



China Merchants Securities Co., Ltd

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# About This Report

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

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

## Reporting Guidelines

This Report has been compiled with reference to the “Stock Exchange of Hong Kong Main Board Listing Rules – Appendix 27 (the Environmental, Social and Governance Reporting Guide, hereinafter referred as the HKEX ESG Reporting Guide)”, and “Shanghai Stock Exchange’s Compilation and Review Guidance for Listed Companies’ Internal Control and Social Responsibilities Reporting”. The report preparation is strictly compliant to the “general disclosure”, “materiality”, “quantization”, “balance”, “consistency”, and “director responsibilities” requirements by the HKEX ESG Reporting Guide of Stock.

## Reporting Period

This report covers the fiscal year 1 January to 31 December 2018, with moderate reflection on its past and prediction on its future prospect.

## Reporting Scope

This report covers operations in the headquarter, 12 branches, 249 securities branches and 5 subsidiaries of China Merchants Securities Co., Ltd.

## Report Data

Financial data included in this Report are collected from our 2018 Annual Report, and have been independently verified by Deloitte Touche Tohmatsu Certified Public Accountants. For further details of our financial performance, please refer to the China Merchants Securities Co., Ltd. Annual Report 2018.

## Report Assurance

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

## References in this report

the reporting object is China Merchants Securities Co., Ltd, which is referred to as “China Merchants Securities”, “CMS”, “We”, “The Company” or “Our Company” in this report.

## Report Language

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

## Reporting Cycle

Annually. We issued ESG report since 2017, the first report being CMS 2016 Environmental, Social and Governance Report.

## Access to the Report

This Report is available in both electronic version and printed version. For the electronic one, please download it on the website of the Stock Exchange of Hong Kong Limited ([www.hkex.com.hk](http://www.hkex.com.hk)), or on our official website (<http://www.cmschina.com>).



# About the Company

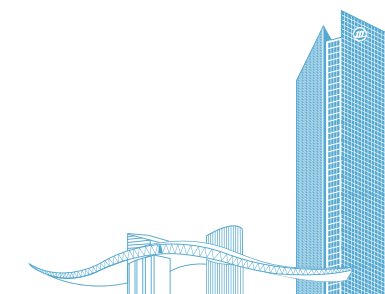
China Merchants Securities has carried forward the century-old heritage of China Merchants Group. With a history over 20 years, the Company has become a first-class securities trader with full license. On November 17, 2009, the Company was publicly listed on the Shanghai Stock Exchange (code: 600999). On October 7, 2016, the Company was listed on the main board of the Stock Exchange of Hong Kong Limited (code: 6099). By end of 2018, CMS was a constituent stock of SSE50, CSI100, SSE180, CSI300, FTSE Xinhua China A50, and MSCI China.

Stock code  
**600999**

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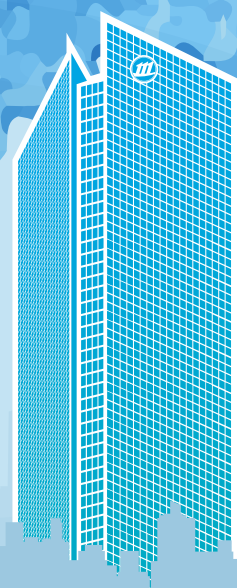
The Company trades stocks, funds, bonds, futures, commodities, and other derivatives on behalf of our clients and provides them with other value-added services such as investment consultancy, investment portfolio recommendation, sales of products, account assessment and assets allocation. We have built a comprehensive securities service platform through controlling China Merchants Securities International Company Limited., China Merchants Futures Co., Limited., China Merchants Zhiyuan Capital Investment Co., Ltd., China Merchants Securities Investment Co., Ltd., and China Merchants Securities Asset Management Co., Ltd., and holding equity interest in Bosera Asset Management Co., Limited, China Merchants Fund Management Co., Ltd., and Guangdong Equity Exchange Co., Ltd., China Merchants Securities is building a comprehensive securities service platform. Head-quartering in Shenzhen, the Company now has 249 securities branches and 12 branches in 111 Chinese Mainland, and subsidiaries in Hong Kong, the United Kingdom, Singapore and Korea.

The Company set up the first domestic multimedia client service center and the first domestic self-founded securities trading site, and also provides a mobile platform, tablet platform, and WeChat platform. The Company has a team of professional, high-quality talents that excel at product designing, investment management, underwriting, and mergers and acquisitions. Having established a brand advantage in intermediary service, and with its multi-function platform and efficient resources allocation, CMS has taken a leading role in brokerage services and ranks first in outsourcing financial services. Fully leveraging its influence among medium and small businesses and its superb services to key clients, its competence in specialized industry and its ability in underwriting, our investment banking business continues to grow and accounts for the largest market share in asset backed securities (ABS). With premium service and convenient trading operation, our retail brokerage business has seen a steady increase in value and market share. Our asset management business has led the industry for years thanks to our innovation capabilities and sound investment performance. Our research and development function is leading in segments including food and beverage, environmental protection, light industry, paper, home appliance, communication, media, macro economy, electronics, cars, electrical equipment and new energy, military industry, SMEs, fixed income, coal, petrochemical, finance and real estate. We have been acknowledged as the "Best Domestic Research Team" by the magazine New Fortune for years. Our internal control is well functioning. We have established an advanced organizational structure, risk management system and sound policies to ensure risks are identified, evaluated, monitored, controlled, and fed back in all processes. The governmental supervisory departments gave high praise to our internal control system. As of the end of 2018, CMS received "(Class A) AA" supervisory rating for the 11th consecutive year.

"We rise in vigor through innovation. We stride further through sturdy performance." Bearing this belief, we dedicate to creating value with outstanding financial services, and aim to become the best investment bank in China with international competitiveness. We have built an image of "integrity, sturdiness, professionalism, and innovation" through compliance with laws and regulations, and continuous improvement in professional services. Upholding the spirit of fairness and justice, we fulfill our social responsibilities to address the needs of our stakeholders. CMS was awarded the "Forbes 2018 Global Best Employer", the "Renowned Company of Shenzhen", and the "2018 Securities Trader in Poverty Alleviation Innovation".

# CSR Strategy and Management

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





## CSR strategy



Dedicate to serving our clients. Strive to become the best investment bank in China and fulfill more social responsibilities through better business performance.

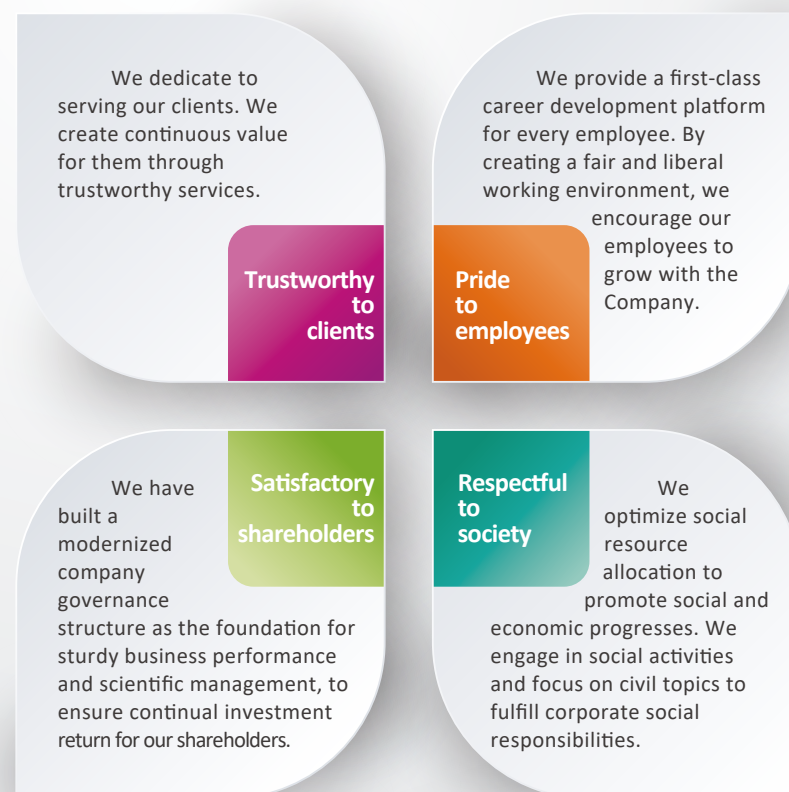
Adhering to scientific, innovative, harmonious and sustainable development, we leverage our experiences through practice and implement our strategy from a holistic perspective, to promote the value of responsibility and to reinforce our commitment. We innovate and transcend. We strengthen our capabilities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

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

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

## CSR model

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



## CSR management approach

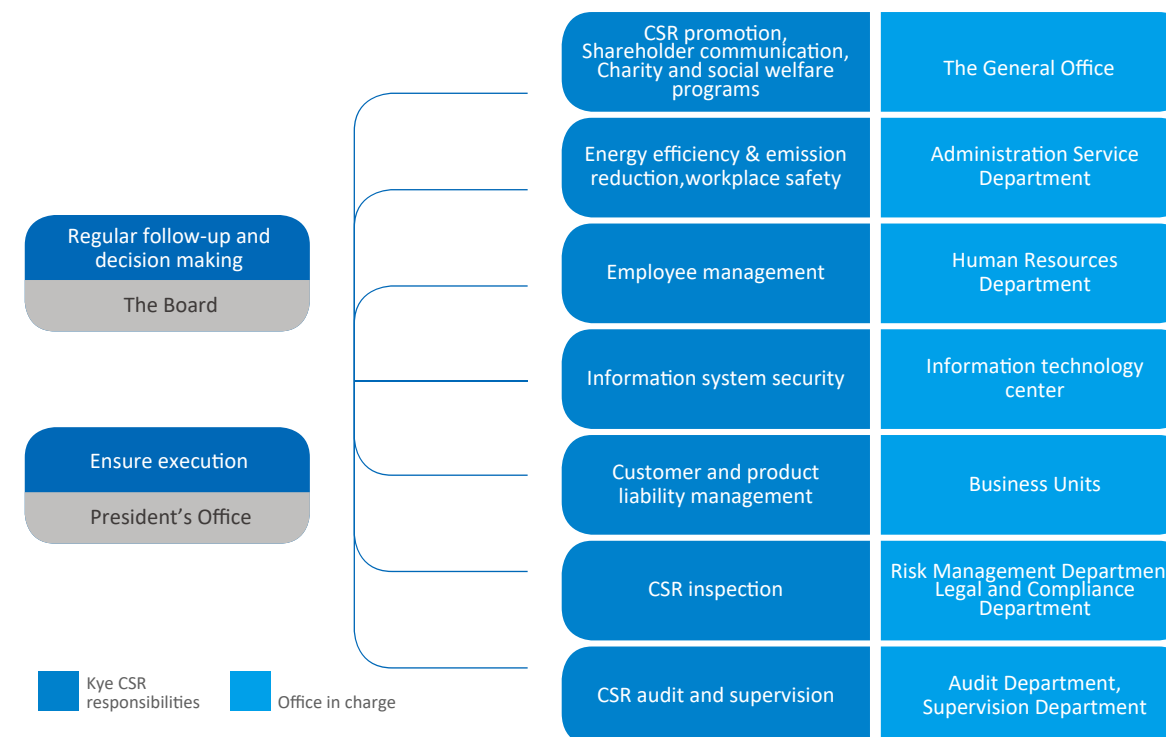
Our key CSR topics derive from the focus of our CSR strategy. Being a significant player in the capital market both as a trading intermediary and a listed company, our responsibilities to shareholders, clients, and employees are closely related to the development of the capital market. We integrate key issues in the current development of the capital market and the securities industry with our strategic priorities. We formulate our work plan based on the latest development of the capital market and industry regulations.

In CSR deployment, we follow the guideline of “aligned leadership, unit execution, strategic supervision, and systematic review”. The President’s Office provides leadership and report the progress of CSR related work to the Board of Directors on a regular basis. The General Office oversees the promotion of CSR, shareholder communication, charity, and social welfare programs. The Administration Service Department is responsible for energy efficiency and emissions reduction, and workplace safety. The Human Resources Department oversees employee management. The business units handle daily work related to clients and product liability. The IT Department is responsible for Information System Security. The Risk Management Department and the Legal and

Compliance Department run checks while the Audit Department and Supervision Department oversee CSR audits and supervision. The Strategy Department formulates CSR plans and sets relevant KPIs, while the functional departments and business units are expected to follow through. We use the Balanced Scorecard to map out our annual strategic goals and plans. We create an annual CSR work plan and objectives, which are subject to annual review. We are also introducing third party audit to ensure the quality of CSR deployment.

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

### Roles and responsibilities for CSR deployment



## Stakeholder communication

We establish effective and diverse communication channels with stakeholders to ensure communication frequency and quality, and to collect feedbacks. We learn about stakeholder demands from face-to-face communications during daily operation, and strengthen our connection through meetings and regular visits. We make specific responses to key stakeholder demands to enhance our sustainability performance.

Table of stakeholder communication

Stakeholders	Stakeholders' Concerns	Communication Channels	Our responses
Shareholders	<ul style="list-style-type: none"> <li>Corporate governance</li> <li>Risk management system</li> <li>Business ethics</li> </ul>	<ul style="list-style-type: none"> <li>Exchange official websites and other media channels</li> <li>Shareholder meetings</li> <li>Investors-related channel</li> </ul>	<ul style="list-style-type: none"> <li>Improving the governance structure</li> <li>Improving the risk management system</li> </ul>
Clients	<ul style="list-style-type: none"> <li>Client confidentiality policy</li> <li>Client service</li> </ul>	<ul style="list-style-type: none"> <li>95565 Client Hotlines</li> <li>Themed surveys</li> <li>Research on product and client needs</li> <li>Client satisfaction survey</li> <li>Official website, official microblog, ZhiyuanOnepass financial service platform (PC, mobile) and other channels</li> <li>Investment strategy meetings</li> <li>Trainings and meetings</li> <li>Email/telephone communication</li> <li>Client visits</li> </ul>	<ul style="list-style-type: none"> <li>Compliant and legal operation</li> <li>Suitability management</li> <li>Protecting client privacy</li> <li>Improving complaint handling mechanism</li> </ul>
Employees	<ul style="list-style-type: none"> <li>Protecting employees' rights and Interest</li> <li>Working environment</li> <li>Workplace diversity</li> <li>Workforce stability</li> <li>Career development</li> </ul>	<ul style="list-style-type: none"> <li>Enterprise WeChat account</li> <li>Office mobile App</li> <li>OA platform</li> <li>E-learning platform</li> <li>Diversified employee training programs</li> </ul>	<ul style="list-style-type: none"> <li>Equal and impartial career development platform</li> <li>Competitive remuneration schemes</li> <li>Work and life balance</li> <li>Healthy and safe working environment</li> <li>Career development programs</li> </ul>
Society	<ul style="list-style-type: none"> <li>Financial services</li> <li>Environment protection and performance</li> </ul>	<ul style="list-style-type: none"> <li>Meeting and training regarding government and regulator policies</li> <li>Community surveys and training</li> <li>Local government and business partnership</li> <li>Regular reporting</li> </ul>	<ul style="list-style-type: none"> <li>Innovative financial services and products</li> <li>Improving environmental management system</li> <li>Disclosing environment data</li> </ul>

## Materiality analysis

We prepared this report based on the requirements of HKEX's Environmental, Social and Governance Reporting Guide and Shanghai Stock Exchange's Compilation and Review Guidance for Listed Companies' Internal Control and Social Responsibilities Reporting, and through online questionnaires, interview, and public opinion analysis, acquiring stakeholder opinions, and categorize, rank, and select material issues that concern both company operation strategies and stakeholder interests, and finally disclosed issues with most stakeholder concerns in this report.

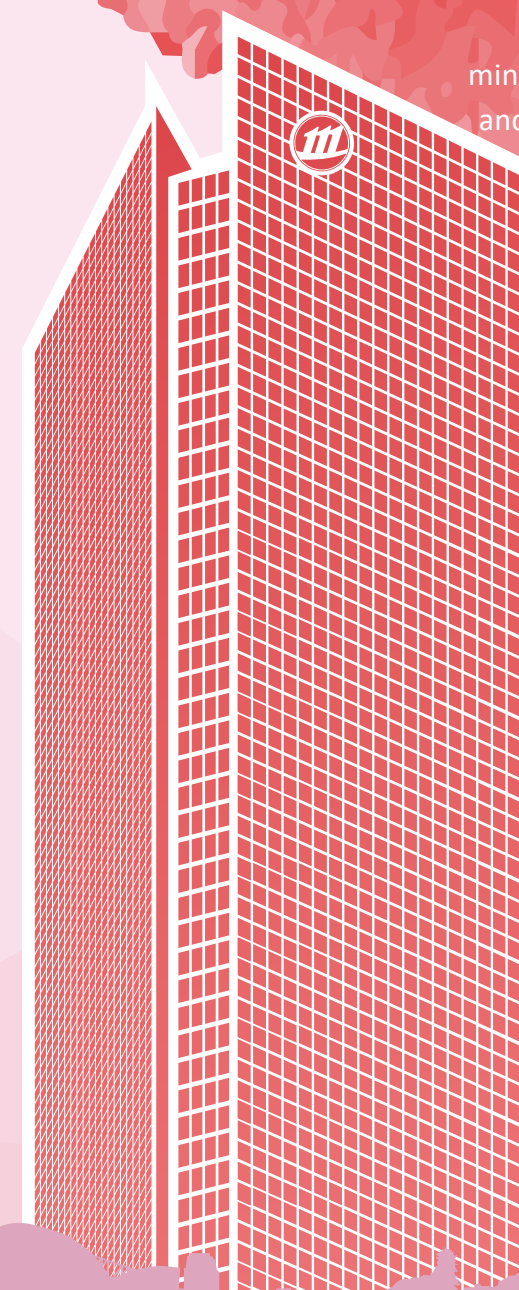
China Merchants Securities ESG Materiality Matrix

Employees' Rights and Interest



# Satisfactory to Shareholders

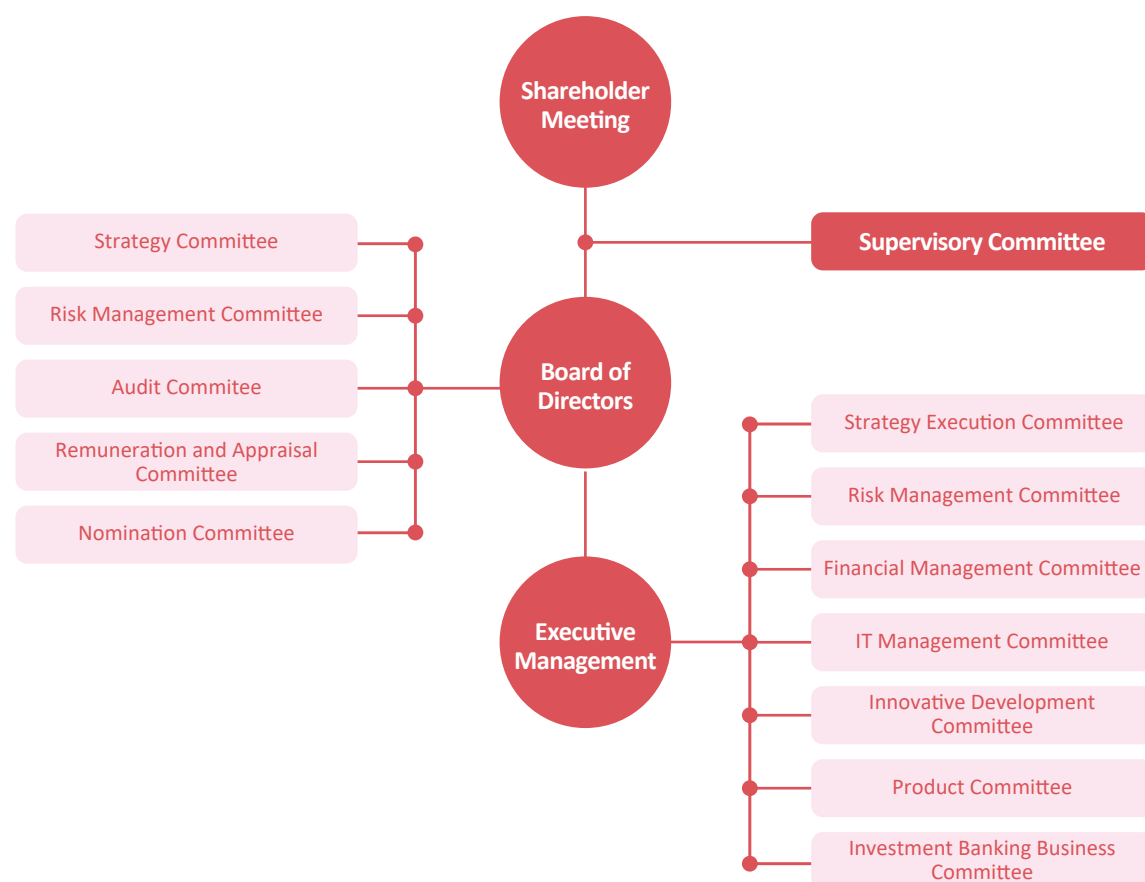
We understand that our shareholders invest in us because of their trust and support to our management and employees. It is our responsibility to realize long-term values for our shareholders, and address their demands for maintenance and appreciation of assets. We have returned our shareholders' trust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





# Corporate governance

## Corporate governance structure



As a listed company, we have referenced to Hong Kong-China cross border regulatory standards and established a governance structure with check and balance through the well-defined roles and responsibilities for the power body, the decision-making body, the supervising body and the management, to meet the governance requirements of listed companies in Shanghai and Hong Kong. In August 2018, Wang Yan, ex-Executive Director, resigned from the Company. The Board of Directors, previously of 15 members, now reduced to 14, with 2 executive directors, 7 non-executive directors, and 5 independent directors that account for over 1/3 of the Board. The members of the Board of Directors are equipped with professional knowledge, skills and

expertise. Some of the independent directors are from legal and accounting backgrounds. In 2018, the Company held nine board meetings and discussed 31 motions. All board members attended all the meetings.

Under the charge of the Board, there are five committees, responsible for risk management, strategy, audit, remuneration and appraisal, and nomination respectively. In 2018, the committees held 21 meetings, including three by the Strategy Committee, four by the Risk Management Committee, seven by the Audit Committee, five by the Remuneration and Appraisal Committee, and two by the Nomination Committee.

## Stakeholder and investor communication

On June 22nd, 2018, the Company held the annual shareholders' meeting, where the shareholders discussed 10 motions. In order to help shareholders exercise their rights to vote, all the polls in the meetings were conducted both on-site and online. The Company operates strictly as per the resolutions the shareholders' meetings came to.

After the disclosure of monthly performance data and regular reports, the Company maintains active connection with long-term shareholding investors, or joins conference calls organized by analysts to interpret performance variations and status of main business lines.

In 2018, the Company communicated with 574 domestic and foreign institutional investors in 70 separate sessions through annual performance release, interim performance release on analysts' meetings, promotions on investment strategy conferences or forums by domestic and foreign securities traders, reception of investor visits, and securities analyst seminars, and interacted with 344 individual investors through the online interactive platform of the Shanghai Stock Exchange, telephone, email, and shareholders' meetings.



# Anti-corruption and good governance

We adhere to the “Criminal Law of the People’s Republic China”, the “Law of the People’s Republic of China on Tendering and Bidding”, and the “Anti-Bribery Regulations” of Hong Kong, and released the “Compliance Manual” for employees to regulate employee conduct at all management levels and in all business practices of the Company, subsidiaries and branches. In 2018, there was no significant misconduct in the Company.

## ◆ Regulating employee conducts

Our “Compliance Manual” specifies the upper limit of the amount received and given by the Company and the staff to other companies or individuals, and details the possible bribery in

brokerage, asset management, investment banking and private funds to avoid violations.

## ◆ Guiding sunshine procurements

The Company issued the “CMS Procurement and Bidding Management Measures” based on the “Law of the People’s Republic of China on Tenders and Bids” to regulate the whole process of supplier entry, selection, cooperation, assessment, exit, and supervision, and specify requirements on legal compliance, business reputations, and product/service qualities. The procurement management departments organize annual supplier review and rating. Suppliers with misconducts or integrity-blacklisted will be rated unqualified and punished according to the “Supplier Management Provisions”. The Procurement Department also improved the supplier classification management system by compiling Common Supplier Classification as per the “Supplier Management Measures of China Merchants Group”.

The Company ensures sunshine procurement via various measures: the request department, the organizing department, and the supervising department perform their duties under the principles of compliance, fairness, collective decision-making, and conflicts of interests; key procurement posts are assigned based on roster to reduce vested interest; and include compliance statements in all procurement contracts to specify anti-corruption requirements. The Company also attaches great importance to intellectual property rights protection, and includes relevant articles and clearly specifies the intellectual property right ownerships of each concerned party in procurement contracts.

# Internal control and risk management

As a cross-border securities trader, we closely adhere to the requirements on “Internal Guidance of Securities Companies, Overall Risk Management Provisions of Securities Companies” and the guidance of Hong Kong’s “Regulations on Securities and Futures”, and draw on the COSO Enterprise Risk Management Framework, to set up a clearly defined modern risk control structure that includes the strategic deployment of the Board of Directors, supervision and inspection of the Board of Supervisors, risk management decisions by executives and the Risk Control Committee, risk control balance by risk management-related departments, and the direct risk management by other departments, branches and controlled subsidiaries.

As the primary department responsible for market, credit and operation risk management, the Risk Management Department fulfills its duties in managing market risks and credit risks, coordinating with and guiding relevant departments, securities branches and subsidiaries in terms of risk management. As the primary department responsible for liquidity risk management, the Capital Management Department fulfills its duties in liquidity risk management and drives the setup of liquidity risk management system. The Legal and Compliance Department fulfills its duties in compliance and legal risk management. It also supports the Director of Compliance to review, supervise and inspect the compliant operation and business dealing of the Company and the staff. The Audit Department fulfills its duties in conducting audits on the validity and execution of the Company’s risk management procedures, and leads the internal system evaluation at least once a year.

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

We adhered to strict risk control and compliance rules, endured the complex business environment and passed the regulatory audit, achieving the “AA” regulatory rating for 11 consecutive years, maintaining the stable and compliant market image and brand reputation, and supporting our business growth.

## ◆ Consolidated risk supervision

As one of the first securities firms to apply for the CSRC consolidated risk supervision trial, in 2018, the Company actively prepared for the consolidated risk supervision trial assessment by consolidating management of businesses and clients, and building digital model system per assessment criteria, achieving overall enhancement in risk management, winning recognition from the assessment experts, gaining momentum for the trial certification. Specifically, we

- Specified risk definition for each business and each client, ensuring alignment in risk management standards and measures for businesses, achieving consolidated management of credit risk for clients, effectively controlling risk exposures in businesses and clients.
- Drove the setup of an IT system for consolidated statement risks. Constructed risk data pool, and upgraded and consolidated CMS-Risk management platform, considerably enhancing the technology and efficiency of risk management, strengthening the system support to the Company's consolidated risk supervision.
- Revised or devised multiple policies regarding subsidiary risk management and risk management monitoring indicators, ensuring the execution of consolidated statement management at the policy level.
- Invested in risk management compliance and IT system setup, improving risk management and IT system development capacity, further increasing the efficiency of risk management support to business.

In 2018, the consolidated statements such as net capital, risk coverage ratio, leverage ratio, liquidity coverage ratio, net stable capital ratio, and other risk management indicators of the Company continued to outperform the regulatory alarm criteria.

## ◆ CMS-Risk information platform construction

In 2018, the Company endeavored to integrate risk management sub-systems and risk calculation engines into a risk data pool with automatic function to extra data from headquarters and subsidiaries on T+1 day, and build a company-level CMS-Risk information platform to provide systematic and efficient support to risk management.

Building on the Company's database, the data pool covers risk data from all business departments and subsidiaries home and abroad. With centralized management and modeling of risk data, the system is able to conduct T+1 day or even real-time data collection and calculation, supporting risk gateway unification and risk analysis.

The comprehensive risk management gateway integrates each function of the risk management system. The integrated risk indicator monitoring platform monitors multiple indicators, collects and analyzes professional risk information from multiple businesses and subsidiaries, displays the overall risk status on T+1 day from identification, monitoring to alerting, and regulates the whole risk management procedure.

## ◆ Anti-money laundering management

In 2018, the Company thoroughly implemented the anti-money laundering supervision regulations, and guaranteed the effective execution of anti-money laundering with adequate resource support. In terms of internal control and operation provisions, the Company continued to optimize the internal control system, conducted internal audits, organized promotional activities and training, and utilized the online training platform to expand the channel, enhance the effect, and broaden the coverage of anti-money laundering promotion. In terms of client identification, the Company dutifully validated client identification and enhanced procedure effectiveness through system upgrade, deepened client risk classification, strengthening client identification of "the actual controlling natural person of the client and the actual beneficiary" and "important foreign government members", and stipulated financial product distributors to include AML articles in sales contracts and strictly abided by the AML regulations. In terms of reporting large-amount and suspicious transactions, the Company gradually improved the quality of reports on suspicious transactions by detailing behavior description with visual contents. The number of suspicious transaction reports was on the drop.

## ◆ Internal audit

Based on our corporate strategy, we leverage effective and practical internal audit to discover risks and correct mistakes, ensuring compliant operation.

In 2018, we conducted 138 internal audits. The headquarter audit covered all business departments, with emphasis on AML implementations in response to the observed trend. We conducted an all-rounded review on the brokerage AML practice, and achieved good results through analysis and improvement made on client identification. We also audited the settlement and fluidity management of the Settlement Department, the Capital Management Department, and other middle office and back office. The branch audit also achieved a high coverage. We regularized education and promotion during branch audits to raise awareness and cultivate risk control culture.

We constantly improve our audit model, method, and

techniques to enhance audit capability, utilizing internal audit as the "immunization system" and "radar system". We established audit operation guidelines, deepened internal training and sharing mechanism, optimized internal structure and functions, followed regulatory dynamics, and enhanced education through case study, regulating audit procedures, and improving audit quality and efficiency. In addition, we developed indicator groups for targeted risks, enlarged the "big data" information sources, utilized the data technology features such as wide coverage and accurate matching, realizing the intelligentization, modularization, and instrumentalization of exception analysis. We followed the emerging sector risks to make prudent forecasts, closely observe the congregation and evolvement of business risks, ensure timely update in corporate policies, and optimize the IT system.

We continuously expand audit communication channels and unleash the possibility of audit to improve internal management, and share best practices with external parties. We prepared "Key News Bulletin" to keep executive abreast of key audit progress, and issued risk notice letter and attention letter to auditees, requiring immediate rectification or system improvement to prevent or resolve the concerned risks. We utilized the consulting function of internal audit to coordinate with business departments for management system improvement, and to enhance the front-line capability in risk identification and troubleshooting so that internal control can be deployed at an earlier stage. We strengthened the coordination mechanism to assist internal audit and special audit with internal control synergy. We continuously monitored the progress of correction, achieving a correction rate at 95.5% in 2018. Driven by internal audit, the Company's policies and mechanisms are improving, business procedures are optimizing, and the comprehensive management capability is enhancing. We shared leading audit methods and techniques with external parties through presentation and material sharing on prevention and inspection measures of illegal flow trading by securities branch employees to a securities regulator.

The internal audit in 2018 indicated no material defect in internal control, all business was carried out in compliance and at a steady pace. The Company has maintained the good record of zero material risk incidents, showcasing a performing internal control system.



03

## Trustworthy to Clients

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



## Strict business compliance

Aiming to maintain good reputation and ensure compliance with law, we have established organizational structure and policy system to conduct compliance management. Our compliance management organization consists of five levels: Board of Directors, Senior Executives, Compliance Directors, Legal and Compliance Departments, branches and controlled subsidiaries. The Company appoints a compliance specialist in each department and securities branch to assist the departments and sales units in compliance management.

The Company has established a policy system of compliance management based on “compliance management system” to fulfill the responsibilities through consultation and review, monitoring, checking and supervision. The Company has established a training mechanism for compliance risk control. Via various channels and forms, we carry out regular training for senior executives, newly promoted cadres and new employees to cultivate their risk awareness. The Company develops and improves relevant assessment and accountability system. We take the effectiveness of compliance management and the compliance of practicing behaviors into the performance appraisal of all staff. Performance and risk control are the two key aspects in our incentive mechanism.

### ◆ Product and business compliance management

#### • New business/product compliance argumentation

The Company specifies that the relevant department shall submit online application before any new business/product is launched. Being reviewed by the responsible department, the Risk Management Department, and the Legal and Compliance Department, the application will be submitted to the management for final review. After the review process, the Company will move to the authorization and reporting/approval process based on features of the new business/product in terms of capital level or regulatory requirement to complete the launch and ensure the overall compliance of the review.

In 2018, under the rigid regulatory environment that required full compliance, the Company strengthened compliance control with application of information technologies and deployment of compliant business operation, ensuring the overall compliance of company businesses.

The Company strengthened compliance supervision through information technologies. With focuses on key nodes of business compliant management, supervision, and risks, and building on the IT system platform, the Company established a one-stop whole-process customized IT support services system to oversee procedures before, during, and after compliance management.

The Company closely follows external regulations, penalties, and non-compliance cases, and internal compliant risk points, reminds business departments of policy changes, potential risks and management flaws, and requires them to take compliance measures to meet regulatory requirements. For investment banking business, the Company has established compliant risk disposal ledger, conveys regulatory requirements and compliance tips through timely communication, and organizes compliance inspection and subsequent operational improvement to ensure compliant business operation. For custody business, with the setup of a relatively sound management system of account managers, the Company specifies requirements on manager entry, continual rating and name list management, etc. effectively elevating the entry barrier and preventing manager risk transmission. For private equity business, the Company actively follows regulatory requirements and conduct multi-dimensional inspections to identify risks and rectify operation processes, ensuring regulated and steady business growth. For OTC business, following the business trends both internal and external, and adhering to corporate strategy, the Company coordinates internal control departments and the R&D Center to provide proactive research support to business innovations, ensuring compliance management and service supports.

#### • Chinese Wall

We regulate the business/products and staff's practices through sound management and control. A Chinese Wall mechanism is built, which integrates centralized regulation at the Company level and independent supervision at the business departments level, to monitor the flow of sensitive information and employees' securities investment. We continuously follow through the Chinese Wall policy, stress on the monitoring of

sensitive information flow and conflicts of interest, and examine the effectiveness of the Chinese Wall mechanism. In 2018, coordinating internal control departments and business departments, the Company pushed forward the construction of the management mechanisms for Chinese wall and conflict of interest, to prevent illegal flow of sensitive information and improve work quality, laying a solid foundation for business innovation and regulation.

### ◆ Securities practitioners education

The Company has always laid great emphasis on practitioner education and issued the Compliance Manual. The Company carried out focused and targeted legal and compliance training and compliance culture promotions to cultivate compliance culture and prevent wrongdoings at source. In 2018, the

Company organized 46 targeted legal and compliance training programs with over 8,000 participants, covering all business lines. The training contents closely followed regulation trends and targeted at key risk-controlling points in the Company's business.

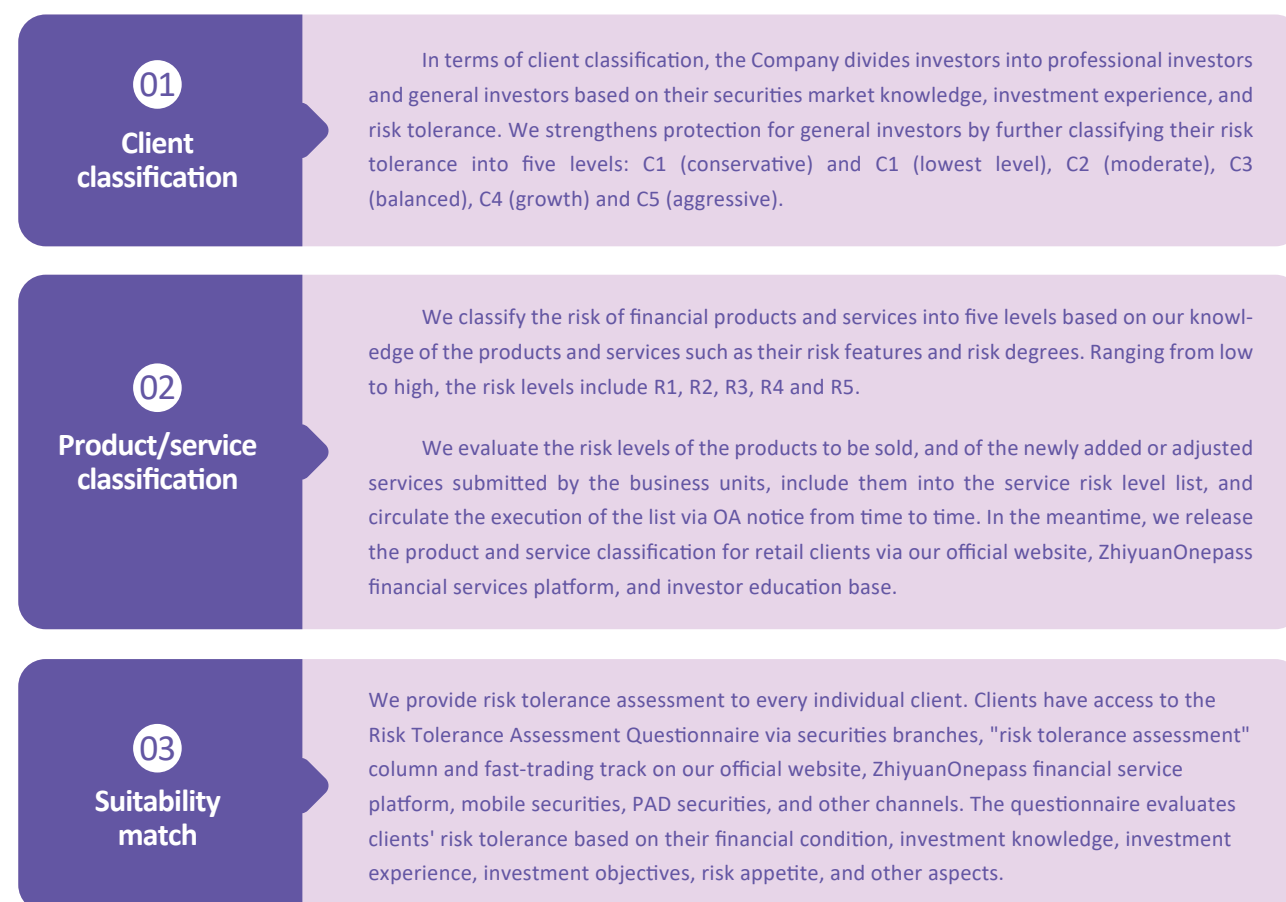


# All-round protection for client rights and interest

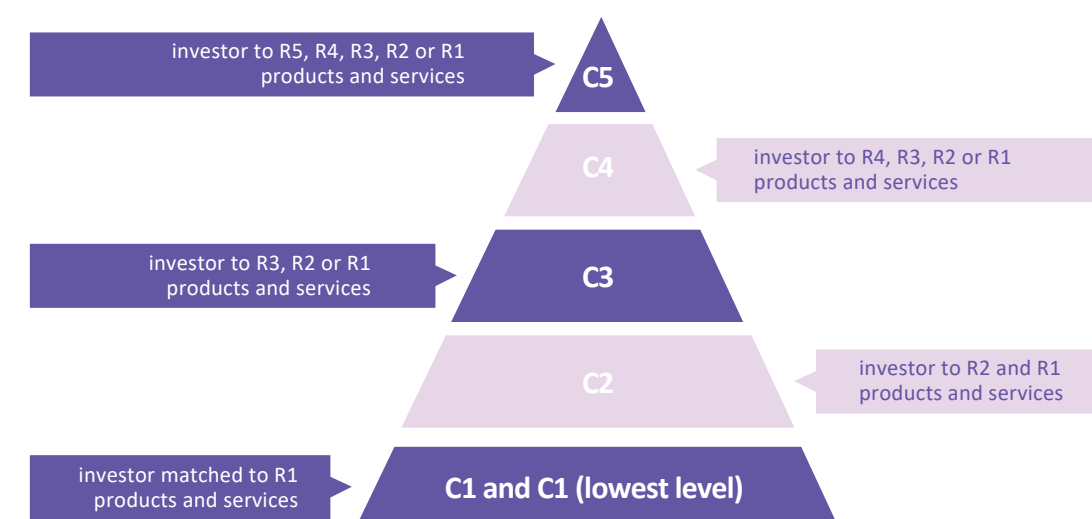
In 2018, the evolving economy and financial regulation outburst raised the bar for investors in risk control ability and product suitability management. Placing clients as first priority, CMS advanced the modernization of investment banking services through rigid suitability management, diverse investor educational activities, and all-round privacy protection and complaint handling mechanisms.

## ◆ Uphold suitability management

According to CSRC's "Measures for Securities and Futures Investor Suitability Management", and Securities Association of China (CSA)'s "Guidance for Securities and Futures Investor Suitability Management (trial)", the Company issued the "CMS Investor Suitability Management Approaches" as the foundation of investor suitability management, which specifies requirements such as comprehending investor information, investor classification, service/product classification, investor suitability management, audio/video record-making, client re-visit, training, and evaluation.



We match the risk tolerance levels of general investors with the risk levels of financial products and services as follow:



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



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## Internal control of suitability management

We follow through on investor suitability management to protect investor interests. Having understood the credit status, trading habits, securities investment experience, and risk appetite of a client, we offer suitability selling and related services based on the risk tolerance assessment result and product characteristics. The Company has established client identification methods and policies related to investor suitability, and has been following through. Meanwhile, the Company communicates with its agencies to understand their progress in and urge them to build a suitability management system. The Company has defined its client classification criteria and evaluation mechanism, and the matching criteria of client categories with product risk level.

We make it clear that we should not sell any client a product with risk level significantly over his/her tolerance level. Selling of a financial product must go through client identification verification, risk notifications, risk tolerance assessment and matching, product risk disclosure, contract signing, and related management processes. A client must sign a "voluntary participation statement" if he/she insists on buying a high-risk product beyond his/her tolerance level after having been fully informed.

In 2018, to further implement the "Measures for Securities and Futures Investor Suitability Management", the Company carried out the following measures: the headquarter departments, branches, securities branches and subsidiaries thoroughly studied the Measures and made specific implementation plans; conducted industrial research via on-site visits and telephone communications to draw on peer expertise and improve suitability management of the Company; urged relevant departments to rectify non-standard daily operations; conducted two internal inspections on suitability management in headquarter departments, branches, securities branches and subsidiaries, rectifying misconducts and held violators to accountability; conducted professional training and Internet training with case study to reinforce the requirements on investor suitability, enhancing staff's awareness in daily work.

## Investor education

To better serve, educate, and protect investors, the Company actively implements the "Instructions on Enhancing Construction of Securities and Bonds Investors Education Bases" by China Securities Regulatory Commission, and abides by the work guidelines on including investor education into national education system. Drawing on our professional resources, and holding the belief to serve the public through open education, we built our investor education hub in 2018 to help investors learn securities knowledge, laws and regulations, understand rational investment, identify illegal securities activities, and enhance ability in risk identification and awareness in legal right protection.

We organize diverse investor education activities via both physical and virtual investor education hubs to effectively protect investor rights and interest. In 2018, the investor education hub featuring "physical hub + Internet course + technology" in Nanshan District, Shenzhen was officially open to the public. As the first physical securities investor education hub in Shenzhen, it utilized modern technologies such as robotic services, transparent push-and-pull display system, multi-touch control, VR interaction, and human-machine interactive platform to forge a new "smart" investor education and interaction model integrating online and offline experiences, aiming to

become a new platform for investor education and protection, as well as a display window of the investor education services in the Special Economic Zone.

The Company ensures all-round execution of investor education and risk alert via upgrading the investor education website (<http://edu.cmschina.com/>), launching investor education official WeChat account, and integrating online and offline activities. The investor education website, with seven main functions including Niuniu College, visual-audio courses, policies and regulations, theme activities, industry news, experience simulation, and communication forum, provides diverse investor education products with rich contents, enabling investors to complete the whole learning process of "cognition – learn - simulation" via the Internet.

The Company held various investor education activities, including theme activities on rational investment, risk awareness and investment options, and the CMS 2018 investor education salon to promote financial standards and improve service quality, and organized investors to participate the investor education activities by Shenzhen Stock Exchange. In total, the Company has organized 316 investor education activities with over 26,000 participants, distributing 23,000 educational brochures, 660,000 promotional SMS messages, and 75,000 alerts via software and the Internet.

## Respect client privacy

The Company has specified in the "Compliance Manual" the non-disclosure obligation of employees to protect clients' confidential information, issued confidentiality policies and requirements such as "Confidentiality Requirements" as guidance for enhanced confidentiality, released policies or rules on confidentiality, including "IT System Data Confidentiality Management Approaches", "Insider Information Confidentiality Policy" and "Financial Service Outsourcing Confidentiality Management Approaches", and issued the "IT Assets Management Measures", requiring the verification, confirmation and data destruction by computer technicians of the IT Center or the securities branches, and the approval by the department in charge, the IT Center, and the Financial Department before scratching or transferring electronic hardware devices such as computer server, network device, and printing device in offices or business premises, to fully protect client privacy, the Company's financial information, key strategic adjustment, and patents, and applied advanced IT technology to prevent information leakage during staff operation and client online transaction.

## Client information safety

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

and segregate clients that hold sensitive connections to the tellers. Tellers can only conduct search and operation on authorized clients to prevent cross-access to client data, ensuring the security of clients' information.

**We prevent clients' passwords from being illegally tested**

**Our trade system defines permissions for different teller roles to minimize tellers' access**



**We record teller operation history**

For critical business, we conduct and record double confirmation by different tellers.

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

## Online trading security

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

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

**Tamper proof**

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

**Strong verification**

**Provide pre-set information verification services**

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

**Cracking proof**

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

**Security components**

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

**Enhanced encryption**

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

**High protection**

Risks of tampering and Trojan attacks may occur when client software is being stored on or downloaded from a server. Thus, we have added the md5 code detection mechanism to prevent risks. After downloading software, clients can distinguish whether the trade software is being tampered through md5 code comparison. Meanwhile, the server monitoring program automatically checks md5 code and alerts when a mismatch is detected.

## ◆ Improve complaint handling mechanism

The Company's complaint-handling mechanism consists of client complaint-handling structure, handling system, handling procedures and a digital handling platform.

The Company has established a sound structure to handle client complaints, with well-defined roles and responsibilities: at the headquarter level, the Company's executive management takes ultimate responsibilities in complaint handling through management and decision-making in accordance with relevant laws, regulations and norms. The Legal and Compliance Department provides guidance and coordination to complaint-handling. The Retail Client Department (Client Center) is responsible for cross-department coordination and feedback on complaint-handling within the scope of their accepted complaints. At the branch level, each branch and regional head must engage in the handling, follow-up and accountability of the complaints within the region's securities branches. The securities branches are responsible for accepting, verifying, handling, feedback, correcting, accountability, and reporting of client complaints accepted by the branch or transferred from other units. Each level within the Company fulfills their duties and coordinate with each other, forming a multi-layered guarantee to support efficient complain-handling.

In terms of coordination among headquarter, branches and securities branches, The Retail Client Department (Client Center) acts as the complaint acceptance window with designated personnel, and transfers complaints to relevant units upon acceptance. The head of a securities branch is the primary person responsible to provide guidance in handling client complaints and disputes at the branch, and communicate with the local regulators. The compliance specialist at the securities branch assists the head to execute complaint management duties, shoulders the responsibilities in accepting and handling client complaints within the branch's jurisdiction via on-site communication, telephone calls and letters, reports client complaints to, and receives instructions and inspection from the relevant management departments at the headquarter. Each branch and regional head must engage in the handling, follow-up and accountability of the complaints within the region's securities branches. The branch

should provide timely guidance and proactive coordination for complaints cannot be solved at the securities branch level. For complaints still cannot be solved, the branch should report to headquarter in time for instructions. For material complaints, headquarter, branch and securities branch should work together to find out a sound and timely solution.

The Company issued "Client Complaint-handling Management Approaches" and "Retail Client Complaint-handling Measures", to require that a complaint should be verified in time, root cause should be detected, person responsible should be traced, and the complaint should be properly handled. Upon acceptance, the complaint should be transferred to relevant unit to follow up, progress should be updated from time to time, handling result should be fed back in time, and internal correction and accountability should be conducted. After handling a complaint, the defects in service and marketing should be detected through troubleshooting. For typical client complaints, we irregularly summarize the cases, conduct legal and regulatory analysis, reflect on the learning, educate the investors of safe investment and risk management with vivid and complete cases, and provide handling suggestions to all departments to prevent similar complaints.

The Company has set up a digital complaint-handling platform—"client complaint-handling procedures". Following the regulatory requirements on primary responsibility in complaint-handling, and aiming to strengthen complaint management, the Company has added in the procedures review and approval functions for primary department responsible, to leverage the relevant department's guidance on complaint-handling within its jurisdiction, ensuring sound and timely solutions.

In addition, we share client complaint handling cases, deep dive in and summarize the trend, current situation and existing problems in client complaint handling, and propose improvement measures through monthly complaint report and irregular training. We employ third parties for complaints needing further mediation to improve the client complete resolution rate.

In 2018, the Company further improved the client complaint-handling mechanism and strengthened management to implement regulatory requirements on complaint-handling liabilities, enhance complaint-handling management, resolve conflicts and disputes, and effectively protect investor rights and interest. The major measures taken are as below:

### Expand complaint acceptance channels

We utilize mobile internet to publicize complaint channels, complaint forms, and handling procedures on our official WeChat account and APP in addition to the traditional channels of company website, 95565 Hot Line, and on-site acceptance, and expand complaint acceptance channel with the launch of online client services. We have achieved a satisfactory complaint response rate by integrating online and offline complaint acceptance channels such as telephone, on-site acceptance, and online client services.

### Cancel "pre-acceptance" and shorten handling period

The Retail Brokerage Headquarter canceled the "email pre- acceptance" process previously set up for micro-complaints and unreasonable complaints. Now, as long as a client raises a clear complaint, the accepting department must accept the case in 2 working days and transfer the case to responsible unit for handling, improving the complaint acceptance rate.

### Specify handling deadlines to improve client satisfaction

In 2018, the Retail Brokerage Headquarter revised the "Rules for Implementation of Client Complaint Handling of the Retail Brokerage Business", specifying that the complaint handling unit should conclude the case within ten working days, and inform the investor of the handling result within three working days. Unsatisfied investors should be referred to other resorts such as mediation, arbitration, and lawsuit, to improve client complaint-handling efficiency.

### Optimize complaint-handling procedure and strengthen complaint-handling control

The Retail Brokerage Headquarter optimized the complaint-handling process and strengthened management by establishing and improving the complaint-handling management mechanisms of branches and main business departments, and standardizing complaint conclusion report contents.

In 2018, the number of complaints maintained the same level as that of 2017, with 100% response rate and 91.2% resolution rate, improving by 10% compared to previous year. For unsolved complaints, we actively communicate with our clients to work towards resolutions.



# Pride to Employees

In order to attract and retain our talents, we fully respect each employee's personality, contributions, and growth needs. Also, we have been striving to build a fair career development platform and efficient training system for our people, so they can share their growth with our business.

We communicate with employees via regular meetings to understand their needs and enhance their satisfaction toward the Company. In September 2018, we organized "Dialogue with President Huo Da" during the 9th Corporate Culture Month, with President Huo Da and former CEO, Vice President and incumbent President XiongJiantao as special guests to communicate with company staff and comment on 18 typical questions, which were further addressed through below measures.

04



## Equal employment

We create an equal opportunity and work environment for all staff and guarantee their legitimate rights and interests. Moreover, we strive to build a diversified talent team and respect the uniqueness of every employee.

The Company strictly abides by “Labor Law of the People’s Republic of China”, “Labor Contract Law of the People’s Republic of China”, “Trade Union Law of the People’s Republic of China”, the “Employment Ordinance” of the Government of the Hong Kong Special Administrative Region, and other national laws and policies, and signs labor contracts with all employees on the basis of equality, free will and mutual agreement so as to establish lawful hiring relationship. We prevent the employment of child labor through effective recruitment process, and prohibit compulsory labor by the Regulation on Attendance Management. We do not allow discrimination by gender, geography, nationality, religion and other factors in recruitment, remuneration, training, promotion and other matters. All employees are guaranteed to equal, just and open job opportunities.

## Care for employees

We strive to maintain a stable team by offering competitive remuneration schemes, creating healthy and safe working environment, and balancing employees’ work and life through formulating and continuously improving a series of policies and systems.

### ◆ Improve the benefit system

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

A benefit system that matches our business performance is in place to guarantee the competitiveness of our benefit packages and to promote business development. We optimize the remuneration structure and strengthen the bridge between bonus and performance with stronger incentives. We have designed a differentiated incentive system to meet the requirements of various business units and enhance incentives to core talents and key talents. We take employees' interests into consideration when designing payment schemes to best motivate them. We continue to explore an effective long-term incentive mechanism--an employee stock ownership plan that suits the Company, motivates employees and ensures steady value growth of national assets, to promote mutual growth of employees and the Company.

In terms of benefits, we have established a multilevel endowment insurance system. Social insurance, including basic endowment insurance, basic medical insurance, local medical insurance, work injury insurance, and unemployment insurance is purchased for all employees. Supplementary insurance, including group accident insurance, critical illness insurance and generic health insurance, is also purchased. We introduced the benefit scheme through promotional events, live streams, benefit brochures, and special service hotlines for employees to learn about and enjoy their rights. We set up corporate pension plan that prepares pensions for those with certain length of service to enhance employees' loyalty and to share our business success with them. The social and commercial insurance as well as the corporate pension constitute a comprehensive benefit system, supporting the employees' daily lives during their service and after retirement.

### ◆ Create healthy and safe working environment

We strive to build a comfortable and harmonious working environment for our staff to ensure their health and safety so they can work happily.

We comply with labor laws and regulations, follow the “Attendance Management Requirements”, and guarantee employees' rights to rest and paid leave to maintain their positive work attitudes and work-life balance. We reinforce labor protection to prevent occupational diseases and relevant hazards. We organize an annual health check which covers all staff. Various recreational events and health talks are held for staff.

In order to ensure diet sanitation and food safety, the

Company requires canteen operator to procure food and ingredients from verified channels and display food samples. The Company holds regular safety meetings to inspect and eliminate safety risks in working environment, and organizes regular fire drills to strengthen fire safety management.

The new CMS headquarter building was put into use in 2018. To improve air quality and ensure employee health, the Company adopted the following measures: employed environmentally friendly fit-out materials; hired professional company for formaldehyde elimination and qualified third-party for inspection; applied air cleaners in the office area.

### ◆ Work-life balance

Our Labor Union was established on our founding, representing the benefits of all employees. Meanwhile, union groups were set up at each department and branch. The participation rate of our employees has reached 100%. It works as a Staff Home to address staff's needs and difficulties. Greetings are sent to staff at festivals such as the Lantern Festival, Dragon Boat Festival and Mid-Autumn Festival, as well as birthdays. Networking events are held for young staff. Representatives are sent to visit sick staff or pregnant colleagues.

Rather than giving sub-groups an activity fund at their own disposal, the Labor Union has re-organized 11 interest groups with 4518 sign-ups, including balls, outdoor sports, water sports, body shaping, Chinese cultural and health, calligraphy and painting, reading, photography, sign language, cooking, and chess & cards, to plan out activities. With diverse forms and rich contents, these activities have shaped a positive and healthy working environment, enriched employee cultural life, enhanced team cohesiveness, and promoted the corporate culture construction of the Company.



# Platform for Career Development

In order to optimize our team structure, reinforce the management of key talents and maintain our competitiveness, we set up the “Policy on Position Ranking” that defines the career path for staff in different position units. In the meantime, the Company has established a systematic training mechanism that consists of strategy, policies, resources, operation and support to guarantee effective training implementation, so that they can be promoted based on their professional capabilities and performance.

The “Policy on Position Ranking” regulates the management of position rankings, drives the construction of talent teams, and supports our business development. The Company has defined six position rankings - MD, ED, D, VP, AS and AN, and specified requirements and appraisal criteria including education background, qualifications, work experience, performance results, training hours, professional capabilities and management capabilities for each ranking based on the Company’s requirements for the professional levels of employees at various positions. We devise training plans and implement training programs based on the curriculum for different rankings and positions. We continuously improve the curriculum, upgrade the internal trainer team, build online training platform, introduce various training and other talent development methods, and develop training and personal development guidance in accordance with each position and ranking.

In 2018, we continued to optimize the qualification system. The contribution assessment results and MD position rankings system were linked together to be applied in position ranking adjustment. The correlation of position rankings and employees’ capabilities were clearly defined through benchmarking of each position ranking and relevant qualification requirements, so that each employee had a clear career development path, encouraging employees to develop themselves and move to higher rankings.

Taking the market conditions and company strategy into consideration, we focused on quality and structural adjustment in recruitment and reallocation, and ensured staffing for risk control and compliance functions in accordance to regulatory requirements. With smooth cross-level, cross-department, and cross-post reallocation channels, we support employee career development in depth and breadth. In 2018, 266 employees were reallocated, revitalizing the talent resource of the Company.

## ◆ Talent development mechanism

Based on its strategic planning and talent management mechanism, the Company has established a sound training system that is adjustable to industry development, market change, and work focuses, to support and ensure the effective implementation of training programs. Building on the position

qualification model, the training system continuously improves its policies and procedures, optimizing operational information system, focuses on professional capabilities, management skills and general abilities, and implements training by level, by category and in order.

## Training system structure



The Training Center creates and implements training plans according to requirements from different levels and positions. The Training Center continuously optimizes training courses, introduces different training methods, designs training and development guidelines for different positions and levels, cultivating talents with higher comprehensive abilities to meet the demand of the securities market and the Company’s business development, and to lead employees to excel on their career path.



◆ Diverse professional trainer resources

The Training Center constantly develops and builds a team of quality trainer that consists of industry scholars, experts, and regulators, and has accumulated a pool of external trainers and training suppliers. Through continual explore and peer exchanges, the Training Center has found well-recognized training organizations and professional trainers, and improved the quality of training courses, maintaining the professionalism of trainers, the time-effectiveness of training topics, and the practicability of training courses, optimizing the training system construction, and serving the strategies and business development of the Company.

The Company strives to build a team of internal trainers with independent capabilities in training development and delivery, and encourages employees at all levels to join. In 2018, the Training Center held 2 rounds of internal trainer-training and recruitment, and developed 65 junior trainers, totaling the number of internal trainers at 486 by the end of 2018. The Company encourages internal trainers to participate in training programs and deliver training courses. In 2018, 29 courses were delivered by internal trainers, accounting for 42% of the training programs of the year.



◆ Abundant online courses easy to access

In 2018, the Training Center conducted in-depth research on employee training needs, and developed 112 new online courses with total training duration of 96 hours. Throughout the year, the Training Center organized 22 online exams with over 7,800 participants, effectively serving employees' learning needs in key business and new business. In 2018, online training recorded over 310,000 hours, accounting for 50% of the total training hours of the Company.

There are 551 online courses with total training duration of 597 hours available to employees.

A table of online courses (by the end of 2018)

Course Type	Quantity (session)	Standard hour(s)
Professional courses	288	298
Management courses	10	8
General courses	61	60
Other courses	168	231
Exams	24	/
合计 Total	551	597

Note:

“Other courses” include continuous occupational education courses, Party and politic courses, marketing courses, etc.



## Respectful to Society

We believe that enterprises should not only shoulder economic or legal responsibility, which increase transparent profits in accordance with provisions of laws and administrative regulations, but also commit to their social responsibilities which include ethics and charity. For example, performing events such as poverty relief, educational aid, community building, resources conservation, environmental protection or charity activities can shape our business value, and eventually benefit the society's wealth and health as a whole.

# Targeted poverty alleviation

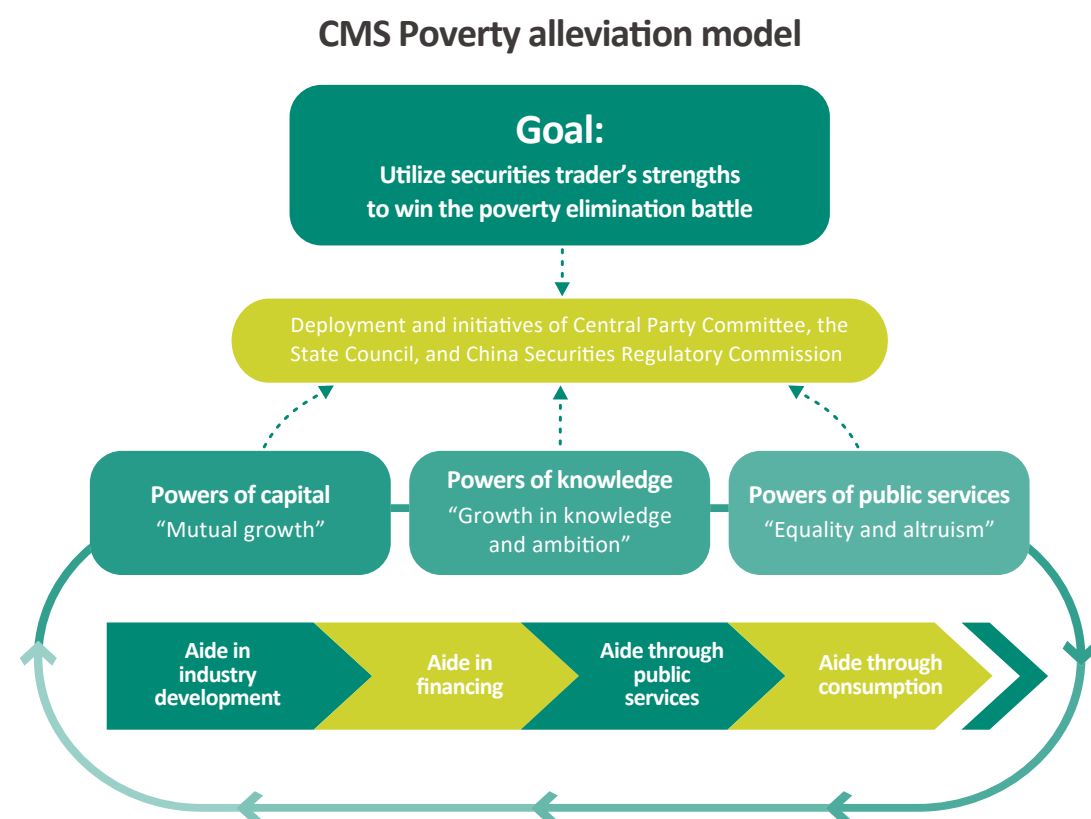
In response to the strategic deployment of the “13th Five-Year Plan – Poverty Elimination Plan” by the State Council, and the initiative of “Opinions on Poverty Elimination with Capital Market Support” by China Securities Regulatory Commission, CMS has established a poverty alleviation leader group in the charge of the Party committee Secretary and overseen by the President, issued the “Assessment Plan on CMS Performance in Poverty Alleviation and Other Social Responsibilities”, and included the performance assessment in department annual appraisals. In terms of execution, the Company designs targeted projects to address each specific need in the poverty-stricken counties and coordinates work progress through regular working meetings, and organizes 249 securities branches in 29 provinces and cities survey over 500 poverty-stricken counties nationwide.

## ◆ CMS poverty alleviation model

With on-going searching and reflection on targeted poverty alleviation practices, CMS identified four key elements that include developing industries, supporting companies, ensuring tax income, increasing employment to focus our resources on in promoting the economic growth of poverty-stricken areas. Building on the four key elements, CMS unleashes the powers of capital, knowledge and public services to provide targeted aid in industry development and

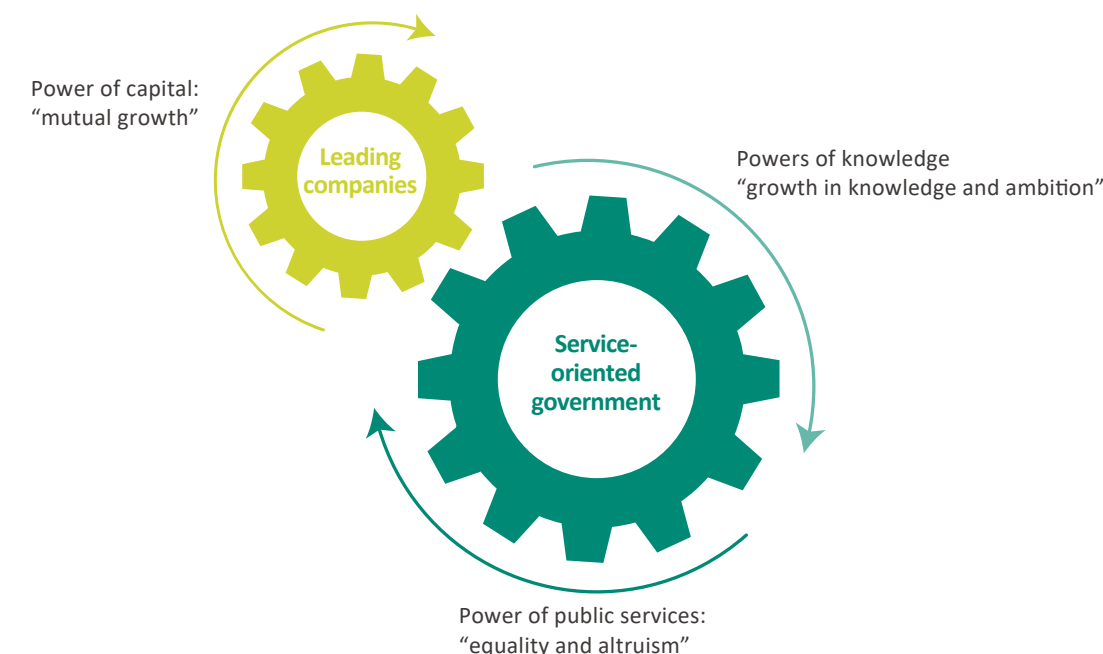
financing, and through public services and consumption.

Our efforts in poverty alleviation have gained wide social recognition and acknowledgement. In 2018, CMS won the Sina “Securities Award in Poverty Alleviation Innovation” and the Securities Times “Outstanding Case in Poverty Alleviation in Education”, etc.



## ◆ CMS poverty alleviation methods

We hold that when driving regional economic growth, securities companies should focus on the key nodes in the development chain by unleashing the driving forces of local leading companies and service-oriented governments, with supports from capital, knowledge, and public services.



### Power of capital: “mutual growth”

To CMS, serving companies in poverty-stricken counties is not a business but an effective mean for targeted poverty alleviation and a key method for “blood generation”. As a securities trader, CMS utilizes capital market instruments and methods to support these companies in financing and expanding in a sustainable manner, including facilitating IPOs with our investment banking capabilities and setting up securities branches with professional services. In addition, CMS fully leverages the capital power to provide more aid in financing and industry development.

### Powers of knowledge: “growth in knowledge and ambition”

By the “intelligence and confidence” method, CMS provides local governments of poverty-stricken areas with expertise, techniques, capital market knowledge, and management methods, and raises their vision and awareness. During 2017-2018, CMS invested RMB 1.8 million yuan in “Fuzhi School” to deliver capital market training to over 180 local officers and company representatives, empowering them the knowledge of wealth creation. The Company also conducted theoretical research in poverty alleviation to facilitate the financial development of poverty-stricken counties, and released a report on three-year financial development strategy as an outline for the poverty elimination battle and rural vitalization in the poverty-stricken counties.

### Power of public services: “equality and altruism”

For urgent challenges neither local governments nor commercial organizations are able to address, CMS resolves the dilemma through public services. In 2015, CMS established “Shenzhen Merchants Securities Foundation” as the main platform for targeted poverty alleviation with public services. From 2016 to 2018, the Foundation received RMB 22.524226 million yuan from employees and the Company, and contributed RMB 12.355910 million yuan towards 13 public programs covering poverty alleviation, education and medical cares.



## ◆ CMS 2018 poverty alleviation overview

CMS assists poverty-stricken counties to develop self-sufficient capabilities with three methods. In 2018, we continued to execute the CMS methods through supporting industry development and financing, and providing public services and consumption need.

### • Aide in industry development

We provide financing services to poverty-stricken areas through underwriting and sponsoring SEOs, SCPs and IPOs, participating or initiating industrial foundations, supporting in the transaction of exchangeable bonds, and underwriting green bonds.

(1) In April 2018, utilizing our information resources and intermediary advantages, CMS facilitated a strategic investment of RMB 700 million yuan from SDIC to Muyuan, a listed company from Neixiang County, Henan Province.

(2) CMS has assisted the IPOs of Chinalin Securities from Tibet, Yang's Fruit from Xunwu County, Jiangxi Province, and Jinguan Electric from Neixiang County, Henan Province. Chinalin Securities completed its IPO process and raised RMB 977 million yuan. Yang's Fruit and Jinguan Electric have signed the service contract with CMS and their IPOs are in progress.

(3) In August and October 2018, the Investment Banking Headquarter of the Company issued the 4th and 5th phases of SCPs in 2018 for Muyuan Food Co., Ltd, raising RMB 1.1 billion yuan.

(4) In January 2018, with the help from the OTC Headquarter of the Company, Bazhong Shengquan Water Supply Co., Ltd was successfully listed on NEEQ.

(5) Throughout 2018, the Company sponsored the listing of 2 green bonds (including ABS) in Shanghai and Shenzhen Stock Exchanges, raising RMB 2.856 billion yuan in total, tendered 136 local treasury bonds to be issued in Shanghai and Shenzhen Stock Exchanges, and won 35 of which, raising RMB 3.886 billion yuan.

### • Aide in financing

(1) Setting up securities branches. On July 3<sup>rd</sup> 2018, CMS established the Neixiang Muyuan Branch in Neixiang County, Henan Province, providing local companies with all-rounded financing services.

(2) Compile strategic planning reports on poverty alleviation and financial development for poverty-stricken counties. A group of financial experts from the Chinese Academy of Social Sciences and the Company collected valuable implementation feedback from on-site surveys and workshops conducted in Lushi County and Lankao County of Henan Province, Jinggangshan City of Jiangxi Province, and Huishui County and Weining County of Guizhou Province during visits from July to August 2018, and released a report on three-year financial development strategy for Neixiang County based on the inherent drivers of finance to the social economic growth, as the outline for poverty elimination battle and rural vitalization.

### • Aide through public services

(1) Theme training for officers in poverty-stricken counties. The Company donated RMB 600,000 yuan to organize two training classes on "understanding the capital market, developing local economy" for Neixiang government officers and company representatives, benefiting 60 participants. The first class was held in October 2018 in Shenzhen Capital Market College, and the second one is scheduled in the first half of 2019.

(2) The "University Dream" Plan. The Company donated RMB 600,000 yuan to offer education subsidy at RMB 5,000 yuan each for 120 students in the poverty-stricken areas of Neixiang County and Shitai County, covering their educational expenditure during their college life. In the meantime, the Company also initiated employee donations. By the end of 2018, we collected RMB 90,700 yuan, sponsoring 18 university freshmen in the poverty-stricken area of Shitai County. The initiative will be continued as a long-term program.

(3) Aiding impoverished high school students. The Company donated RMB 78,000 yuan to sponsor 30 students from No.1 High School of Xinghe County, Inner Mongolia, a national-level poverty-stricken county, assisting them complete education. This project has continued for three consecutive years, with an accumulated donation of RMB 234,000 yuan.

(4) Enhancing the comprehensive competitiveness for impoverished children. The Company donated RMB 300,000 yuan to the one-week training program during August 5th-11th 2018 for 50 kindergarten principals and cadre teachers in Maigaiti County, Xinjiang Province to improve their teaching quality and the Putonghua competency of minority children.

(5) Sponsoring "One Step, One Change" Charity Hiking at Xixian County, Shanxi. The Company donated RMB 200,000 yuan to sponsor the charity hiking program organized by Securities Association of China and China Foundation for Poverty Alleviation on September 27th, 2018. We actively engaged our employees in the competition, and raised RMB 20,000 yuan to support impoverished people in Xixian County.

(6) "One thousand schools, then thousand jobs" initiative. On August 8th, 2018, the Company donated RMB 5

million yuan to co-launch the "China Merchants Securities College Students Employment Special Fund" and the "One thousand schools, then thousand jobs" initiative with China Youth Venture Foundation, providing over 1,000 internship opportunities in finance sector for students, especially those from zero-employment families, families subject to special cares, rural low-income families, and rural and urban families on basic living allowances. The Initiative, since its kick-off in August 2016, has provided 3,469 students with CMS internships, 411 of whom were from impoverished families. The Initiative spans three years, and 2018 was the second year.

(7) Collecting poverty alleviation proposals from branches. In May 2018, the Company launched a targeted poverty alleviation proposal solicitation among the branches to survey on local project needs, so that resources could be directed to more regions to support the planting and marketing of local agricultural products, ensuring an income source for local impoverished people. The program is on going.

### • Aide through consumption

(1) The Company paired with Neixiang County, Henan Province to support its tomato business through introducing the e-commerce platform benlai.com. On July 17th, CMS, Neixiang Zhongyi High-tech Industrial Park, and benlai.com signed a tripartite agreement of cooperation, drawing on the resources of the e-commerce platform to strengthen the production, quality control, branding, and logistics of Neixiang tomatoes to build the brands of Pink Baby Small Tomato and Prince David Tomato.

(2) The Company Union purchases local specialties of Shitai County and Neixiang County to support their agricultural product sales.





# Environmental protection

Following the “Law of the People’s Republic of China on Energy Conservation” and the “Law of People’s Republic of China on Environmental Protection”, we actively develop green finance products, advocate sustainable development, and actively promote green commuting and green office.

• Green finance

In 2017, China Securities Regulatory Commission, National Association of Financial Market Institutional Investors, and the People’s Bank of China issued instructions and business guidelines on green bond as supporting regulations. In 2018, NPC members proposed to strengthen pollution prevention and control and build a beautiful China through the construction of a green finance system. We actively responded to the call for environmental protection, and underwrote nearly RMB 1.9 billionyuan of green bonds in 2018.

Clients	Form of services	Underwriting scale
		(in RMB 100,000,000 yuan)
China Longyuan Power Group Co., Ltd	Underwriting corporate bonds	9
Agricultural Development Bank of China	Underwriting bank bonds	1.7
Beijing Enterprises Clean Energy Group Co., Ltd	Underwriting and sponsoring corporate bonds	2.50
China Kangfu International Leasing Co., Ltd	Underwriting and sponsoring asset securitization products	5.57

• Green commuting

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

• Green office

Our business and daily operation are going digital, so the scrapping of electronic equipment and electricity power consumption are our primary concerns in minimizing environment impacts. To this end, we have taken a variety of measures to train the employees' consciousness of recycling and saving energy, reducing emissions and protecting the environment.

The Data Center computer room is the largest electricity consumer in the Company. To reduce energy consumption and waste, the Company established“Headquarter Data Center Computer Room Operation Environment Management Guidance” to regulate the operation of Data Center equipment, and adopts the following measures: 1) Improve operation efficiency with concentrated cooling system and high-frequency UPS system. 2) Reduce energy consumption with intelligent fans and lighting system, insulated cold channel, and multi-level heat preservation for the building.

The Company established “China Merchants Securities Management Measures of Fixed Assets and Low Priced and Easily Worn Articles”, encouraging transfer with compensation and donation of large fixed assets such as office desks and chairs to maximize their values. We promote the use of LED lamps to reduce lamp consumption, and ensure all lights are turned off when leaving. All office equipment is turned off when not being used. In summer, we maintain the air conditioner temperature at 26 degrees and above. In our offices and securities branches, we put up signage at the faucets and water machines to remind staff to save water. We use water saving faucets and toilets in rest-rooms. Every day after work, security guards check the workplace to make sure all electrical appliances are off in accordance with the relevant requirements in the “Patrol Guidelines to Security Guard”. We recommend customers to use electronic trading platform, including telephone, mobile phone and PAD. In addition, we advocate “paperless office” in the Company, and gradually convert to rented printers with the regular professional maintenance to extend the service life of printing equipment and accessories, and reduce environmental impacts caused by the frequent replacement of toner cartridges and ink cartridges.

## 2018 social recognition

Awarder	Awardee	Award
Shanghai Stock Exchange	China Merchants Securities	2017 Excellent Corporate Bond Underwriter
Shenzhen Stock Exchange	China Merchants Securities	2017 Excellent Corporate Bond Underwriter 2017 Excellent Organization in Fixed Income Investment Innovation
2018 China Asset Securitization Industry Annual Conference ABS Complex Development Index Ranking	China Merchants Securities	Best Plan Manager
China Development Bank	China Merchants Securities	2018 Excellent Financial Bond Underwriter
New Fortune Magazine 11 <sup>th</sup> “New Fortune China Best Investment Bank”	China Merchants Securities	No.3 in “Best Local Investment Bank” No.2 in “Best Securities Underwriting Investment Bank” No.2 in “Best NEEQ Investment Bank” No.4 in “Most Innovative Investment Bank”
ASIA MONEY 2018 China ABS Leadership Award	China Merchants Securities	Best ABS Leading Underwriter of the Year Best RMBS Leading Underwriter of the Year Best ABS/MBS Project of the Year
China Funds Industry Yinghua Award Public Fund 20 <sup>th</sup> Anniversary	China Merchants Securities	Best Fund Custody Securities Trader
China Funds Industry Yinghua Award	China Merchants Securities	Best Securities Trader in Private Equity Custody Best Securities Trader in Private Equity Integrated Services
Guangdong Research Committee of Corporate Culture Guangdong Research Center of Ideological Development	China Merchants Securities	2018 Guangdong Leading Company in Corporate Culture Development
Federation of Shenzhen Industries	China Merchants Securities	Renowned Brand of Shenzhen
Sina.com	China Merchants Securities	2018 Securities Industry Innovation Award in Poverty Alleviation
Securities Times	China Merchants Securities	2018 Excellent Case Award of Poverty Alleviation in Education
Shanghai Stock Exchange	Ye Jing, Director of Investment Bank, China Merchants Securities	2017 Outstanding Individual of “Excellent Corporate Bond Underwriter”

Awarder	Awardee	Award
Shenzhen Stock Exchange	Lin Yujia, Investment Bank Headquarter, China Merchants Securities, Yang Dong, Fixed Income Headquarter, China Merchants Securities, Peng Dai, Investment Bank Headquarter, China Merchants Securities, Dong Hang, Fixed Income Headquarter, China Merchants Securities	2017 Outstanding Individual of “Excellent Corporate Bond Underwriter”  2017 Outstanding Individual of “Excellent Organization in Fixed Income Investment Innovation”
New Fortune Magazine 11 <sup>th</sup> “New Fortune China Best Investment Bank”	Xie Jijun, General Manager of Investment Bank Headquarter, China Merchants Securities Jiang Ronghua, General Manager of Investment Bank Headquarter Agricultural Product & Food Department, China Merchants Securities Zhou Jinfeng, Sun Jian	2017 Best Investment Banker Elite in Investment Bank Best Underwriting Representative
CASIC Cup	Financial asset custody and administration outsourcing project	Golden Award of 3rd National Enterprises Youth Innovation
Shenzhen People’s Government Financial Development Service Office	China Merchants Securities integrated custody financial service platform	2 <sup>nd</sup> Prize of 2017 Shenzhen Financial Innovation Award
Science & Technology Awards Committee 6 <sup>th</sup> Science & Technology Awards in Securities and Bonds	Innovation and application of self-developed technological framework Internet abnormal transaction management system	3 <sup>rd</sup> Prize Excellence Prize
China Computer Users Association Cloud Application Branch 2018 2 <sup>nd</sup> Yunying Award in IT Application	China Merchants Securities intelligent service platform	“Highest Achievement”
Securities Times 2018 Excellent Securities Company APP	“ZhiyuanOnepass APP”	2018 Top Ten Securities Trader APP of Investor Recognition 2018 Securities Trader APP Award of Integrated Service Satisfaction 2018 Securities Trader APP Award of Poster Design
Securities Times & Android Green Alliance	“ZhiyuanOnepass APP”	“Green Software” Certification in the Financing Category
Sina Finance “2018 Securities Trader APP” Award	“ZhiyuanOnepass APP”	Best Wealth Management APP Users’ Favorite APP
“Finance Electronization” Magazine	Intelligent information platform	2018 Financial Industry Technological Innovation Outstanding Contribution Award – Development Innovation

# Appendix 1: List of Policies

ESG INDEX	LAWS AND REGULATIONS	COMPANY POLICIES, MEASURES AND GUIDELINES
<b>A1: THE EMISSION</b>	Law of the People's Republic of China on Environmental Protection Administration Measures of Shenzhen Municipality on Kitchen Garbage Measures of Shenzhen Municipality on the Classification and Reduction of Domestic Garbage	China Merchants Securities Management Measures of Fixed Assets and Low Priced and Easily Worn Articles China Merchants Securities Guidance on Paper Archive Digitalization
<b>A2: USE OF RESOURCES</b>	Law of the People's Republic of China on Energy Conservation	China Merchants Securities Patrol Guidelines to Security Guard Headquarter Data Center Computer Room Operation Environment Management Guidance
<b>A3: ENVIRONMENT AND NATURAL RESOURCES</b>	Law of the People's Republic of China on Environmental Protection Law of the People's Republic of China on Energy Conservation	China Merchants Securities Management Measures of Fixed Assets and Low Priced and Easily Worn Articles China Merchants Securities Guidance on Paper Archive Digitalization China Merchants Securities Patrol Guidelines to Security Guard Headquarter Data Center Computer Room Operation Environment Management Guidance
<b>B1: EMPLOYMENT</b>	Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China, Trade Union Law of the People's Republic of China, Employment Ordinance of the Government of the Hong Kong Special Administrative Region	China Merchants Securities Attendance Management Requirements, Management Measures for Brokers of China Merchants Securities, Management Measures for Account Managers of China Merchants Securities
<b>B2: HEALTH AND SAFETY</b>	Production Safety Law of the People's Republic of China Law of the People's Republic of China on the Prevention and Control of Occupational Diseases Work Injury Insurance Regulations	China Merchants Securities Attendance Management Requirements, China Merchants Securities Administrative Procurement Management Implementation Measures,
<b>B3: DEVELOPING AND TRAINING</b>		China Merchants Securities Policy on Position Ranking, China Merchants Securities Training Management Policy, China Merchants Securities Trainer Management Policy, China Merchants Securities Online Training Policy, China Merchants Securities Outsourced Training Policy, China Merchants Securities Internal Management on Trainer and Training Development, China Merchants Securities Staff Training Hours Requirements, China Merchants Securities Training Curriculum System Interim Management Approaches

ESG INDEX	LAWS AND REGULATIONS	COMPANY POLICIES, MEASURES AND GUIDELINES
<b>B4: LABOR STANDARDS</b>	Labor Law of the People's Republic of China, Employment Ordinance of the Government of the Hong Kong Special Administrative Region	China Merchants Securities Attendance Management Requirements
<b>B5: SUPPLY CHAIN MANAGEMENT</b>	Law of the People's Republic of China on Tendering and Bidding Implementation Regulations on the Law of the People's Republic of China on Tenders and Bids Interim Regulations on Tender Evaluation Committee and Tender Evaluation Method Measures on Tender and Bidding for Engineering in Construction Projects Measures on Tender and Bidding for Goods in Construction Projects Regulations on Construction Projects Obligated to Tender	China Merchants Securities Procurement Management Policy China Merchants Securities Contract Management Policy China Merchants Securities Supplier Management Provisions
<b>B6: PRODUCT LIABILITY</b>	Measures for Compliance Management in Securities Companies and Investment Funds Management Companies, Measures for the Suitability Management of Securities and Futures Investors, Guidelines for the Implementation of the Suitability Management of Investors in Securities Business Institutions (trial)	China Merchant Securities Compliance Management Policy, China Merchant Securities Compliance Manual, China Merchant Securities Investor Suitability Management Approaches, China Merchant Securities Confidentiality Requirements, IT System Data Confidentiality Management Approaches, China Merchants Securities Information Technology Asset Approaches Insider Information Confidentiality Policy, Financial Service Outsourcing Confidentiality Management Approaches, Client Complaint-handling Management Approaches, Retail Client Complaint-handling Measures
<b>B7: ANTI-CORRUPTION</b>	Criminal Law of People's Republic of China, Anti-Money Laundering Law of People's Republic of China Law of People's Republic of China on Tendering and Bidding, Regulations on the Prevention of Bribery in Hong Kong Special Administrative Region of the People's Republic of China, Measures for Administration of Reporting of Large-amount Transaction and Suspicious Transaction of Financial Institutions, Hong Kong's Regulations on the Fight against Money Laundering and Terrorist Financing (Financial Institutions),	China Merchant Securities Compliance Manual, China Merchants Securities Securities Branch Anti-money Laundering Internal Control Policy, China Merchants Securities Procurement Management Policy, China Merchants Securities Client Identification Management Approaches, China Merchants Securities Client Identity Approaches, Transaction Records Documentation and Management
<b>B8: COMMUNITY INVESTMENT</b>	Charity Law of People's Republic of China	China Merchants Securities Foundation Chapter



## Appendix 2: List of Quantitative Data

ESG index		unit	2018	2017	2016
A. Environment					
A1. Emissions					
A1.1	types of emissions, related emission data and density				
	total emission of nitrogen oxide	Kg	1058619	/	/
	emissions of nitrogen oxide, per capita	Kg/person	110	/	/
	total emission of particulate matter	Kg	77944	/	/
	emissions of particulate matter, per capita	Kg/person	8.07	/	/
	total emission of sulfur oxide	Kg	10.17	14.41	16.59
	emissions of sulfur oxide, per capita	Kg/person	0.001	0.001	0.001
	total discharge of domestic wastewater	Ton	100207	99843	93133
	discharge of domestic wastewater, per capita	Ton/person	10.40	9.39	8.61
A1.2	emission and density of greenhouse gas				
	Range 1 - total gasoline emissions	Ton	1572	2228	2565
	Range 1 - gasoline emissions, per capita	Ton/person	0.16	0.21	0.24
	Range 1 - total diesel emissions	Ton	6.97	5.38	4.33
	Range 1 - diesel emissions, per capita	Ton/person	0.0007	0.0005	0.0004
	Range 2 - total emissions of purchased electric power	Ton	18107	10456	10182
	Range 2 - emissions of purchased electric power, per capita	Ton/person	1.87	0.98	0.9
	total greenhouse gas emissions	Ton	19686	12689	12752
	per capita emissions of greenhouse gases	Ton/person	2.04	1.19	1.2
A1.3	total amount and density of harmful waste produced				
	total amount of ink cartridge	Piece	1433	2094	6408
	per capita amount of ink cartridge	Piece/person	0.15	0.20	0.60
	toner cartridge	Item	4714	4723	4766
	per capita amount of toner cartridges	Item/person	0.49	0.44	0.44
	lamp	Piece	6938	11535	9471
	per capita amount of the lamp	Piece/person	0.72	1.08	0.88
A1.4	total amount and density of harmless waste produced				
	electronic equipment	set	1688	618	1681
	per capita amount of electronic equipment	set/person	0.17	0.06	0.16
A2. Use of resources					
A2.1	energy consumption and density				
	power consumption	Kwh	29025245	15542884	15054277
	per capita electricity consumption	Kwh/person	3003	1462	1392
	gasoline consumption	Kl	692	980	1128

ESG index		unit	2018	2017	2016
A2.1	total amount of gasoline per capita	Kl/person	0.07	0.09	0.10
	diesel consumption	Kl	2.67	2.061	1.66
	per capita consumption of diesel	Kl/person	0.0002	0.0002	0.0002
A2.2	water resources consumption and density				
	water consumption	Ton	111341	110936	103481
	water consumption per capita	Ton/person	11.52	10.43	9.57
<b>Note:</b> The denominator of the above data is the total number of employees by the end of the reporting period. The 2016 environment data consist of the full-year data from our Shenzhen headquarter (First Tower), 10 branches, 191 securities branches and four controlled subsidiaries. The 2017 environment data consist of the full-year data from our Shenzhen headquarter (First Tower), 11 branches, 193 securities branches and five controlled subsidiaries. The 2018 environment data consist of 2018 data from our Shenzhen headquarter (China Merchants Securities Building which was put into use in 2018 and First Tower), 12 branches, 249 securities branches and five controlled subsidiaries, achieving full coverage.					
B. Society					
B1. Employment					
B1.1	number of employees: divided according to gender, type of employment, age group and region				
	number of people	Person	9664	10633	10817
	Gender	male	Person	5610	6169
female		Person	4054	4464	4490
Age	under 30 (including 30)	Person	4845	5945	6688
	31-40	Person	3575	3434	2991
	over 40	Person	1244	1254	1138
Region	within China (mainland China)	person	9327	10246	10373
	overseas China (including Hong Kong, Macao and Taiwan)	person	337	387	444
B1.2	employee turnover and loss ratio: divided according to gender, age group and region				
	general staff turnover rate	%	11	13	11
Calculation formula: total employee turnover of the reporting period/ (total new employees of the reporting period + total employees at the end of last reporting period)					
B3.1	proportion of trained employees: divided according to the type of employment				
百分比	non-marketing staff	%	53	47	36
	marketing staff	%	47	53	64
B3.2	employees’ average training hours: classified according to the type of employment				
百分比	non-marketing staff	Hour	54	49	64
	marketing staff	Hour	83	81	58
B5.1	Suppliers divided by region				
	Suppliers in Shenzhen		112		
	Suppliers in mainland China (except Shenzhen)		186		
	Overseas suppliers		3		
B7.1	the number of corruption litigation cases				
	the number of cases involving corruption, bribery, extortion, fraud and money laundering	Case	0	0	0
B8.2	resources used in the focus category				
	value of charity donation	10,000 (RMB)	180	243	