,266,188 thousand have been paid.

(6) External Investment Agreement

On August 18, 2017, the Group, China Merchants Bank Co., Ltd. and China Merchants Fund Management Company Limited entered into a capital increase agreement. Pursuant to the agreement, the Group and China Merchants Bank will increase their capital contribution in China Merchants Fund, an associate of the Group, of an aggregate of RMB1,100,000 thousand in proportion to each of their existing shareholding. Among which, the Group will contribute RMB495,000 thousand and China Merchants Bank will contribute RMB605,000 thousand. Upon completion of the capital increase, the Group and China Merchants Bank will continue to hold 45% and 55% equity interest in China Merchants Fund respectively.

(7) Provision of Counter Guarantee for Bank Credit of Overseas Wholly-owned Subsidiary

To facilitate the transformation and development of overseas business of the Group, and replenish the daily working capital of China Merchants Securities (UK) Limited, a wholly-owned subsidiary of China Merchants Securities International Company Limited, pursuant to the resolution regarding the Provision of Guarantee or Counter Guarantee in favour of China Merchants Securities International Company Limited and its wholly-owned subsidiaries passed at the first extraordinary shareholders' meeting of 2015 on February 13, 2015, the Company has applied to Industrial and Commercial Bank of China Limited for the grant of a letter of guarantee in favour of China Merchants Securities (UK) Limited for obtaining overseas bank credit, which will be guaranteed by the counter guarantee provided by the Company. On August 9, 2017, the relevant agreement for the letter of guarantee was signed. Shenzhen Huaqiang Sub-branch of Industrial and Commercial Bank of China Limited has issued a letter of guarantee in an amount of USD50,000 thousand only in favour of ICBC London Branch. On August 16, 2017, ICBC London Branch entered into a bank credit agreement with CMS UK accordingly.

CHAPTER 10 DOCUMENTS AVAILABLE FOR INSPECTION

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

Chairman of the Board: Huo Da

Submission date approved by the Board: August 24, 2017

CHAPTER 11 INFORMATION DISCLOSURE OF A SECURITIES COMPANY

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

No.	Issuing authority	Title	Document No.	Date of announcement
1	Shanghai Stock Exchange	No Objection Letter for the Offer for Sale of Short-term Corporate Bonds Privately Issued by China Merchants Securities Co., Ltd.	Shang Zheng Han [2017] No. 44	January 10, 2017
2	Shanghai Stock Exchange	No Objection Letter for the Offer for Sale of Subordinated Bonds Privately Issued by China Merchants Securities Co., Ltd.	Shang Zheng Han [2017] No. 100	January 24, 2017
3	CSRC Shenzhen Office	Approval of CSRC Shenzhen Office on the Opening of 17 Branches by China Merchants Securities Co., Ltd.	Shen Zheng Ju Xu Ke Zi [2017] No. 12	February 6, 2017
4	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of HUO Da as a Chairman of a Securities Firm	Shen Zheng Ju Xu Ke Zi [2017] No. 30	May 25, 2017
5	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of WANG Zhangwei as a Supervisor of a Securities Firm	Shen Zheng Ju Xu Ke Zi [2017] No. 34	June 29, 2017
6	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of CHEN Zhigang as a Director of a Securities Firm	Shen Zheng Ju Xu Ke Zi [2017] No. 35	June 29, 2017
7	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of MA Yunchun as a Supervisor of a Securities Firm	(Shen Zheng Ju Xu Ke Zi [2017] No. 36)	June 29, 2017
8	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of SU Jian as a Director of a Securities Firm	(Shen Zheng Ju Xu Ke Zi [2017] No. 38)	June 29, 2017

II. Classification of the Company by the Regulatory Department

Year	Results
2017	AA(Class A)
2016	AA(Class A)
2015	AA(Class A)