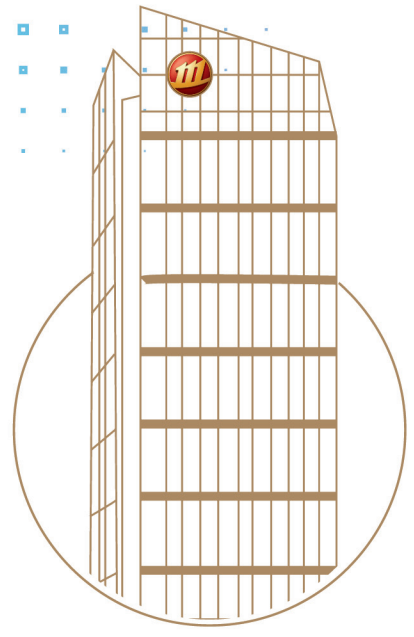
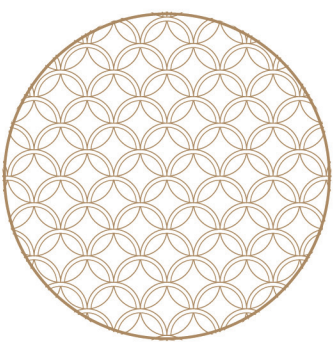
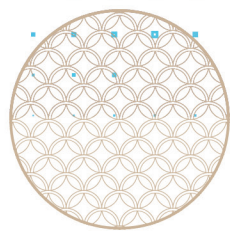
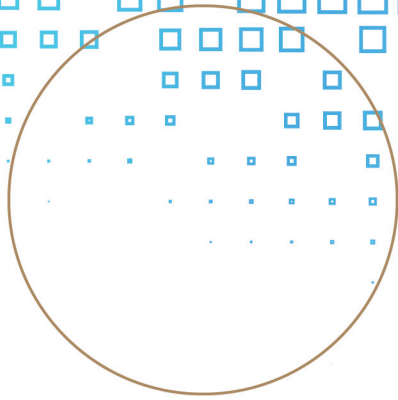
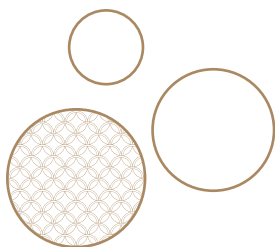


# 2018 Annual Report



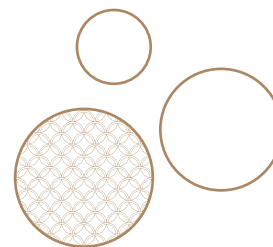
# 2018 Annual Report



**HUO Da**  
Chairman



# STATEMENT OF HUO DA, CHAIRMAN, FOR THE 2018 ANNUAL REPORT



## Driving High Quality Development by Reform and Innovation

2018 marked a significant year to kick off the accomplishment of all principles of the 19th National Congress of the Communist Party. At the Central Economic Work Conference, a new judgement had been put forward that the capital market plays an extraordinary role in the financial system, in which a small change may affect the whole situation, and therefore, it is necessary to set up a regulated, transparent, open, dynamic and flexible capital market. In face of the new era, new trend and new needs, China Merchants Securities, through the concerted effort of all staff, is determined and united, and strives to be the driving force for reform and the vitality for innovation, devoting our unprecedented endeavor to propel internal reform. Our overall operating results were stable. Not only did we outpace the market in general and outperform our industry peers, but also maintained stable and improving trend. We also paved a solid foundation for breaking through “median bottleneck” and for enhancing our integrated competitiveness. We had been awarded AA rating under A Class by the CSRC for 11 consecutive years, which demonstrated our sustainable and stable development.

During the year, by closely aligning with the strategies of China Merchants Group, and under the assistance of Boston Consulting Group, we formulated “Mid-to-long Term Development Strategies and Development Plan for 2019-2023” with the core principle of quality and efficiency improvement, and laid down a vision of “being customer-oriented to become the best investment bank in China with international competitiveness”. Through which, a ROE-based integrated competitiveness index and a more scientific core development strategy were set up. Maintaining our current industry ranking of scale of assets, we will devote our effort to enhance both quality and efficiency, focus on featured development and continue to enhance our core competitiveness, trying our best to become the best investment bank in China with international competitive strengths.

We had been designated by the SASAC as one of the pilot enterprises for the “Double Hundred Actions”, a SOE reform, during the year. In accordance with the principles of “market-based recruitments, contract-based management, performance-based remuneration and market-based exit mechanism”, we conducted two significant top-down reforms, i.e. “global recruitment of president” and “competition for deputy officers”. This marked the first-ever phenomenal reform in the development history of the Company. The newly formed management team, with more comprehensive strengths, more rational structure and stronger capability and cohesiveness, has become our main force for further growth.

During the year, adhering to technology-driven development and embracing changes, we tried the best endeavor to turn technology, innovation and synergy as the three driving forces so as to build up a platform for financial technology innovation, form a cross-department team with swift responses and facilitate faster integration of technology and business. An investment banking committee was formed to implement a synergistic mode of “investment banking + investment”, while transformation on research and development was started to change from mainly providing services externally to focusing on both internally and externally. We optimized the organizational structure of our headquarters, and implemented professional management system and the mechanism of “staff can get in and out; cadre can go up and down; salary can be high and low”. Based on two projects of data governance and process reengineering, a standardized, corporate-level customer relationship management (CRM) system was set up for the development of “customer-oriented” service model.

“We rise in vigor through innovation and stride further through sturdy performance.” 2019 is the 70th Year Development of New China and also a key year for building a moderately prosperous society in all respects and achieving the first centenary goal. We have kicked off our five-year reformative strategies with clear strategic positioning, determined vision and objectives and confirmed future development blueprint. We will facilitate more aggressive and intensive reform in pursuit of better results so as to express our sincere gratitude through practical actions to all shareholders, customers, staff and all sectors of the community for their confidence and support to us.

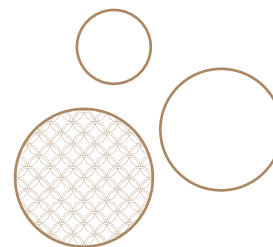
With your valuable support, we have a bright future ahead of us!

**XIONG Jiantao**

**Executive Director,  
President**



# STATEMENT OF XIONG JIANTAO, EXECUTIVE DIRECTOR, PRESIDENT, FOR THE 2018 ANNUAL REPORT



## Facing challenges, advancing reform, comprehensively implement quality and efficiency improvement for real effects

The securities market experienced considerable fluctuation during 2018 with SSE Composite Index and SZSE Component Index decreased 24.59% and 34.42% respectively as compared to that as of the end of 2017, and the net profits of securities industry declined 41.16% over that of 2017. The growth of the financing sector in the primary stock market slowed down, and the scale of it declined rapidly, while the core market date including the daily average trading volume of stock and funds on the secondary market, brokerage fee rates, scales of both margin financing and securities lending dropped in general.

Adhering to the principle of “seizing the moment with foresights”, on the one hand, China Merchants Securities was able to maintain stable operation for the current period by seizing the moment. Our total revenue and other income for the year on combined basis was RMB18.070 billion. We recorded net profit attributable to shareholders of the parent Company of RMB4.425 billion, and our market competitiveness had been strengthened accordingly. There was no significant event regarding risk compliance throughout the year, and the “AA” grade under A Class of regulatory rating was maintained for 11 consecutive years. On the other hand, we strived to implement transformation and reform based on the foresights. We accomplish transformation breakthrough and store up strengths for our development in the long run through intensive “Quality and Efficiency Improvement” project and gradual pilot reform of “Double Hundred Actions”.

First, the market competitive edge of our three major kinds of customer service businesses had shown a steadily improving trend. The market ranking of our retail brokerage business remained stable with the commissions market share improved. Our institutional client business dominated leading position in the industry, of which the market share of our mutual funds commissions had long been ranked in the first tier; the volume and scale of our custodian services for private investment funds and the number of mutual funds under custody remained at the top position in the industry for 5 consecutive years. The competitiveness of the service platform for prime brokerage transactions as well as the service capability for the whole industry chain of corporate clients continued to improve, while the key operational indicators for investment banking business were stable and rising. Second, our capital-based intermediary services maintained healthy development momentum. Interest income from the capital-based intermediary business for the year increased albeit sluggish market situation and a minimum bad debt level was retained. Third, our capital investment business had kept an ideal risk control level, while at the same time striving to enhance return from investments. Revenue from debt securities investment business hit record high. We obtained qualifications for various new businesses, including cross-border business and the primary dealer of OTC options business as well as the market maker of copper options in Shanghai Futures Exchange. Fourth, the competitive strength of the Asset under Management (“AUM”) business had been further enhanced. Both rankings in terms of core indicators for revenue from AUM business and scale of legally entrusted assets stood at historical high.

“Though the pass is as hard as iron, we finally stride across”. 2019 is a kick-off year for our five-year reformative strategies, and also a key year to realize the actual effects of the “Quality and Efficiency Improvement” project and the pilot exercise of the “Double Hundred Actions”, heavy and arduous difficulties are ahead of us when carrying out every task and project. Looking forward to this year, we will uphold the principle of reform and innovation, maintain current operation and regulation compliance, and deploy further effort in reform so as to ensure all measures for transformation and reform will be successful. We believe that, with the brilliant leadership of our Board of Directors, the unparalleled support from all sectors of the community and the concerted effort of all staff, China Merchants Securities will be confident of accomplishing all objectives. Let’s try our best endeavor to make progress for the new era of reform and development, and also for a brighter future of China Merchants Securities!

## Important Notice

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

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

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

**IV. HUO Da, officer in charge of the Company, ZHAO Bin, officer in charge of accounting matters of the Company, and HE Min, officer in charge of the accounting office of the Company (head of accounting department), hereby warrant that the financial statements contained in this report are true, accurate and complete.**

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

The proposal on profit distribution for 2018 is as follow: based on the total share capital of the Company as at the date of registration of equity for this profit distribution, a cash dividend of RMB2.64 (tax inclusive) will be distributed to every 10 shares. Based on the total share capital of the Company of 6,699,409,329 shares as of 2018, the total cash dividend distributed for the period will be amounted to RMB1,768,644,062.86, representing 39.97% of the net profit attributable to the owners of the parent company for 2018 according to the consolidated financial statements. Upon implementation of profit distribution, shares registered in the designated account for repurchase of Company's shares as at the date of registration of equity for this profit distribution should not have the right to profit distribution.

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

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

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

No

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

No

**IX. This report has been compiled by the Company in both Chinese and English versions. Should there be any inconsistency between the English and Chinese versions, the latter shall prevail.**

**X. Warning on material risks**

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

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

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

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# Chapter 1: Definitions

## 1. Definitions

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

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

## Chapter 1: Definitions

Common terms and expressions	
"CMS International"	China Merchants Securities International Company Limited (招商證券國際有限公司)
"China Merchants Futures"	China Merchants Futures Co., Limited (招商期貨有限公司)
"CMS Zhiyuan"	China Merchants Zhiyuan Capital Investment Co., Ltd. (招商致遠資本投資有限公司)
"CMS Investment"	China Merchants Securities Investment Co., Ltd. (招商證券投資有限公司)
"CMS Asset Management"	China Merchants Securities Asset Management Co., Ltd. (招商證券資產管理有限公司)
"Bosera Funds"	Bosera Asset Management Co., Limited (博時基金管理有限公司)
"China Merchants Fund"	China Merchants Fund Management Co., Ltd. (招商基金管理有限公司)
"ECT"	E-Capital Transfer Co., Ltd. (證通股份有限公司)
"Shanghai Brilliance"	Shanghai Brilliance Credit Rating & Investors Service Co., Ltd. (上海新世紀資信評估投資服務有限公司)
"CCXR"	China Chengxin Securities Rating Co., Ltd. (中誠信證券評估有限公司)
"Huatai United Securities"	Huatai United Securities Co., Ltd. (華泰聯合證券有限責任公司)
"Everbright Securities"	Everbright Securities Company Limited (光大證券股份有限公司)
"Galaxy Securities"	China Galaxy Securities Co., Ltd. (中國銀河證券股份有限公司)
"Essence Securities"	Essence Securities Co., Ltd. (安信證券股份有限公司)
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"A Share(s)"	domestic share(s) in the ordinary share capital of our Company with a nominal value of RMB1.00 each, which are listed on the SSE (stock code: 600999)
"H Share(s)"	overseas-listed foreign share(s) in the ordinary share capital of our Company with a nominal value of RMB1.00 each, which are listed on the main board of the Hong Kong Stock Exchange (stock code: 6099)
"A Shareholder(s)"	holders of A Shares
"H Shareholder(s)"	holders of H Shares
"The Reporting Period", "The Current Period"	from January 1, 2018 to December 31, 2018
"Previous Period"	from January 1, 2017 to December 31, 2017
"RMB", "RMB10,000", and "RMB100 million"	Renminbi 1 Yuan, Renminbi 10,000 Yuan and Renminbi 100 million Yuan

## Chapter 2: Corporate Profile and Key Financial Indicators

### I. Corporate Information

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

#### Registered Capital and Net Capital of the Company

Unit: Yuan Currency: RMB

	As at the end of the Reporting Period	As at the end of Last Year
Registered capital	6,699,409,329.00	6,699,409,329.00
Net capital (Parent Company)	52,815,746,346.60	54,180,986,692.26

#### Business Qualifications of the Company

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

No.	Qualification	Approval authority	Date of approval
1	Credit derivatives business	the Securities and Fund Institution Supervision Department of the CSRC	December 2018
2	Market maker of crude oil futures	Shanghai Futures Exchange	October 2018
3	Market maker of nickel futures	Shanghai Futures Exchange	October 2018
4	Market maker of copper options	Shanghai Futures Exchange	September 2018
5	Primary dealer of OTC options business	Securities Association of China	August 2018
6	Market maker of Bond Connect "Northbound Trading"	China Foreign Exchange Trading Center	July 2018
7	Conducting pilot cross-border businesses	the Securities and Fund Institution Supervision Department of the CSRC	April 2018
8	Core dealer of credit risk mitigation instruments	National Association of Financial Market Institutional Investors	January 2017
9	Qualification to issue credit risk mitigation certificates	National Association of Financial Market Institutional Investors	January 2017
10	Qualification to issue credit-linked notes	National Association of Financial Market Institutional Investors	January 2017

## Chapter 2: Corporate Profile and Key Financial Indicators

No.	Qualification	Approval authority	Date of approval
11	Non-bank member of the Shanghai Commercial Paper Exchange	The People's Bank of China	November 2016
12	Trading Authority for Access to Southbound Trading Business under Shenzhen-Hong Kong Stock Connect	Shenzhen Stock Exchange	November 2016
13	Approval for pilot provision of online account opening service	Institution Department (機構部) of CSRC	April 2015
14	Approval for financing through exercising incentive share options of listed companies	Shenzhen Stock Exchange	March 2015
15	Licence for spot gold proprietary trading business	Institution Department (機構部) of CSRC	March 2015
16	Qualification to provide payment services for customers' funds	China Securities Investor Protection Fund Corporation Limited	March 2015
17	Licence for stock options market-making business	CSRC	January 2015
18	Licence for market-making business for SSE 50 ETF options trading	Shanghai Stock Exchange	January 2015
19	Authority for proprietary trading of share options	Shanghai Stock Exchange	January 2015
20	Licence for futures settlement	China Securities Depository and Clearing Corporation Limited	January 2015
21	Stock options trading participant on the Shanghai Stock Exchange	Shanghai Stock Exchange	January 2015
22	Licence for online securities business	Securities Association of China	November 2014
23	Trading Authority for Access to Southbound Trading Business	Shanghai Stock Exchange	October 2014
24	Ordinary member of Interbank Market Clearing House Co., Ltd for centralised settlement of RMB interest rate swaps	Interbank Market Clearing House Co., Ltd	June 2014
25	Qualification of lead manager business (market-making business)	National Equities Exchange and Quotations	June 2014
26	Licence for OTC options trading business	Securities Association of China	February 2014
27	Licence for investment fund custody business	CSRC	January 2014
28	Qualification for agency business of securities pledge registration	China Securities Depository and Clearing Corporation Limited	July 2013
29	Licence for stock-pledged repo business	Shanghai Stock Exchange, Shenzhen Stock Exchange	June 2013
30	Licence for interest rate swap business	CSRC Shenzhen Office	May 2013
31	Permit for conducting insurance agency businesses	China Insurance Regulatory Commission	April 2013

## Chapter 2: Corporate Profile and Key Financial Indicators

No.	Qualification	Approval authority	Date of approval
32	Qualification of lead manager business (recommendation and brokerage businesses)	National Equities Exchange and Quotations	March 2013
33	Licence for OTC trading business	Securities Association of China	February 2013
34	Licence for equity total return swap business	CSRC	January 2013
35	Licence for special institutional client business of insurance companies	China Insurance Regulatory Commission	January 2013
36	Licence for sale of financial products	CSRC	December 2012
37	Qualification of underwriting debt financing instruments of non-financial enterprises	National Association of Financial Market Institutional Investors	November 2012
38	Qualification to provide comprehensive custodian services for private investment funds	CSRC	October 2012
39	Licence for margin and securities refinancing	China Securities Finance Co., Ltd.	August 2012
40	Qualification of underwriting private placement bonds of small and medium enterprises	Securities Association of China	June 2012
41	Licence for stock repurchase business	CSRC	May 2012
42	Qualification for dealer-quoted bondpledged repo transactions	CSRC	January 2012
43	Qualification for third-party custodian services for one customer — multiple bank services	CSRC Shenzhen Office	June 2011
44	Qualification for margin financing and securities lending business	CSRC	June 2010
45	Licence for direct investment business	CSRC	August 2009
46	Qualification for intermediary introduction business for China Merchants Futures	CSRC	February 2008
47	Qualified Domestic Institutional Investors	CSRC	August 2007
48	Tier-1 dealer on the integrated e-platform for fixed income securities of the Shanghai Stock Exchange	Shanghai Stock Exchange	July 2007
49	Permit for foreign exchange operation in the securities business	State Administration of Foreign Exchange	December 2006
50	Clearing participant of China Securities Depository and Clearing Corporation Limited	China Securities Depository and Clearing Corporation Limited	March 2006
51	Primary dealer of SSE 180 Index Exchange Traded Fund	Shanghai Stock Exchange	March 2006
52	Qualification for underwriting business of commercial paper	The People's Bank of China	July 2005

## Chapter 2: Corporate Profile and Key Financial Indicators

No.	Qualification	Approval authority	Date of approval
53	Qualification for operation of foreign shares business	CSRC	September 2002
54	Qualification for open-end securities investment fund consignment business	CSRC	August 2002
55	Qualification for online securities agency business	CSRC	February 2001
56	Qualified member of interbank market	The People's Bank of China	September 1999

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

No.	Qualification	Approval authority	Date of approval
1	Licence for dealing in futures contracts	SFC	June 2014
2	Licence for advising on futures contracts	SFC	June 2014
3	Licence for asset management	SFC	March 2010
4	Licence for dealing in securities	SFC	February 2009
5	Licence for advising on securities	SFC	February 2009
6	Licence for advising on corporate finance	SFC	February 2009

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

No.	Qualification	Approval authority	Date of approval
1	Licence for OTC derivatives trading	China Futures Association	April 2017
2	Licence for basis trading	China Futures Association	April 2017
3	Licence for warehouse receipt services	China Futures Association	December 2016
4	Filing for entry of the interbank bond market	The People's Bank of China	July 2016
5	Licence for asset management	CSRC	March 2013
6	Licence for futures investment consulting	CSRC	August 2011
7	Licence for financial brokerage	CSRC	October 2007
8	Licence for commodities futures brokerage	CSRC	January 1993

## Chapter 2: Corporate Profile and Key Financial Indicators

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

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

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

No.	Qualification	Approval authority	Date of approval
1	Pilot scheme for overseas investment of qualified domestic investors	Shenzhen Joint Meeting Office of the Pilot Scheme for Overseas Investment of Qualified Domestic Investors (深圳市合格境內投資者境外投資試點工作聯席會議辦公室)	November 2015
2	Qualified domestic institutional investors	CSRC	January 2015
3	Qualification for securities asset management business	CSRC	January 2015

## II. Contact Persons and Contact Methods

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

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

## Chapter 2: Corporate Profile and Key Financial Indicators

### III. Basic Information

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

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

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

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

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



## Chapter 2: Corporate Profile and Key Financial Indicators

### VI. Other Information

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

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

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

On August 26, 1994, with the approval of The People's Bank of China pursuant to the Approval for the Incorporation of CMB Securities Company (Yin Fu [1994] No.161) (《關於成立招銀證券公司的批覆》(銀覆[1994] 161號)) and the permission by the Shenzhen Administration for Industry and Commerce, China Merchants Bank, building on its Securities Department, established Shenzhen CMB Securities Company with a registered capital of RMB150 million. On September 28, 1994, the Shenzhen Administration for Industry and Commerce permitted Shenzhen CMB Securities Company to change its name to CMB Securities Company (招銀證券公司).

On November 6, 1998, with the approval of The People's Bank of China pursuant to the Approval for the Reformed Structure and Capital Increase of CMB Securities Company (招銀證券公司) (Yin Fu [1997] No.529) (《關於招銀證券公司增資改制的批覆》(銀覆[1997] 529號)) and the CSRC pursuant to the Approval for the Reformed Structure and Capital Increase and Change of Name of CMB Securities Company (招銀證券公司) (Zheng Jian Ji Gou Zi [1998] No. 27) (《關於同意招銀證券公司增資改制、更名的批覆》(證監機構字[1998] 27號)) and with the permission of the Shenzhen Administration for Industry and Commerce, CMB Securities Company introduced 11 new shareholders for the purpose of capital increase and structure reform, and changed its name to Guotong Securities Limited Liability Company (國通證券有限責任公司). Its registered capital increased from RMB150 million to RMB800 million. China Merchants Bank contributed to the capital by means of the net assets of CMB Securities Company while the 11 new shareholders contributed to the capital by means of cash.

On August 31, 2000, with the approval of the CSRC pursuant to the Approval for the Capital Increase of Guotong Securities Limited Liability Company (CSRC Ji Gou Zi [2000] No.15) (《關於核准國通證券有限責任公司增資擴股的批覆》(證監機構字[2000] 15號)) and the permission of the Shenzhen Administration for Industry and Commerce, Guotong Securities Limited Liability Company (國通證券有限責任公司) increased its capital. With a total of RMB1.4 billion capital injection made by 12 shareholders including China Merchants Bank, the registered capital of the company increased to RMB2.2 billion.

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

On December 26, 2001, being approved by the Ministry of Finance of the PRC pursuant to the Approval for the Relevant Issues on State-owned Shares Management by Guotong Securities Co., Ltd. (國通證券股份有限公司) (Cai Qi [2001] No. 723) (《關於國通證券股份有限公司(籌)國有股權管理有關問題的批覆》(財企[2001] 723號)), the CSRC pursuant to the Approval for the Change of Guotong Securities Limited Liability Company (國通證券有限責任公司) to a Joint Stock Limited Company (Zheng Jian Ji Gou Zi [2001] No. 285) (《關於同意國通證券有限責任公司改制為股份有限公司的批覆》(證監機構字[2001]285號)), the Municipal Government of Shenzhen pursuant to the Approval for Shareholding Structure Reform by Guotong Securities Co., Ltd. (國通證券股份有限公司) (Shen Fu Gu [2001] No. 49) (《關於整體改組設立國通證券股份有限公司的批覆》(深府股[2001] 49號)), and the Shenzhen Administration for Industry and Commerce, Guotong Securities Limited Liability Company (國通證券有限責任公司) reformed its company structure and changed its name to Guotong Securities Co., Ltd. (國通證券股份有限公司). The 40 shareholders of Guotong Securities Limited Liability Company, as the promoters, converted the audited net asset of Guotong Securities Limited Liability Company as at December 31, 2000 on a 1:1 basis into the capital of the joint-stock company comprising a total of 2,400,280,638 shares, forming a registered capital of RMB2,400,280,638. The domicile was at 8/F-11/F, Block East, Huaqiang Jiahe Building, No. 34 Shennan Central Road, Futian District, Shenzhen.

## Chapter 2: Corporate Profile and Key Financial Indicators

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

In 2006, being approved by the CSRC pursuant to the Approval for the Reduction of Shares and Capital Increase of China Merchants Securities Co., Ltd., (Zheng Jian Ji Gou Zi [2006] No. 179) (《關於招商證券股份有限公司縮股並增資擴股的批覆》) (證監機構字[2006]179號) and the Shenzhen Administration for Industry and Commerce, the Company conducted share reduction and capital increase. Based on the audited net assets as at December 31, 2005, the total share capital was reduced from 2,400,280,638 shares to 1,726,915,266 shares. Following the reduction, seven shareholders subscribed the newly issued 1.5 billion shares, which increased the share capital and the registered capital of the Company to 3,226,915,266 shares and RMB3,226,915,266, respectively.

On November 17, 2009, being approved by the CSRC pursuant to the Approval for the Initial Public Offering of China Merchants Securities Co., Ltd., (Zheng Jian Xu Ke [2009] No. 1132) (《關於核准招商證券股份有限公司首次公開發行股票的批覆》) (證監許可[2009] 1132號) and the SSE pursuant to the Notice on the Listing and Trading of RMB Ordinary Shares of China Merchants Securities Co., Ltd., (Shang Zheng Fa Zi [2009] No. 18) (《關於招商證券股份有限公司人民幣普通股股票上市交易的通知》) (上證發字[2009] 18號), the Company launched its initial public offering of 358,546,141 A Shares on the Shanghai Stock Exchange, among which 286,837,000 shares and 71,709,141 shares were subscribed and settled online and offline, respectively. With an offer price of RMB31 per share, the Company raised a total of RMB11.115 billion and received a net proceeds of RMB10.883 billion after deducting offering expenses of RMB232 million. Following the completion of the offering, the total share capital of the Company increased from 3,226,915,266 shares to 3,585,461,407 shares.

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

In May 2014, being approved by the CSRC pursuant to the Approval for the Private Placement of Shares of China Merchants Securities Co., Ltd., (Zheng Jian Xu Ke [2014] No. 455) (《關於核准招商證券股份有限公司非公開發行股票的批覆》) (證監許可[2014] 455號), the Company issued 1,147,035,700 shares (A Shares) at RMB9.72 each by way of private placement, raising a total of RMB11,149,187,004.00 and receiving a net proceeds of RMB11,101,736,135.93 after deducting the offering expenses of RMB47,450,868.07. The new shares were registered and deposited with Shanghai office of the CSDC on May 27, 2014. On October 15, 2014, the Company completed the registration for the increase of the registered capital to RMB5,808,135,529.

On October 7, 2016, the Company completed the public issuance of overseas-listed foreign shares (H Shares) at an offer price of HK\$12.00 per share, raising total proceeds of HK\$10,695,285,600.00. After deducting the offering expenses, the net proceeds amounted to RMB8,947,439,178.14. On the same day, being approved by the Hong Kong Stock Exchange, the Company issued 891,273,800 overseas-listed foreign shares (H Shares) for the listing and trading on the Main Board of the Hong Kong Stock Exchange. Following the offering, the total share capital of the Company has increased from 5,808,135,529 shares to 6,699,422,311 shares. Due to a change in the shareholding by Liaoneng Holdings, an original state-owned shareholder of the Company, the deregistration for 12,982 A Shares which should have been transferred by it has not yet completed.

On March 27, 2017, deregistration for 12,982 A Shares held by Liaoneng Holdings, an original state-owned shareholder of the Company, was completed. Total share capital of the Company was changed to 6,699,409,329 shares. For details, please see the Announcement on the Replenishment of State-owned Shares for Fulfilment of Transfer Obligation by Liaoneng Holdings, an Original State-owned Shareholder (《關於原國有股東遼寧遼能實業有限公司補充履行國有股轉持義務的公告》) of the Company dated March 27, 2017 published on the SSE website. On May 17, 2017, the Company completed the increase of its registered capital to RMB6,699,406,329.

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

## Chapter 2: Corporate Profile and Key Financial Indicators

### (II) Corporate Organizational Structure



## Chapter 2: Corporate Profile and Key Financial Indicators

The Company currently has five first tier wholly-owned subsidiaries namely CMS International, China Merchants Futures, CMS Zhiyuan, CMS Investment and CMS Asset Management.

No.	Company name	Address	Date of Incorporation	Registered Capital (RMB ten thousand)	Responsible person	Contact number
1	CMS International	48/F, One Exchange Square, Central, Hong Kong	July 14, 1999	N/A	WU Guangyan (吴光焰)	0755-82943666
2	China Merchants Futures	9/F Unit 9-15, 7/F Unit 1-8 and Unit 22-26, Duty Free Building, No. 6 Fuhua Yi Road, Futian District, Shenzhen	January 4, 1993	63,000	XIONG Jiantao (熊劍濤)	0755-82943666
3	CMS Zhiyuan	7/F, Financial Street Centre, Financial Street A No.9, Xicheng District, Beijing	August 28, 2009	210,000	DENG Xiaoli (鄧曉力)	0755-82943666
4	CMS Investment	Room 201, Block A, Administrative Office Building, No.1, Qianwan Road 1, Liyumen Street 1, Qianhaishen Port Cooperative District, Shenzhen	December 2, 2013	310,000	YIN Ming (殷明)	0755-82963566
5	CMS Asset Management	Room 201, Block A, No.1, Qianwan Road 1, Qianhaishen Port Cooperative District, Shenzhen	April 3, 2015	100,000	DENG Xiaoli (鄧曉力)	0755-82943666

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

The Company has opened 249 securities branches, and there are another 10 branches which have been approved for preparation but have not commenced operation. The distribution of those operating securities branches is as follow:

Regional Distribution	Number of branches
Beijing and Tianjin	32
Yangtze River Delta: Shanghai, Jiangsu and Zhejiang	45
Guangdong Pearl River Delta	54
Other cities	118

## Chapter 2: Corporate Profile and Key Financial Indicators

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

As at the end of 2018, the Company had 12 branches, the basic information of which is as follows:

No.	Name of the branch	Date of incorporation	Place of business	Person-in-charge	Contact number
1	Shenzhen Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司深圳分公司)	February 1, 2010	Suite 16F2, 16G & 16H, Times Fortune Building, South Eastern Part, Central Area, Futian District, Shenzhen	HE Jincheng (何錦成)	0755-82922188
2	Shanghai Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司上海分公司)	February 12, 2010	Room 3008, Orient Building, No. 1500 Century Avenue, Pudong New District, Shanghai	SHEN Yun (沈雲)	021-68407177
3	Beijing Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司北京分公司)	February 26, 2010	Unit A1A2, 8/F, Unit C2D1, 9/F & Unit B1B2, 11/F, No. 118 Jianguo Road, Chaoyang District, Beijing	YAN Xiaohui (嚴曉暉)	010-65684912
4	Guangxi Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司廣西分公司)	May 25, 2011	No. 1203 Jinyuan Modern City, No.63 Jinhua Road, Qingxiu District, Nanning	ZHOU Yi (周毅)	0771-5596333
5	Qingdao Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司青島分公司)	September 1, 2011	Level 2, 100 Duplex, 17-21 Xian Xa Lin Road, Laoshan District, Qingdao, Shandong	PENG Xiuling (彭秀玲)	0532-66889555
6	Jiangsu Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司江蘇分公司)	December 28, 2012	3/F, Touzi Building, No.414, Zhongshannan Road, Nanjing	MURONG Xinyao (慕容馨韻)	025-52868366
7	Anhui Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司安徽分公司)	January 4, 2013	Suite 1-501 to 1-511, Hui Feng Plaza, No.118 Sui Xi Road, Luyang District, Hefei	YANG Delong (楊德龍)	0551-65697168
8	Shandong Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司山東分公司)	January 9, 2013	3/F, Huang Ting Complex, No.15 Quancheng Road, Lixia District, Jinan	LI Hongying (李紅英)	0531-67885777
9	Xibei Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司西北分公司)	February 5, 2013	Semiconductor Industrial Park, No.125 Gao Xin Jin Ye Road, Xi'an, Shaanxi Province	ZHANG Lixin (張立新)	029-87883708
10	Guangdong Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司廣東分公司)	May 16, 2013	Room 1101B, No. 5 Huasui Road, Tianhe District, Guangzhou	YU Jinbiao (余錦標)	020-38394801
11	Hubei Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司湖北分公司)	October 4, 2013	No. 236 Zhong Bei Road, Wuchang District, Wuhan	ZHANG Yin (張銀)	027-86770878
12	Shanghai Pilot Free Trade Zone Branch of China Merchants Securities Co., Ltd. (招商證券股份有限公司上海自貿試驗區分公司)	January 3, 2017	Room 302, 3/F, No. 1500 Century Avenue, China (Shanghai) Pilot Free Trade Zone	ZHANWEI CAO	021-20398500

Note: Shanghai Pilot Free Trade Zone Branch is currently processing on the change in commercial and industrial registration as the person in charge has resigned. It is expected that the operating premise upon change will be: Room 603, 6/F., 68 Bohang Road, Pilot Free Trade Zone, China (Shanghai); the person in charge will be: Wang Jinbao (王金寶), and the telephone number will be: 021-23519186.

## Chapter 2: Corporate Profile and Key Financial Indicators

### VII. Other Relevant Information

Domestic accounting firm appointed by the Company	Name	Deloitte Touche Tohmatsu Certified Public Accountants LLP
	Office address	30/F, Bund Center, 222 Yan An Road East, Huangpu, Shanghai
	Names of the signing accountants	Hung Ruiming (洪銳明), Wen Qisi (文啓斯)
International accounting firm appointed by the Company	Name	Deloitte Touche Tohmatsu
	Office address	35th Floor, One Pacific Place, 88 Queensway, Hong Kong
	Name of the signing accountant	Wen Qisi (文啓斯)
Domestic legal adviser appointed by the Company	Name	Jia Yuan Law Offices (Shenzhen)
	Office address	Suite 2511, Landmark, 4028 Jintian Road, Futian District, Shenzhen, Guangdong Province
International legal adviser appointed by the Company	Name	King & Wood Mallesons
	Office address	13/F, Gloucester Tower, The Landmark 15, Queen's Road Central, Hong Kong
A Share Registrar	Name	Shanghai Branch of China Securities Depository and Clearing Corporation Limited
	Office address	36/F, China Insurance Building, 166 Lujiazui East Road, Pudong New District, Shanghai
H Share Registrar	Name	Computershare Hong Kong Investor Services Limited
	Office address	17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

## Chapter 2: Corporate Profile and Key Financial Indicators

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

#### (I) Key accounting data

Unit: RMB'000 Currency: RMB

Key accounting data	2018	2017	Year-on year Increase/decrease (%)	2016
Total revenue and other income	18,069,548	19,258,886	-6.18	18,551,718
Profit of the year attributable to shareholders of the Company	4,424,986	5,785,956	-23.52	5,403,451
Profit of the year attributable to shareholders of the Company after deduction of non-recurring profit or loss	4,419,589	5,783,983	-23.59	5,353,862
Net cash from operating activities	36,690,925	-27,311,295	-	-2,448,925
Other comprehensive income	186,910	476,241	-60.75	-620,506

	As at the end of 2018	As at the end of 2017	Year-on year Increase/decrease (%)	As at the end of 2016
Total assets	304,930,705	285,643,555	6.75	243,058,428
Total liabilities	224,138,351	206,309,851	8.64	183,143,389
Equity attributable to shareholders of the Company	80,722,846	79,230,149	1.88	59,826,337
Total equity	80,792,354	79,333,704	1.84	59,915,039

## Chapter 2: Corporate Profile and Key Financial Indicators

### (II) Major financial indicators

Major accounting data	2018	2017	Year-on-year increase/decrease (%)	2016
Basic earnings per share (RMB per share)	0.5408	0.7753	-30.25	0.9071
Diluted earnings per share (RMB per share)	0.5408	0.7753	-30.25	0.9071
Basic earning per share after deduction of non-recurring profit or loss (RMB per share)	0.5400	0.7750	-30.32	0.8988
Weighted average return on net asset (%)	5.58	8.39	Decreased by 2.81 percentage points	10.58
Weighted average return on net asset after deduction of non-recurring profit or loss (%)	5.57	8.38	Decreased by 2.81 percentage points	10.48



## Chapter 2: Corporate Profile and Key Financial Indicators

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

Unit: Yuan Currency: RMB

Items	As at the end of the Reporting Period	As at the end of Last Year
Net capital	52,815,746,346.60	54,180,986,692.26
Net assets	75,518,016,192.53	75,177,450,197.99
Sum of Risk Capital Provisions	17,090,060,265.22	18,059,640,452.88
Total assets on- and off-balance sheet	251,421,719,027.43	225,840,602,361.27
Risk coverage ratio (%)	309.04	300.01
Capital leverage ratio (%)	15.52	18.57
Liquidity coverage ratio (%)	277.30	392.17
Net stable funding ratio (%)	159.64	132.69
Net capital/net assets (%)	69.94	72.07
Net capital/liabilities (%)	31.77	38.10
Net assets/liabilities (%)	45.42	52.87
Value of proprietary equity securities and its derivatives/net capital (%)	22.27	30.77
Value of proprietary non-equity securities and its derivatives/net capital (%)	246.47	148.89

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

#### 1. Earnings

Unit: million Yuan Currency: RMB

Items	2018	2017	2016	2015	2014
Revenue and other income	18,070	19,259	18,552	34,989	13,766
Total expenses	13,540	12,998	12,728	21,906	9,133
Profit before income tax	5,447	7,107	6,453	13,634	4,972
Profit for the year — attributable to shareholders of the Company	4,425	5,786	5,403	10,909	3,851

## Chapter 2: Corporate Profile and Key Financial Indicators

### 2. Assets

Unit: million Yuan Currency: RMB

Items	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Total assets	304,931	285,644	243,058	291,656	193,408
Total liabilities	224,138	206,310	183,143	243,224	151,812
Accounts payable to brokerage clients	48,912	51,095	67,582	88,749	57,694
Equity attributable to shareholders of the Company	80,723	79,230	59,826	48,351	41,537
Share capital	6,699	6,699	6,699	5,808	5,808

### 3. Key Financial Indicators

Items	2018	2017	2016	2015	2014
Basic earnings per share (in RMB)	0.5408	0.7753	0.9071	1.8782	0.7224
Diluted earnings per share (in RMB)	0.5408	0.7753	0.9071	1.8782	0.7224
Weighted average return on net assets (%)	5.58	8.39	10.58	23.95	10.85
Gearing ratio (%)	68.44	66.18	65.86	76.13	69.35

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

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

There was no difference between the net profit for 2018 and 2017 and net assets as of December 31, 2018 and December 31, 2017 as set out in the consolidated financial statements prepared in accordance with the China Accounting Standards for Business Enterprises and in the consolidated financial statements prepared in accordance with the International Financial Reporting Standards.

## Chapter 3: Summary of Operation

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

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

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

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

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

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

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

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

During the Reporting Period, the average daily trading volume of stocks and funds in the SSE and the SZSE was RMB391.228 billion, representing a year-on-year decrease of 17.63%. While the CSI 300 index the ChiNext Index both registered fall of 25.31% and 28.65%, respectively, the ChinaBond Composite Index-Total Return Index (Total Value) rose by 8.22%. The total scale of the equity-related refinancing on the primary stock market (excluding share issuance for asset acquisition) amounted to RMB630.609 billion, representing a year-on-year decrease of 41.3%. Among which, the amount of the financing through IPO amounted to RMB137.488 billion, representing a year-on-year decrease of 37.11%. Bonds (excluding inter-bank deposit certificates) totaled RMB22.67 trillion, representing a year-on-year increase of 10.20%. As at the end of the Reporting Period, the balance of margin financing and securities lending on the SSE and the SZSE amounted RMB755.704 billion, representing a year-on-year decrease of 26.36%. The balance of margin loans of securities-backed lending reached 618.107 billion, representing a year-on-year decrease of 24.61%. The scale of assets under brokerage management amounted to 13.4 trillion, representing a year-on-year decrease of 18.27%.

## Chapter 3: Summary of Operation

In 2018, the securities industry encountered much more challenges, and the core market data including the trading volume of stock and funds on the secondary market, brokerage fee rates, scale of securities-backed lending, scale of margin financing and securities lending dropped in general. According to the statistics of the Securities Association of China, the industry earned a total income of RMB266.287 billion, representing a year-on-year decrease of 14.46%. Net profit amounted to RMB66.620 billion, representing a year-on-year decrease of 41.16%. As at the end of the Reporting Period, the total assets of the securities industry amounted to RMB6.26 trillion, representing a year-on-year increase of 1.91%. Net assets amounted to RMB1.89 trillion, representing a year-on-year increase of 2.40%. Net capital amounted to 1.57 trillion, representing a year-on-year decrease of 0.03%.

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

As at the end of 2018, the financial assets of the Company amounted to RMB151.484 billion, representing a year-on-year increase of RMB44.117 billion or 41.09%, which was mainly because the Company expanded its bonds and other proprietary investment businesses.

Of which, overseas assets amounted to RMB17.877 billion, which accounted for 5.86% of the total assets.

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

#### (1) Market Position of the Company

During the Reporting Period, the Company has steadily maintained its overall market positions with multiple indicators ranking top ten among the industry. According to statistics from the Securities Association of China and Asset Management Association of China, in terms of net income from agency trading, income from agency sale of financial products, balance of margin loans of margin financing and securities lending, balance of margin loans of securities-backed lending, number of private and mutual funds under custody, and scale of Asset Under Management ("AUM"), the Company was in the seventh, sixth, seventh, ninth, first and fourth places, respectively. According to the statistics from Wind (as of the date of issue), the overall scale of domestic equity and bond underwriting of the Company ranked third and its market share accounted for 5.74%. The Company ranked eighth in terms of the amount of equity underwritten (excluding share issuance for asset acquisition), ranked third in terms of the amount of bond underwritten as a lead underwriter, ranked fourth in terms of the brokerage fees received from mutual fund. Statistics from Bloomberg indicated that the Company ranked the fifth place in the IPO underwriting market in Hong Kong.

## Chapter 3: Summary of Operation

### (2) Analysis on the Company's Competitiveness

The Company, under the control of China Merchants Group, is the largest securities firm of the SASAC. Over years of development, the Company has built up some significant competitive advantages. First, the Company adheres to continuous stable operations and paves solid foundation for the overall development. It has been granted the highest "AA" rating under A class for securities firms by CSRC for 11 consecutive years, which represents a strong pillar for the Company to rely on when seeking policy support, seizing significant opportunities for new pilot projects, making responses to the volatile capital market and facing peer competition. Second, a full-service platform and a whole industrial chain with competitive service capability, a relatively balanced business structure and a lack of significant business shortcomings will help the Company develop the business with its own features, differentiate its edges and facilitate the provision of one-stop services to customers, thereby paving a sound foundation for development. Third, the brokerage business of Company has solid foundation and increasingly strengthened competitiveness. It has strong capability in providing comprehensive services to institutional clients and maintains stable performance in respect of providing whole industry chain services to corporate clients. It also stands out in certain business segments. Fourth, the Company enjoys the strong brand name of "China Merchants" and shareholders background as well as good reputation in the market.

## Chapter 4: Report of the Board of Directors

### I. Report of the Board of Directors

In 2018, while the global economy experienced new changes, the economic differentiation was apparent. The major economies experienced tightening liquidity. Under the escalating Sino-US trade conflict, the growth of the domestic economy steady slowdown. The reform in capital market was intensified, persistently progressing towards market-orientated, law-orientated and international development. Meanwhile, competition in the securities industry was becoming more vigorous, which enables rapid forming of a landscape of “the stronger one stays sturdy, the powerful one holds highest authority, the leader dominates top position, while the weak is to be ousted”.

In 2018, the Company maintained stable operation in general by proactively responding to the unfavorable market environment. We had recorded total revenue and other income and net profit attributable to shareholders of the parent company of approximately RMB18.070 billion and RMB4.425 billion, respectively. During the reporting period, there was no significant risk and compliance events throughout the year and the Company had been awarded the “AA” rating under A Class by CSRC, enabling the Company to be one of the only two securities company among the industry receiving the “AA” rating for 11 consecutive years since 2008. During 2018, the Company conducted a “quality and efficiency improvement” project and formulated “Mid-to-long Term Development Strategies and Development Plan for 2019-2023 of China Merchants Securities” to confirm the implementation of five core strategies of “leading by the value of investment banking business, establishing institutional customer business with special features and advantages, building up wealth management business with distinctive edges, expanding consolidated operating model with multi-channels and wide variety of products, and strengthening the integration of cross-border business” during the planning period so as to provide one-stop integrated services to customers and persistently enhance our overall competitive strengths. Meanwhile, the Company also proactively kicked-off a reform of “Double Hundred Actions”. In accordance with the requirements of SASAC in respect of “market-based recruitments, contract-based management, performance-based remuneration and market-based exit mechanism”, the Company conducted “global recruitment of president” and “competition for deputy officers”, and implemented material reformation in three aspects namely the human resource mechanism, the optimization of organizational structure and collaboration mechanism. In addition, the Company proactively promoted business collaboration and business integration with subsidiaries of China Merchants Group and had accomplished a series of achievements in “Collaboration between Industrial Companies and Financial Companies” (產融結合) and “Collaboration between Financial Companies” (融融結合).

## Chapter 4: Report of the Board of Directors

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

#### (I) Analysis of Principal Business

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

Unit: 100 million

Item	Revenue and other income				
	Current period	Percentage	Previous period	Percentage	Year-on-year change
Brokerage and wealth management	113.53	62.83%	122.91	63.82%	-7.63%
Investment banking	16.00	8.86%	25.77	13.38%	-37.90%
Investment management	13.81	7.64%	17.50	9.09%	-21.07%
Investment and trading	33.62	18.60%	24.55	12.75%	36.95%
Others	4.34	2.40%	8.40	4.36%	-48.30%

Revenue from brokerage and wealth management business decreased by 7.63% year-on-year, representing a drop of 0.99 percentage points in its contribution to the total revenue and other income; revenue from investment banking business declined significantly by 37.9% year-on-year, representing a drop of 4.52 percentage point in its contribution to the total revenue and other income; revenue from investment management business decreased by 21.07% year-on-year, representing a drop of 1.44 percentage points in its contribution to the revenue and other income; and revenue from investment and trading business increased sharply by 36.95% year-on-year, representing an increase of 5.86 percentage point in its contribution to the total revenue and other income.

#### 1. Brokerage and wealth management business

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

##### (1) Retail brokerage and wealth management

In 2018, the one-way transaction volume of stocks and funds in the A-share market amounted to RMB95.07 trillion, representing a year-on-year decrease of 17.63%. The average net commission rate of the industry decrease by 7.42% to 0.328‰, which show a continuous downward trend, over previous years though at much narrower margin.

## Chapter 4: Report of the Board of Directors

During the Reporting Period, the Company proactively expanded its channels, under which, new models and new channels for innovative marketing supervision were implemented offline, while targeted marketing techniques through digitalization were carried out online, in a bid to drive the expansion of the customer base. In 2018, the Company has opened 1.437 million new accounts and the number of eligible accounts were 10.2472 million, representing a year-on-year increase of 18.96%. The Company continuously upgraded the Zhiyuan Yi Hu Tong App (智遠一戶通) and implemented a digitalized operating system, which resulted in on-going improvement in online customer service experience. Also, the Company continuously enhanced the comprehensive operating capability of the branches. As such, core indicators such as the ranking of market share of net revenue from agency trading of the Company remained steady.

In 2018, the Company continuously transformed its retail brokerage business towards wealth management in order to stabilize the commission rates. In respect of the all-round upgrade of the wealth management platform, the comprehensive management on tasks, customers and products has been achieved. At the same time, by integrating abundant internal R&D resources, the Company provided suggestions on asset allocation based on customer needs, such as recommendation of “trend-riding” (抓風口) products, after-sale product performance track and the high value-added service of customized institutional MOM and FOF, all of which generated good returns for our clients. During the Reporting Period, the number of clients under the wealth management plan of the Company reached 2.6437 million, representing a year-on-year increase of 3.94%. Although the Company was affected by the market environment and policies of margin management products, the scale of agency sales of all wealth management products of the Company recorded a year-on-year decrease of 13.83%. Nevertheless, the revenue from agency sales of financial products increased amid overall decline due to optimized sale structures. The Company ranked sixth in terms of the market share of the revenue from agency sales of financial products, up by 2 positions from last year.



## Chapter 4: Report of the Board of Directors

The Company maintained strong market position in brokerage businesses of stock options and the year-on-year increases in its customer base and the trading volume were shown. As of the end of 2018, the Company ranked No. 1 in terms of market share of account opening of stock option, which accounted for 8.57%, and ranked sixth in terms of the trading volume. In 2018, the Company was awarded “Top 10 options Broker” for the first session by the Shanghai Stock Exchange (SSE).

	Major operational data of retail brokerage and wealth management business of the Company		
Operating indicators	2018	2017	Year-on-year change
Transaction volume of stock and funds (note 1)	RMB7,504.607 billion	RMB9,288.111 billion	-19.20%
Ranking in terms of net revenue from agency securities trading	7th	7th	–
Number of eligible accounts (note 2)	10.2472 million	8.6141 million	18.96%
Number of new accounts opened in the year	1.437 million	1.7026 million	-15.4%
Number of branches opened (note 3)	249	243	Increased by six branches
Total trading volume under Southbound Trading	RMB136.258 billion	RMB109.108 billion	24.88%
Ranking in terms of number of stock options account opened	first	third	Up by two positions
Number of wealth management advisors	820	846	-3.07%
Number of clients under wealth management plans	2.64 million	2.54 million	3.94%
Total sales of wealth management products (note 4)	RMB754.1 billion	RMB875.1 billion	-13.83%

Source: Stock Exchanges, internal statistics of the Company

- Note:
1. Transaction volume of stocks and funds of the Company represents bilateral transaction volume.
  2. Eligible accounts refer to capital accounts which are not dormant or unqualified.
  3. The Company has opened 249 securities branches, and there are another 10 branches which have been approved for preparation but have not yet been open.
  4. The wealth management products sold by the Company include mutual funds, private investment funds and collective wealth management products of the Company (including subscription for and subsequent purchase of margin management products), trust products and products of fund subsidiaries.

In respect of futures brokerage, the Company engages in futures brokerage business through its wholly-owned subsidiary China Merchants Futures. In 2018, futures industry successively launched some international types of products such as crude, iron ore and PTA and other new domestic products. However, affected by market conditions, indicators such as customer interests, operating income and net profit declined over the corresponding period last year. During the Reporting Period, the Company actively promoted internationalized layout, strengthened its capability to expand customer base, optimized proper management procedures of IB business and paved development foundation for brokerage business. In 2018, with the market share of stock index futures of the Company increased by 10 percentage point as compared to the corresponding period last year, the Company has been awarded AA rating under A Class in the futures industry for 5 consecutive years and ranked top 10 in terms of regulatory rating of the industry.

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### (2) Capital-based intermediary services

In 2018, dampened by the decline in A-share market, the scale of margin financing and securities lending business experienced downward trend. As of the end of 2018, the balance of margin financing and securities lending was RMB755.704 billion, representing a year-on-year decrease of 26.36%. Besides, the frequent occurrence of risk incidents caused consecutive drop and trading suspension of some stocks, which caused the regulatory authorities to strengthen the control on securities-backed lending business and announced several new policies in this regard. The policies regulate the securities-backed lending market in four aspects, namely financing requirements, use of proceeds, concentration of pledge and rate of pledge, which pose higher requirements for securities firms to commence the provision of capital-based intermediary services, especially with regard to risk control.

During the Reporting Period, the Company complied with the new regulations regarding the securities-backed lending business, and conducted close tracking on the use of proceeds in a cautious manner to ensure compliance of regulations of all business segments. The Company also continued to promote the capital-based intermediary services and placed improved effort in following-up and supporting core customers and important projects. In face of the frequent occurrence of "Black Swan" events, the Company strived to minimize risk through better risk controls and early warnings.

As of the end of 2018, the balance of margin financing and securities lending of the Company was RMB38.681 billion and the maintenance coverage ratio was 267.58%. The balance of securities-backed lending and stock repurchases amounted to RMB38.807 billion and the overall collateral coverage ratio was 220.15%. Of which, contribution from self-owned capital was RMB22.840 billion and the overall collateral coverage ratio was 255.40%. The risks which may arise from both the margin financing and securities lending and the securities-backed lending segments are controllable.

Capital-based Intermediary Business of the Company and its Market Share			
Operating indicators	2018	2017	Year-on-year change
Balance of margin financing and securities lending	RMB38.681 billion	RMB54.699 billion	-29.28%
Market share of margin financing and securities lending	5.12%	5.33%	decreased by 0.21 percentage point
Outstanding balance of securities-backed lending and stock repurchases	RMB38.807 billion	RMB59.128 billion	-34.37%

Source: Exchanges, internal statistics of the Company

### (3) Institutional client services

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

## Chapter 4: Report of the Board of Directors

### ① Institutional sales and research

In 2018, the Company continued its refined management of roadshow services, facilitated diversified resources for researches and improved services for core customers. In terms of the commission for mutual funds, the Company maintained a high ranking of the fourth position.

In respect of research business, the Company continuously strengthened and enhanced its research on branding and ranked high positions in various external research. It also focused on corporate strategies, accelerated research transformation and placed much more effort on the support of each business segment so as to intensify “applied research”. As of the end of 2018, the Company had a total of 170 researchers, 96.5% of which held master degrees or above. Their research covers macroeconomic analysis, investment strategy, industry sector and company study, fixed-income products and derivatives, etc.. A Share research involves more than 35 industry sectors and over 1,240 listed companies, covering 86% of the total market capitalization of CSI 300 Index constituent stocks and 78% of the total market capitalization of ChiNext Index constituent stocks, and the Company takes the leading positions in the research of a wide variety of areas, including food and beverage, environmental protection, paper making in light industry, electronic household appliances, communications, media, macro-economy, electronics, automobiles, electric devices, as well as new energy, military industry, SME market capitalization, fixed revenue, coal, petrochemical, finance, real estates, etc.

### ② Prime brokerage

The Company continues to take advantage of its consolidated competitive strengths of balanced, featured and outstanding business capability to provide high quality, one-stop integrated financial services to prime brokerage customers including private investment funds and trust companies.

In 2018, the Company persistently maintained its industry-leading position in the prime brokerage system platform by continuously improving the service platform for prime brokerage transaction, enhancing featured investment research services, accelerating the establishment of investment and trading service platform by adding algorithmic trading and performance analysis as well as strengthening customer loyalty for the Company. During the Reporting Period, the prime brokerage trading volume of stocks and funds increased by 27% over last year.

### ③ Custody and outsourcing

In 2018, market condition was sluggish. The regulations on asset management industry became increasingly stringent. The number of new launch of mutual and private products decreased and so did the sizes of their reserve stocks. Risk events such as default of non-standard projects and bonds had resulted in more difficult entry threshold and risk control. Furthermore, 16 globally renowned asset management institutions had obtained licenses for private investment funds, are actively arranging WFOE (Wholly Foreign Owned Enterprises) business, and 15 well-known asset management institutions, which have been registered as “managers of other types” in Asset Management Association of China, are also preparing for their QDLP (Qualified Domestic Limited Partner) business.

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During the Reporting Period, leveraging on its first-mover advantages to keep abreast of the market hotspots, conduct detailed planning, the Company was able to actively secure customers by holding industry conferences and applying collaborative marketing strategies. It enhanced operational quality and efficiency by using financial technologies and refined procedural management, and built-up multi-level services to optimize customer services for higher customer loyalty. The Company also maintained its leading market position in asset custody and outsourcing industry by providing intelligent and online services through institutional service platform.

As of the end of 2018, the Company had 18,465 custody and outsourcing products (including the products of asset management subsidiaries), representing a year-on-year increase of 12.91% with a total value of RMB1,980.188 billion, representing a year-on-year decrease of 4.75%. According to the Asset Management Association of China, the market share of private investment fund products under the custody of the Company reached 26.52% and the Company enjoyed more leading advantages in the provision of services to private securities managers of huge size (5 billion or above). The number and size of private fund products under the custody and outsourcing segment of the Company and the number of mutual funds under Company's custody ranked No. 1 for 5 consecutive years. In 2018, in terms of the number of products under WFOE custody and outsourcing services, the Company took the first place in market share.

### 2. Investment Banking Business

#### (1) Equity underwriting and sponsoring

In 2018, as the regulatory review on IPO became more strict and the approval rate was considerably declined from 81.55% in 2017 to 65.29% in 2018 (excluding those cases of which reviews have been cancelled and approvals are deferred). With the continuous influence on the announcement of new regulations on refinancing and shareholding reduction, equity financing in the A-share market recorded a significant year-on-year decrease. According to the statistics from Wind (as of the date of issue), the total equity financing in the A-share market (excluding share issuance for asset acquisition) was RMB630.609 billion, representing a year-on-year decrease of 41.3%. Of which, the number of and proceeds from IPOs were 103 and RMB137.488 billion, representing a significant year-on-year decrease of 75.42% and 37.11%, respectively. The amount of refinancing (excluding share issuance for asset acquisition) was RMB493.121 billion, representing a year-on-year decrease of 42.37%.

During the Reporting Period, the Company actively promoted the implementation of existing projects and also tried its best effort to explore new and high-quality IPO projects by increasing their quality and scale. In particular, the Company targeted at quality enterprises engaging in "new economy" and technological innovation and carried out repeated visiting and adopted targeted marketing techniques. According to Wind, the Company remained at the same position as last year by being ranked eighth and ninth among the industry in terms of the amount of A Share underwritten and the number of A Share underwriting projects as a lead underwriter. The Company ranked the 5th and 4th among the industry in terms of both the amount of IPO underwritten and the number of IPO underwriting projects, up by two and three positions from last year. In terms of the amount of refinancing underwritten and the number of refinancing underwriting projects, the Company ranked tenth and eleventh among the industry, respectively. According to the CSRC, as of the end of 2018, the number of IPO projects handled by the Company pending approval was 19 (including approved projects to be offered), ranking fourth among the industry. During the Reporting Period, the Company completed a series of high-profile equity financing projects with great market influence such as those for IPO of Bank of Zhengzhou, Great Wall Securities, Xiamen Intretech Inc. and China Aluminum International Engineering, as well as issue of preferred stock of Muyuan Foods.

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Project	Amount of Equity Underwriting and the Number of Projects Underwritten by the Company				Year-on-year change in amount underwritten as lead underwriter
	2018		2017		
	Amount Underwritten as lead underwriter (RMB100 million)	Number of projects	Amount Underwritten as lead underwriter (RMB100 million)	Number of Projects	
A Share IPO	78.76	8	93.23	17	-15.52%
A Share refinancing	102.71	7	259.30	19	-60.39%
<b>Total</b>	<b>181.46</b>	<b>15</b>	<b>352.53</b>	<b>36</b>	<b>-48.53%</b>

Note: Refinancing excludes share issuance for asset acquisition

Source: Wind Info, as of the date of issue

### (2) Debt underwriting

In 2018, the financing size of the domestic bond market increased as a whole. The issuance of bonds (excluding inter-bank deposit certificates) amounted to a total of RMB22.67 trillion, representing a year-on-year increase of 10.20%; the issuance of credit bonds (excluding government bonds, local government bonds, inter-bank deposit certificates and financial bonds issued by policy banks) totaled RMB11.37 trillion, up 27.42% over last year. The issuance of corporate bonds, medium-term notes, commercial paper and asset-backed securities had kept strong growing momentum, while the issuance of enterprise bonds dropped to a certain extent.

During the Reporting Period, in addition to fortifying its professional team, and by means of continuous consolidation of quality products, the Company increased its efforts to explore targeted customers and asset-backed securities projects. It continued to maintain strong market competitiveness in bond underwriting business, and ranked among the top in the industry in terms of the amount of asset-backed securities underwritten. According to Wind, the amount underwritten (including debt securities issued as a principal) in 2018 by the Company has lead underwriter amounted to RMB463.108 billion, representing a year-on-year increase of 13.12% and enabled the Company to be ranked the third among the industry. The amount of ABS underwritten amounted to RMB232.784 billion and allowed the Company to be ranked the second among the industry with market share of 13.62%. In 2018, based on the advantageous foundation of maintaining traditional debt underwriting business, the Company enlarged the investment in innovative products and strengthened international business development, therefore facilitating the issues of numerous first-ever products of the industry, including: the first batch of "Belt and Road (B&R)" Panda Bonds – Iowa China Offshore Holdings (Hong Kong) Limited; "B&R" corporate bonds and China Merchants Port Holdings Company Limited "B&R" corporate bonds; the first long-term rental apartment mortgage-backed securities – "China Merchants Chuangrong – China Merchants Shekou long-term rental apartment special asset support plan"; the first domestic Residential Mortgage Backed Securities (RMBS) project that introduced the overseas investors through "Bond Connect (Northbound Trading)" – Jianyuan 2018-2 Residential Mortgage Backed Securities.

## Chapter 4: Report of the Board of Directors

Project	Amount and the Number of Bonds Underwritten by the Company				Year-on-year change in amount underwritten as lead underwriter (%)
	2018		2017		
	Amount Underwritten as lead underwriter (RMB100 million)	Amount of issuance (tranche)	Amount Underwritten as lead underwriter (RMB100 million)	Amount of issuance (tranche)	
Enterprise bonds	19.00	2	24.00	2	-20.83%
Corporate bonds	680.77	106	385.12	61	76.77%
Finance bonds	1,288.48	47	1,080.50	41	19.25%
Commercial paper	51.58	16	112.66	14	-54.22%
Medium-term notes	74.90	15	108.00	21	-30.65%
Private placement bonds	89.18	24	92.38	23	-3.46%
Convertible bonds	28.57	1	38.57	4	-25.93%
Asset-backed securities	2,327.84	323	2,085.40	278	11.63%
Others	70.76	175	167.33	59	-57.71%
<b>Total</b>	<b>4,631.08</b>	<b>709</b>	<b>4,093.96</b>	<b>503</b>	<b>13.12%</b>

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

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

### (3) Financial advisory

In 2018, the M&A transactions became more rational and the industrial integration and merger became the main stream of the market. According to Wind, in 2018, the transaction amount of M&A market in China (excluding inbound M&A and overseas M&A) amounted to RMB2.81 trillion, representing a year-on-year decrease of 5.05% and the number of transactions was 11,546, representing a year-on-year increase of 8.93%; the completed transaction amount of M&A market in China amounted to RMB1.68 trillion, representing a year-on-year decrease of 12.09% and the number of transactions was 7,270, representing a year-on-year increase of 12.64%.

During the Reporting Period, adhering to serving the real economy, the Company actively integrated transaction resources from various parties by capturing business opportunities arising from the transformation and upgrading of economic structure and SOE reforms. According to Wind, the Company disclosed 15 M&A transactions and the total M&A transaction amount as disclosed was RMB37.130 billion, enabling it to be ranked seventh among the industry. During the Reporting Period, the Company completed a number of projects with great market influence, including China Merchants port assets reorganization, M&A of Bosch motors by Zhengzhou Coal Mining Machinery and the M&A of AMD assembly and test facilities by TongFu Microelectronics Co., Ltd.. China Merchants port assets reorganization project facilitated listing of the entire group of China Merchant Group port assets on A-share market, which is the first ever red-chip listed company whose controlling right has been transferred back to domestic market through A-share listing.

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### (4) OTC Business

The National Equities Exchange and Quotations (NEEQ) market underwent more severe challenges in 2018. The number of business qualified for listing decreased. The market was relatively slump. According to the Choice Financial Terminal, as of the end of 2018, the number of listed enterprises in the market was 10,691, representing a year-on-year net decrease of 939; the amount of fund raised by newly listed companies on the NEEQ was RMB73.434 billion in 2018, representing a year-on-year decrease of 57.1%. Meanwhile, the requirement from the market towards operation and risk management capability of securities companies has been increasing.

During the Reporting Period, the Company continued to pay attention to market changes and strictly control business risks. OTC business had maintained its leading position in the industry. According to the “Results of Quality Evaluation on Qualification of Lead Managers 2018” (《2018年度主辦券商執業質量評價結果》) announced by National Equities Exchange and Quotations, the Company continued to be one of the top-notch lead managers with the fourth ranking among the industry. It had provided continuing supervision service to a total of 341 enterprises, enabling it to be ranked the sixth among the industry. It handled 47 NEEQ share placing projects, thus being ranked the fifth among the industry, and the total fund raising amount was RMB3.627 billion, therefore moving up to the second position among the industry.

### 3. Investment Management

The Company engages in securities asset management business and private equity fund management business through China Merchants Securities Asset Management Co., Ltd. and China Merchants Zhiyuan Capital Investment Co., Ltd. (“CMS Zhiyuan”), its wholly-owned subsidiaries, respectively. The Company engages in fund management business through Bosera Asset Management Co., Limited (“Bosera Funds”) and China Merchants Fund Management Co., Ltd. (“China Merchants Fund”), its associates.

#### (1) Asset Management

In 2018, the Guiding Opinions on Regulating the Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》) (hereinafter referred to as the “New Regulations on Asset Management”) and its Implementation Rules were successively issued, which exerted significant influence to asset management industry. Removal of guarantee return and asset management on a net worth basis, as well as focusing on active management have become the development direction of the industry. Under the dual impact of the New Regulations on Asset Management and market environment, the net income from annual brokerage asset management and and scale of asset under management were decline by 11.29% and 18.27%, respectively.

During the Reporting Period, by improving its active management capabilities, comprehensive layout and devoting effort in targeted areas, CMS Asset Management was able to maintain steady growth in operating results in the following aspects: first, the R&D capability continuously improved with significant increase in the results of active management product investment. Second, the Company launched innovative FOF products by keeping abreast of market hotspots and investor needs. Third, regenerating product advantages by launching new-era quantitative and all scenario multi-strategy series of products. Forth, cross-border asset deployment capability was persistently enhanced for issue of the Company’s first-ever QDIE cross-border equity investment products, which significantly expanded the investment scope and operating model of cross-border business.

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As at the end of 2018, the asset management scale of China Merchants Fund amounted to RMB713.465 billion, representing a year-on-year decrease of 8.43%, of which assets under active management amounted to RMB231.332 billion, representing a year-on-year increase of 81.86%. The scale of legally entrusted fund and net revenue from asset management segment accounted for 4.99% and 3.97% of market share in the industry, respectively, representing increases of 0.53 and 0.64 percentage point as compared to last year, respectively. The scale of legally entrusted fund ranked the fourth in the industry, up one position over last year.

Category	AUM scale and net revenue of securities asset management business of the Company			
	Scale of Asset under management (100 million)		Net revenue from asset management (100 million)	
	2018	2017	2018	2017
Collective asset management	1,317.75	471.46	8.27	7.87
Targeted asset management	5,249.80	6,876.35	2.53	2.26
Specialized asset management	567.10	443.85	0.13	0.18
<b>Total</b>	<b>7,134.65</b>	<b>7,791.66</b>	<b>10.93</b>	<b>10.32</b>

Source: internal statistics of the Company

### (2) Management of private equity funds

As at the end of 2018, there were 24,448 private investment fund managers registered with Asset Management Association, and a total of 74,642 private investment funds were filed. The size of asset management amounted to RMB12.78 trillion. Among them, there were 14,683 private equity and venture capital fund managers who managed 33,684 operating funds, with the size of fund management totaling RMB8.6 trillion.

In 2018, fundraising, investment and divestment deals in the equity investment market in China showed a downward trend and the market suffered considerable impact. Statistics of Zero2IPO Group indicated that: in 2018, proceeds raised by China's private equity funds amounted to RMB1,011.055 billion, representing a decrease of 28.9% as compared to last year; investments made in the investment market amounted to RMB852.764 billion, representing a decrease of 14.2% as compared to last year; there are 1,441 divestment cases, representing a decrease of 20.2% as compared to last year.

During the Reporting Period, CMS Zhiyuan further consolidated the "One Zhiyuan" investment management platform to fully enhance the professional capacities in terms of "fundraising, investment, management and withdrawal", improve the operational management efficiency as well as expand and strengthen the private equity investment business. Building on the existing business advantages and foundations and leveraging on the internal resources of China Merchants Group, it targeted to generate new source of income and create a win-win investment ecosystem. CMS Zhiyuan vigorously promoted the integration of industry and finance and seized market opportunities; innovated the mode of fund establishment and enhanced the fundraising efforts. In 2018, the Company actively explored the new opportunities arising from general health industry funds, TMT funds and venture capital funds, and completed



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the fund-raising intent solicitation for some funds. While expanding the investor base, it strived to enhance the professional investment capability, gradually replenish talents for key industries as well as to enhance project development efforts and optimize the use of existing resources of projects, so as to enhance the quality of the projects and lay a stronger foundations. As at the end of 2018, the accumulated scale of asset management of CMS Zhiyuan exceeded RMB21 billion and the accumulated investment scale amounted to over RMB10 billion. During the Reporting Period, the Company's investment business spread its foothold to a wide coverage, involving financial technology, education, culture, high-end manufacturing and artificial intelligence, etc., and invested in Dobe Culture (德必文化) and Investoday (今日投資), which are leading enterprises in various niche industries.

### (3) Fund management

In 2018, the growth of fund industry was slow down. On the one hand, it was benefited from the development of institution business, the launch of bank's wealth management products under new wealth management regulations and the equity layout brought by the expected rebound of equity market as well as the market opportunities arising from fund instalment investment, while on the other hand, it was hit by the wealth management subsidiaries of banks and faced challenges from intense competitions, decrease in the industry's profit margin and the increase in operation costs.

#### ① Bosera Funds

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

In 2018, Bosera Funds fully implemented the working principles of "advocating quality first, prioritizing efficiency, maintaining moderate scale, minimizing loss through risk control", so as to consolidate its advantages, pioneer innovations and enhance quality, thus driving the full-year investment results to achieve a significant increase and the management scale experience steady growth. As at the end of the Reporting Period, the AUM of Bosera Funds was RMB863.9 billion (excluding the assets managed by subsidiaries), of which assets managed under mutual funds (excluding feeder funds) was RMB556.8 billion. Such results maintained its top position among the industry. According to the data from Wind, Bosera Funds ranked first in the industry in terms of the scale of non-monetary mutual fund, as of the end of 2018.

#### ② China Merchants Fund

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

In 2018, China Merchants Fund formulated a new three-year strategic plan for 2018 to 2020. China Merchants Fund adheres to strategic leadership, achieves steady progress and consolidates our traditional advantages in areas such as launch of new products, fixed income results and scale as well as risk control and compliance. Through dedicated effort, it has achieved breakthroughs in strategic businesses like pension business; actively conducted deployment in internet finance, the business interaction between parents and subsidiaries and international business; made steady progress in strategic execution, IT application, refined management of operations and basic management; made a good start in business segments such as multi-asset allocation and FOF. As at the end of the Reporting Period, the AUM of China Merchants Fund was RMB493.7 billion (excluding the assets managed by subsidiaries), of which assets managed under mutual funds (excluding feeder funds) was RMB383.2 billion. According to the data from Wind, China Merchants Fund ranked 8th in the industry in terms of the scale of non-monetary mutual funds, as of the end of 2018.

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### 4. Investment and trading business

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

In 2018, the market fluctuated intensely due to various domestic and international factors. The A shares market showed a downward trend throughout the year, of which the Shanghai SE Composite Index and SZSE Composite Index have dropped 24.59% and 33.25% respectively, both were the second largest drops ever and reached the lowest level over the past consecutive four years. The monetary policy was marginally relaxed with the Central Bank facilitated a targeted required reserve ratios cut in January, April, June and October respectively. The targeted medium-term lending facility (TMLF) was established in December and the bonds market fluctuated but went strong, thus the ChinaBond Composite Index-Total Return Index rose by 8.22% throughout the year. The difficult transmission from easing of monetary policies to easing of credits, the unsolved problems of enterprises to obtain financing and frequent defaults had caused the amount of deferred payments of bonds for the whole year to exceed RMB100 billion, which hit the historical high.

#### (1) *Equity investment*

The Company adhered to the value investment concept for the directional investment business, strengthened its position management, optimized position structure and enhanced effort to investment research. We will strictly control our risk exposures by keeping abreast of market changes and explore multi-strategy proprietary model. In 2018, income from directional investment business had a significant year-on-year decrease due to the aggravation of market fluctuation. During the Reporting Period, the Company actively engaged in market-neutral investment business by adopting quantifying and hedging approaches and leveraged on our abundant strategies, in order to gain more-than-expected return steadily with low risk exposure. All of its existing businesses, including market-making for funds, market-making for exchange-traded options and trading of OTC derivatives. In terms of market-making for funds, the Company actively developed new projects and expanded the business scale; in terms of market-making for exchange-traded options, the Company continuously enhanced the market competitiveness of the quotation, while the OTC derivatives business actively expanded its customer base through various channels of the Company. By strengthening the innovation-driven business and enriching our investment instruments, we have obtained qualifications for various new businesses, including the primary dealer of cross-border business and OTC option business as well as the market maker of copper options in Shanghai Futures Exchange.

#### (2) *FICC*

In respect of the proprietary bond trading business, the Company strengthened macroeconomic research and credit research, vigorously developed neutral arbitrage strategies, enhanced the capability of liquidity management, so as to steadily expand the investment scale. By establishing a more comprehensive investment system, the Company increased its investment returns by employing multi-dimensional strategies. The investment yield rate of the bonds throughout the year exceeding the ChinaBond Composite Index-Total Return Index and performed comparatively well in the midst of a complicated business environment. While growing the existing businesses, the Company has also proactively prepared for and facilitated the rapid development of innovative business. We obtained the qualification of market-maker for Bond Connect business in July and became the first issuing institutions of credit risk mitigation instruments in the exchange

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market in December. We have also created the first credit protection contracts in the market for Hailiang Group (海亮集團), which is a private enterprise. For the commodity exchange business, the Company has actively improved its existing mature strategies, further enriched its business scopes and explored new business models, thus income from commodity exchange business recorded a substantial increase. In respect of foreign exchange business, the Company is actively applying for sale and settlement of foreign exchange business qualification with the State Administration of Foreign Exchange and the CSRC.

### (3) Sale and trading of OTC products

In 2018, the formulation and gradual implementation of new regulations relating to asset management had proposed stricter requirements of the risk prevention of various financial products, therefore the innovation of OTC products became increasingly prudent. In addition, the market environment was sluggish and coupled a factor of relatively larger amount of inventory, the financing demand of the Company was lowered and the number of issuance of structure notes decreased. During the Reporting Period, the Company has issued 224 income certificates in aggregate, the scale of which amounted to RMB20.536 billion.

In respect of the market-making business, the NEEQ market-making index for 2018 dropped to 718.94 points, representing a decrease of 27.65%. The Company adopted contraction strategy for the market-making business, exited from the market-making of some stocks to control the risk, and actively reduced holding to recoup funds. As of the end of 2018, the Company was providing market-making services for 36 stocks.

## 5. Overseas business

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

In 2018, Hong Kong's stock market reached a historical high and declined in general thereafter due to the effects from Sino-US trade conflicts. The Hang Seng Index decreased by 4,073 points as compared to year, representing a decrease of 14%, while the average daily trading volume amounted to HK\$107.4 billion, representing a year-on-year increase of 22%. Proceeds from IPOs in Hong Kong amounted to HK\$286.5 billion, representing a year-on-year increase of 123%. The amount raised from G3 bonds in the Asian market (except Japan) amounted to USD266.9 billion, representing a year-on-year drop of 20%.

In 2018, CMS International has put the emphasis on the seizure of listing opportunity for innovative companies in Hong Kong and strategically enhanced the coverage over the companies in new economy. During the Reporting Period, the Company has completed 15 IPO projects, whose underwriting amount was USD1.687 billion, 2 placement projects, for which approximately USD149 million was raised; 3 M&A and financial advisor projects, whose total transaction amount was USD2.166 billion; 11 bonds underwriting projects, whose total underwriting amount was USD499 million. In 2018, the Company ranked fifth in Hong Kong market in terms of IPO financing scale, IPO projects which received wide attention from the market mainly include: WuXi AppTec, Meituan Dianping, Innovent Biologics, Hope Education, Ascleptis Pharma,

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iDreamSky, Ping An Healthcare and Technology, Xiaomi Corporation, Qutoutiao, Babytree, 51 Credit Card, C-MER Eye and CSMall, etc. In respect of the securities business, the Company has enhanced the expansion efforts of capital-based intermediary business, the daily margin balance increased by 30% year-on-year. We have made progress in direct investment business after several years of development and those high quality projects have brought ideal returns to the Company. Impacted by market factors, the fixed-income business gradually transformed from proprietary bonds investment business to concentrated agency business, so as to increase the commission income activity and reduce overall market risks.

For the overseas subsidiaries, in addition to the commencement of brokerage business for the PRC and Hong Kong stocks, the Korean company actively promoted IPO underwriting, bonds and brokerage business for the US stocks, which enjoys a continuous and stable development. The British company mainly focused on bulk commodities and futures trading and recorded profits for the first time during the reporting period.

### 6. Outlook for 2019

In 2019, downside risks of the global economy are aggravating and the domestic macro-economy is facing more complex landscape. It will be an irresistible trend that the securities industry should be under comprehensive and stringent control in compliance with the laws. International financial institutions entering into the domestic securities business at an expedited pace will strike a direct hit to the relatively traditional business management system and customer service modes of the domestic securities industry. Besides, the continuous proactive financial tactics and stable monetary directions under the macro policies to maintain the economy operating on a reasonable track will provide a favorable macro-economic environment for the capital market and industry development in general.

2019 is the beginning of the Company's new five-year strategic plan. Led by the principle of reform and innovation and further implementation of "Quality and Efficiency Improvement" and "Double Hundred Actions", the Company will place effort in optimizing the organization and management of its investment banking business, integrating operating platforms, fully leveraging on financial technologies and improving the coordination system of asset management, in order to accomplish sustainable, high quality development blueprint for the future. The Company will focus on featured development and continue to enhance its core competitiveness. Upholding customer-oriented vision, it will try its best to become the best investment bank in China with international competitive strengths.

In respect of brokerage and wealth management businesses: the Company will promote the development of institutional business with the assistance of technologies and focus on the establishment of integrated service platforms for institutional customers, such as the trading platform for prime brokers, investment management platform and customer relationship management platform, so as to establish world-class institutional customer service brand. Technologies, diversified products and investment advisory service will support the transformation of retail brokerage, promote data-driven customer segmentation, intelligent investment advisory, targeted marketing and provision of wide variety of products through collaboration of various channels by different business, which form the business model of wealth management and enhance the loyalty and satisfaction of medium-to high-end customers. The Company will continue to develop the capital-based intermediary business in a stable manner and promote capital-driven marketing and customer services, so as to increase the overall income contribution from customers.

In respect of investment banking business: the Company will capitalize the driving force from the business values of investment banking, with a view to enhance the core capabilities of investment banking businesses as well as ascertaining our "customer-oriented" customer service system, thus enhancing the contribution of integrated values from customers. We will improve our professional capabilities comprehensively, in order to expand our customer base of medium to large enterprises and improve our competitiveness in corporate customer sector while maintaining our advantages in small-to-medium enterprises.

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In respect of investment and trading business: the Company's goal is to pursue absolute returns and moderately control the scale of directional investment, aiming at enlarging the scale of low-risk neutral strategic investments. We will expand and innovate our investment instruments by various channels in accordance with laws and regulations and under controllable risks, so as to build up our capability in global asset allocation; we will improve our marketing and promotion capability and speed up the development pace of our investment business based on customer needs.

In respect of investment and management business: performance, innovation, marketing and internal synergy will be the driving forces of the Company to achieve stable growth in active management scale and income. The Company will fully leverage on the synergistic effect brought by the "investment banking + direct investment" mode and strategically develop our direct investment business which includes PE fund management and alternative investment, so as to construct a leading professional direct investment platform for securities companies in China and promote the introduction of quality direct investment project resources into our investment banking business. Our subsidiaries of alternative investment will act as a platform for equity investment, enabling us to achieve a strategic breakthrough in our principal investment business.

In addition, the Company will consider technologies, innovation and synergy as the three driving forces and focus on seizing the opportunities for the development of the innovative business, such as the science and technology innovation board, Shanghai-London Stock Connect, Bond Connect, exchange-traded and OTC options and cross-border proprietary business, to increase and expand income from new business so as to enhance the proportion of income generating therefrom.

### (II) Analysis of Financial Statements

#### 1. Details of Changes Related to the Profit and Cash Flow

Unit: RMB'000

Item	Current period	Previous period	Year-on-year change
Total revenue and other income	18,069,548	19,258,886	-6.18%
Total expenses	13,539,536	12,997,819	4.17%
Profit before income tax	5,447,485	7,106,556	-23.35%
Profit of the year	4,446,261	5,804,709	-23.40%
Profit of the year attributable to shareholders of the Company	4,424,986	5,785,956	-23.52%
Net cash used in operating activities	36,690,925	-27,311,295	—
Net cash used in investing activities	-18,268,028	-7,631,703	—
Net cash generated from financing activities	-21,082,665	36,659,731	-157.51%
Net increase (decrease) in cash and cash equivalents	-2,659,768	1,716,733	-254.93%

In 2018, the Company recorded total revenue and other income of RMB18.070 billion, profit before income tax of RMB5.447 billion, net profit attributable to the parent company of RMB4.425 billion, representing a year-on-year decrease of 6.18%, 23.35% and 23.52%, respectively. Weighted average return on net assets was 5.58%, representing a year-on-year decrease of 2.81 percentage points.

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## 2. Income

Unit: RMB'000

Item	Current period		Previous period		Increase/Decrease	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Fee and commission income	7,753,532	42.91%	9,750,400	50.63%	-1,996,868	-20.48%
Interest income	8,186,595	45.31%	6,718,349	34.88%	1,468,246	21.85%
Net gain on investment	2,120,062	11.73%	2,876,948	14.94%	-756,886	-26.31%
Other income and gains	9,359	0.05%	-86,811	-0.45%	96,170	—
<b>Total revenue and other income</b>	<b>18,069,548</b>	<b>100.00%</b>	<b>19,258,886</b>	<b>100.00%</b>	<b>-1,189,338</b>	<b>-6.18%</b>

In 2018, the recognized revenue and other income amounted to RMB18.070 billion, representing a year-on-year decrease of RMB1.189 billion, or 6.18%, among which:

Fee and commission income recorded a year-on-year decrease of 20.48%, mainly due to the decrease in trading volume in A Share market and the decrease in commission rate of the securities trading agency business of the Company along with the overall decline in the industry. The income of securities and futures brokerage business recorded a year-on-year decrease of 21.39% which was mainly caused by the decrease in income from underwriting and sponsorship business by 38.56% as there was substantial diminishment in the scale of equity financing in the market as a result of the stringent reviews of IPO and new regulations on re-financing.

Interest income recorded a year-on-year increase of 21.85%. As a result of the application of new presentation of financial statements, interest income from the financial assets at fair value through other comprehensive income and interest income from the financial assets at amortised cost, which were previously under investment gain, had been credited to this item and causing an increase of RMB1.221 billion. The business size and the rate of return of margin financing and securities lending dropped, thus interest income from margin financing and securities lending recorded a year-on-year decrease of 7.12%. The interest income from securities-backed lending and stock repurchases increased by 35.2% year-on-year due to the significant growth in the daily scale of the business.

Net investment gains recorded a year-on-year decline of 26.31%, primarily due to the said application of new presentation of financial statements, which caused an amount of RMB1.221 billion, which previously credited to investment gains, being transferred to interest income, and the substantial decrease in the investment gain of the subsidiary Zhiyuan Capital's private equity investment during the year.

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### 3. Expenses

Unit: RMB'000

Item	Current period		Previous period		Increase/Decrease	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Depreciation and amortization	216,391	1.60%	198,526	1.53%	17,865	9.00%
Staff costs	3,850,480	28.44%	4,392,001	33.79%	-541,521	-12.33%
Fee and commission expenses	1,305,055	9.64%	1,813,267	13.95%	-508,212	-28.03%
Interest expenses	6,340,505	46.83%	4,921,863	37.87%	1,418,642	28.82%
Tax and surcharges	88,223	0.65%	96,490	0.74%	-8,267	-8.57%
Other operating expenses	1,614,634	11.93%	1,535,019	11.81%	79,615	5.19%
Asset impairment losses	0	0.00%	40,653	0.31%	-40,653	-100.00%
Credit impairment losses	121,037	0.89%	0	0.00%	121,037	-
Other impairment losses	3,211	0.02%	0	0.00%	3,211	-
<b>Total expenses</b>	<b>13,539,536</b>	<b>100.00%</b>	<b>12,997,819</b>	<b>100.00%</b>	<b>541,717</b>	<b>4.17%</b>

In 2018, the total expenses of the Company amounted to RMB13.54 billion, representing a year-on-year increase of 4.17%, of which:

Fee and commission expenses amounted to RMB1.305 billion, representing a year-on-year decrease of 28.03%, primarily due to the decrease of RMB276 million in fee and commission expenses of securities and futures brokerage business. Due to substantial diminishment in the scale of equity underwriting business, expenses of the underwriting and sponsorship business decreased by RMB180 million year-on-year.

Interest expenses amounted to RMB6.341 billion, representing a year-on-year increase of 28.82%, mainly due to a substantial increase in interest expenses for short-term corporate bonds, structured notes and financial assets sold under repurchase agreements as a result of an increase in the liabilities and financing of the Company.

Staff costs amounted to RMB3.85 billion, representing a year-on-year decrease of 12.33% primarily due to the decrease counting in accrued performance-linked salary of employees.

Other expenses mainly included depreciation and amortization, tax and surcharges, other operating expenses and impairment losses. Credit impairment losses previously charged under asset impairment losses were presented separately this year, which were mainly impairment losses from margin financing and securities lending and securities-backed lending and stock repurchases.

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### 4. Segment Revenues

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

Unit: RMB'000

Business segment	Current period		Previous period		Increase/Decrease		Change
	Amount	Percentage	Amount	Percentage	Amount	Percentage	
Brokerage and wealth management	11,353,355	62.83%	12,290,808	63.82%	-937,453	-7.63%	-0.99%
Investment banking	1,600,160	8.86%	2,576,609	13.38%	-976,449	-37.90%	-4.52%
Investment management	1,381,386	7.64%	1,750,112	9.09%	-368,726	-21.07%	-1.44%
Investment and trading	3,361,706	18.60%	2,454,640	12.75%	907,066	36.95%	5.86%
Others	434,498	2.40%	840,469	4.36%	-405,971	-48.30%	-1.96%

In 2018, the revenue and other income of the Company amounted to RMB18.07 billion, of which:

Revenue from the brokerage and wealth management recorded a year-on-year decrease of 7.63% and its percentage of the total revenue and other income decreased by 0.99 percentage points. In 2018, the average daily trading volume of the SSE and the SZSE and the average net commission rate of the industry recorded a year-on-year decrease of 17.63% and 7.42% respectively. During the reporting period, the Company adopted new marketing model by continuously improving APP customer experience, promoting transformation of wealth management and trying its best to build and optimize the integrated financial service system for institutional customer. All these enabled consolidation of the industry position of the Company.

Revenue from the investment banking business recorded a year-on-year decrease of 37.9% and its percentage of the total revenue and other income decreased by 4.52 percentage point. This was mainly due to scale of IPO and re-financing and income from underwriting dropped considerably as a result of the stringent reviews of IPO, significant decrease in approval rate and the new regulations on re-financing and shareholding reduction.

Revenue from the investment management business recorded a year-on-year decline of 21.07% and its percentage of the total revenue and other income decreased by 1.44 percentage points, mainly due to the significant year-on-year drop in the gain from the private equity investment of the subsidiary, CMS Zhiyuan.

Revenue from the investment and trading business recorded a significant year-on-year rise of 36.95% and its percentage of the total revenue and other income increased by 5.86 percentage points, mainly due to a substantial increase in the income from the Company's fixed income investment business, which was partially set off by loss from equity investment.



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### 4.2 Analysis of segment expenses

Unit: RMB'000

Business segment	Current period		Previous period		Increase/Decrease	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Brokerage and wealth management	8,698,045	64.24%	8,893,220	68.42%	-195,175	-2.19%
Investment banking	1,195,330	8.83%	1,505,031	11.58%	-309,701	-20.58%
Investment management	482,112	3.56%	461,140	3.55%	20,972	4.55%
Investment and trading	2,756,567	20.36%	1,957,618	15.06%	798,949	40.81%
Others	469,039	3.46%	834,562	6.42%	-365,523	-43.80%

In respect of the expenses of various business segments, the investment and trading business expenses recorded a year-on-year increase of 40.81%, mainly due to an increase in investment scale and interest expenses.

The expenses of investment banking business segment recorded a year-on-year decrease of 20.58%, mainly due to the significant diminishment in underwriting scale, decrease in related underwriting business expenses and decrease in performance bonus.

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## 5. Cash Flows

Unit: RMB'000

Item	Current period	Previous period	Amount Increase/decrease	Percentage Increase/decrease
Net cash used in operating activities	36,690,925	-27,311,295	64,002,220	—
Net cash used in investing activities	-18,268,028	-7,631,703	-10,636,325	—
Net cash generated from financing activities	-21,082,665	36,659,731	-57,742,396	-157.51%
Net increase (decrease) in cash and cash equivalents	-2,659,768	1,716,733	-4,376,501	-254.93%

In 2018, the net decrease in cash and cash equivalents of the Company was RMB2.66 billion. The net cash used in operating activities amounted to RMB36.691 billion. The net cash used in investing activities recorded a deficit of RMB18.268 billion. The net cash generated from financing activities recorded a deficit of RMB21.083 billion. The effect of foreign exchange rate changes in cash amounted to RMB431 million.

- (1) Net cash used in operating activities amounted to RMB36.691 billion, representing an increase of RMB64.002 billion as compared to 2017, primarily due to the diminished scale of advances to customers and financial assets held under resale agreements and increase in financial assets sold under repurchase agreements.
- (2) Net cash used in investing activities recorded a deficit of RMB18.268 billion, representing an decrease of RMB10.636 billion as compared to 2017, primarily due to the year-on-year increase in debt instruments purchased at fair value through other comprehensive income during the year.
- (3) Net cash generated from financing activities recorded a deficit of RMB21.083 billion, representing a decrease of RMB57.742 billion as compared to 2017, primarily due to a year-on-year increase of RMB16.374 billion in the repayment of bonds and short-term debt instruments, decrease in the proceed raised from issuance of perpetual bonds by RMB15.0 billion, decrease in the proceed raised by the issuance of bonds and from short-term financial bills payable by RMB 13.914 billion, as well as the decrease in the proceed raised from short-term borrowings by RMB8.928 billion.

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## 6. Overview of consolidated statement of financial position

Unit: RMB'000

Item	December 31, 2018		December 31, 2017		Increase/Decrease	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
<b>Non-current assets</b>						
Property and equipment	1,628,792	0.53%	1,832,087	0.64%	-203,295	-11.10%
Prepaid land lease	431,685	0.14%	0	0.00%	431,685	—
Goodwill	9,671	0.00%	9,671	0.00%	0	0.00%
Other intangible assets	19,121	0.01%	21,579	0.01%	-2,458	-11.39%
Investment in associates	8,287,924	2.72%	7,489,497	2.62%	798,427	10.66%
Available-for-sale financial assets	0	0.00%	7,793,163	2.73%	-7,793,163	-100.00%
Financial instruments at fair value through other comprehensive income	6,722,607	2.20%	0	0.00%	6,722,607	—
Financial instruments at amortised cost	1,796,608	0.59%	0	0.00%	1,796,608	—
Financial assets held under resale agreements	5,277,749	1.73%	8,801,458	3.08%	-3,523,709	-40.04%
Financial assets at fair value through profit or loss	2,202,967	0.72%	0	0.00%	2,202,967	—
Deferred tax assets	868,510	0.28%	903,214	0.32%	-34,704	-3.84%
Other non-current assets	221,103	0.07%	197,917	0.07%	23,186	11.72%
<b>Total non-current assets</b>	<b>27,466,737</b>	<b>9.01%</b>	<b>27,048,586</b>	<b>9.47%</b>	<b>418,151</b>	<b>1.55%</b>
<b>Current assets</b>						
Advances to customers	42,976,430	14.09%	59,235,426	20.74%	-16,258,996	-27.45%
Investment in receivables	3,298,003	1.08%	4,511,278	1.58%	-1,213,275	-26.89%
Available-for-sale financial assets	0	0.00%	25,482,190	8.92%	-25,482,190	-100.00%
Debt instruments at fair value through other comprehensive income	41,642,341	13.66%	0	0.00%	41,642,341	—
Debt instruments at amortised cost	47,587	0.02%	84,621	0.03%	-37,034	-43.76%
Financial assets held under resale agreements	27,766,111	9.11%	27,297,865	9.56%	468,246	1.72%
Financial assets at fair value through profit or loss	97,921,779	32.11%	73,070,285	25.58%	24,851,495	34.01%
Derivative financial assets	1,150,232	0.38%	1,021,640	0.36%	128,592	12.59%
Deposits with Exchanges and non-bank financial institutions	1,431,420	0.47%	1,224,478	0.43%	206,942	16.90%
Clearing settlement funds	13,796,281	4.52%	14,010,491	4.90%	-214,210	-1.53%
Cash and bank balances	47,433,784	15.56%	52,656,695	18.43%	-5,222,911	-9.92%
<b>Total current assets</b>	<b>277,463,968</b>	<b>90.99%</b>	<b>258,594,969</b>	<b>90.53%</b>	<b>18,868,999</b>	<b>7.30%</b>
<b>Total assets</b>	<b>304,930,705</b>	<b>100.00%</b>	<b>285,643,555</b>	<b>100.00%</b>	<b>19,287,150</b>	<b>6.75%</b>

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At the end of 2018, the total assets of the Company was RMB304.931 billion, increased by RMB19.287 billion, or 6.75%, as compared with the end of 2017. The total current assets amounted to RMB277.464 billion and total non-current assets accounted to RMB27.467 billion. Excluding the accounts payable to brokerage clients, the total assets at the end of the year amounted to RMB256.019 billion, increased by RMB21.471 billion, or 9.15%, as compared with the end of 2017. Among which: financial assets of the Company at the end of the period increased by RMB44.117 billion as compared with the end of 2017; and the financial assets held under resale agreements and advances to customers of the Company at the end of the period decreased by RMB19.314 billion as compared with the end of 2017.

The Company has maintained satisfactory assets quality and liquidity as well as adequate provision for impairment loss. Net current assets at the end of 2018 amounted to RMB93.736 billion, representing an increase of RMB11.506 billion, or 13.99% over last year, which was primarily due to the growth in the investment scale of financial assets. At the end of 2018, the Company's cash and bank balances and clearing settlement funds, financial assets, advances to customers, financial assets held under resale agreements and long-term equity investment accounted for 20%, 50%, 14%, 11% and 3% of the total assets, respectively.

As at December 31, 2018, the gearing ratio, after deducting accounts payable to brokerage clients, of the Company was 68.44%, representing a rise of 2.26 percentage points as compared with the end of 2017.

## Chapter 4: Report of the Board of Directors

Unit: RMB'000

Item	December 31, 2018		December 31, 2017		Increase/decrease	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
<b>Current liabilities</b>						
Short-term borrowings	1,581,861	0.71%	6,611,444	3.20%	-5,029,583	-76.07%
Short-term debt instruments	34,850,476	15.55%	47,045,670	22.80%	-12,195,194	-25.92%
Placements from other financial institutions	3,519,000	1.57%	1,470,000	0.71%	2,049,000	139.39%
Accounts payable to brokerage clients	48,911,748	21.82%	51,095,335	24.77%	-2,183,587	-4.27%
Accrued staff costs	3,654,135	1.63%	4,640,605	2.25%	-986,470	-21.26%
Other payables and accrued charges	3,524,201	1.57%	5,022,544	2.43%	-1,498,343	-29.83%
Current tax liabilities	133,968	0.06%	141,817	0.07%	-7,849	-5.53%
Financial liabilities at fair value through profit or loss	7,124,452	3.18%	5,492,509	2.66%	1,631,943	29.71%
Derivative financial liabilities	1,305,685	0.58%	1,584,910	0.77%	-279,225	-17.62%
Financial assets sold under repurchase agreements	61,267,557	27.33%	33,382,970	16.18%	27,884,587	83.53%
Long-term borrowings due within one year	0	0.00%	378,134	0.18%	-378,134	-100.00%
Bonds payable due within one year	17,855,355	7.97%	19,499,911	9.45%	-1,644,556	-8.43%
<b>Total current liabilities</b>	<b>183,728,438</b>	<b>81.97%</b>	<b>176,365,849</b>	<b>85.49%</b>	<b>7,362,589</b>	<b>4.17%</b>
<b>Net current assets</b>	<b>93,735,530</b>	<b>41.82%</b>	<b>82,229,120</b>	<b>39.86%</b>	<b>11,506,410</b>	<b>13.99%</b>
<b>Total assets less current liabilities</b>	<b>121,202,267</b>	<b>54.07%</b>	<b>109,277,706</b>	<b>52.97%</b>	<b>11,924,561</b>	<b>10.91%</b>
<b>Non-current liabilities</b>						
Accrued staff costs	787,540	0.35%	787,540	0.38%	0	0.00%
Deferred tax liabilities	148,764	0.07%	235,002	0.11%	-86,238	-36.70%
Financial liabilities at fair value through profit or loss	2,404,123	1.07%	0	0.00%	2,404,123	-
Deferred income	125,734	0.06%	126,000	0.06%	-266	-0.21%
Long-term borrowings	1,380,015	0.62%	1,065,786	0.52%	314,229	29.48%
Bonds payable	35,563,737	15.87%	27,729,674	13.44%	7,834,063	28.25%
<b>Total non-current liabilities</b>	<b>40,409,913</b>	<b>18.03%</b>	<b>29,944,002</b>	<b>14.51%</b>	<b>10,465,911</b>	<b>34.95%</b>
<b>Total liabilities</b>	<b>224,138,351</b>	<b>100.00%</b>	<b>206,309,851</b>	<b>100.00%</b>	<b>17,828,500</b>	<b>8.64%</b>

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As at the end of 2018, the total liabilities of the Company was RMB224.138 billion, representing an increase of RMB17.829 billion, or 8.64%, as compared with the end of 2017. The current liabilities amounted to RMB183.728 billion and non-current liabilities amounted to RMB40.410 billion. Accounts payable to brokerage clients decreased by RMB2.184 billion as compared with the end of 2017. Excluding the accounts payable to brokerage clients, the total liabilities of the Company amounted to RMB175.227 billion, increased by RMB20.012 billion as compared with the end of 2017. The financial assets sold under repurchase agreements increased by RMB27.885 billion; short-term debt instruments decreased by RMB12.195 billion; short-term borrowings at the end of the period decreased by RMB5.030 billion and the bond payable at the end of the period increased by RMB6.19 billion.

Unit: RMB'000

Item	December 31, 2018		December 31, 2017		Increase/decrease	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
<b>Equity</b>						
Share capital	6,699,409	8.29%	6,699,409	8.44%	0	0.00%
Other equity instruments	15,000,000	18.57%	15,000,000	18.91%	0	0.00%
Capital reserve	27,533,939	34.08%	27,533,939	34.71%	0	0.00%
Investment revaluation reserve-available-for-sale financial assets	0	0.00%	327,404	0.41%	-327,404	-100.00%
Investment revaluation reserve — financial assets at fair value through other comprehensive income	299,070	0.37%	0	0.00%	299,070	—
Foreign currency translation reserve	172,076	0.21%	-114,737	-0.14%	286,813	—
General reserves	13,864,963	17.16%	12,790,340	16.12%	1,074,623	8.40%
Retained profits	17,153,389	21.23%	16,993,794	21.42%	159,595	0.94%
Equity attributable to shareholders of the Company	80,722,846	99.91%	79,230,149	99.87%	1,492,697	1.88%
Non-controlling interests	69,508	0.09%	103,555	0.13%	-34,047	-32.88%
<b>Total equity</b>	<b>80,792,354</b>	<b>100.00%</b>	<b>79,333,704</b>	<b>100.00%</b>	<b>1,458,650</b>	<b>1.84%</b>

As at the end of 2018, the equity attributable to shareholders of the Company was RMB80.723 billion, representing an increase of 1.88% as compared with the end of 2017. Net profit attributable to the parent company amounted to RMB4.425 billion, dividends distributed to shareholders amounted to RMB2.318 billion and interest payable for perpetual subordinated bonds amounted to RMB802 million.

## Chapter 4: Report of the Board of Directors

### (III) Analysis of investment

#### *Analysis of total external equity investments*

During the reporting period, the Company did not have new external equity investment.

#### (1) Significant equity investments

Unit: RMB10,000

Investees	Initial investment	Shareholding as at the beginning of the period (%)	Shareholding as at the end of the period (%)	Closing balance	Gain or loss during the Reporting Period	Change in equity attributable to the owner during the Reporting Period	Accounting item	Source
Bosera Asset Management Co., Limited	369,319.04	49.00	49.00	481,093.84	44,268.82	-85.63	Long-term equity investment	Acquisition
China Merchants Fund Management Co., Ltd.	85,084.45	45.00	45.00	239,204.12	40,226.10	118.70	Long-term equity investment	Promotion and acquisition

Notes:

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

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## (2) Significant non-equity investment

Unit: RMB10,000

Project	Amount	Progress	Amount invested during the year	Total Investment actually paid	Return
Construction project of the China Merchants Securities Building	145,000.00	completed	23,910.42	137,157.63	—
<b>Total</b>	<b>145,000.00</b>	<b>—</b>	<b>23,910.42</b>	<b>137,157.63</b>	<b>—</b>

As at December 31, 2018, the construction project of the China Merchants Securities Building had been completed, inspected and accepted, and had been carried forward to fixed assets.

## (3) Financial assets measured at fair value

Unit: RMB10,000

Project	As of the end of 2018		2018	
	Initial investment cost/nominal amount	Fair value	Investment gains and interest income	Change in fair value
Financial assets held-for-trading	9,913,246.15	10,012,474.60	165,501.38	-52,710.82
Other debt investments	4,029,317.12	4,164,234.14	109,760.31	78,138.65
Other equity investments	688,253.00	672,260.68	58,796.99	-91,399.22
Derivative financial assets	12,638,800.46	115,023.22	71,309.38	3,829.57
Derivative financial liabilities		130,568.55		
Financial liabilities held-for-trading	940,918.67	952,857.50	-17,154.89	-15,319.24
<b>Subtotal</b>	<b>—</b>	<b>—</b>	<b>388,213.17</b>	<b>-77,461.06</b>

## (IV) Material acquisition and disposal of subsidiaries, associates and joint ventures

During the Reporting Period, the Group did not have any material acquisition and disposal of subsidiaries, associates and joint ventures.



## Chapter 4: Report of the Board of Directors

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

#### 1. Analysis of subsidiaries

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

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

Unit: RMB10,000

Item	For/as of the end of 2018	For/as of the end of 2017
Registered capital	100,000	100,000
Total revenue and other income	123,315	115,591
Net profit	66,810	71,837
Total assets	398,127	309,844
Net assets	342,923	276,113

##### (2) China Merchants Securities International Company Limited

CMS International is a wholly-owned subsidiary of the Company and has a paid-up capital of HK\$4.1036 billion. CMS International is principally engaged in securities and futures contracts brokerage, custody services, listing sponsorship, financial advisory, corporate financing, investment management, asset management, market researches and other businesses permitted by local securities regulatory rules in the place of relevant subsidiary through its subsidiaries.

Unit: HK\$10,000

Item	For/as of the end of 2018	For/as of the end of 2017
Registered capital	410,363	180,363
Total revenue and other income	111,925	141,002
Net profit	8,941	29,952
Total assets	2,044,580	2,248,187
Net assets	557,128	318,438

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

China Merchants Futures is a wholly-owned subsidiary of the Company with a registered capital of RMB630 million. As of December 31, 2018, China Merchants Futures had four branches in Beijing, Guangzhou, Shanghai and Hangzhou. Its principal businesses include commodity futures brokerage, financial futures brokerage, futures investment consultation and asset management.

Unit: RMB10,000

Item	For/as of the end of 2018	For/as of the end of 2017
Registered capital	63,000	63,000
Total revenue and other income	50,789	60,160
Net profit	14,286	16,858
Total assets	526,566	565,853
Net assets	144,322	130,037

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

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

Unit: RMB10,000

Item	For/as of the end of 2018	For/as of the end of 2017
Registered capital	210,000	180,000
Total revenue and other income	5,821	59,240
Net profit attributable to the parent company	-10,048	30,809
Total assets	627,414	606,158
Net assets attributable to the parent company	219,753	229,801

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

As of December 31, 2018, China Merchants Securities Investment Co., Ltd., a wholly-owned subsidiary of the Company, had a registered capital of RMB3.1 billion and a paid-up capital of RMB1.2 billion. It is principally engaged in equity investment and financial product investment etc.

Unit: RMB10,000

Item	For/as of the end of 2018	For/as of the end of 2017
Registered capital	310,000	120,000
Total revenue and other income	309	1,124
Net profit	7,812	2,658
Total assets	134,358	126,758
Net assets	134,354	126,543

## Chapter 4: Report of the Board of Directors

### 2. Analysis of associated companies

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

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

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

Unit: RMB10,000

Item	For/as of the end of 2018	For/as of the end of 2017
Registered capital	25,000	25,000
Operating income	316,536	310,216
Operating profit	119,602	128,545
Net profit	90,345	93,874
Total assets	671,301	555,662
Net assets	419,299	349,129

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

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

The following table sets forth the key financial figures of China Merchants Fund during the Reporting Period:

Unit: RMB10,000

Item	For/as of the end of 2018	For/as of the end of 2017
Registered capital	131,000	131,000
Operating income	258,704	274,694
Operating profit	113,564	101,220
Net profit	89,391	80,307
Total assets	661,184	664,780
Net assets	487,221	397,566

## Chapter 4: Report of the Board of Directors

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

As of December 31, 2018, the Group consolidated 13 structured entities, including mainly collective asset management schemes, limited partnership and investment funds. Under the circumstance that the Group is involved in a structured entity as manager and investor, the Group assesses whether its potential variable returns will be significantly affected by the returns attributable to its investment and the remuneration as a manager and whether the Group is a principal of the entity. As of December 31, 2018, the total assets of the consolidated structured entities amounted to RMB6.625 billion.

### (VII) Financing

#### 1. *Financing channels*

The Company has explored and developed a financing platform integrating long, medium and short term financing instruments such as domestic and overseas IPO, follow-on equity offering, perpetual subordinated bonds, corporate bonds, subordinated bonds, private issue of corporate bonds, asset securitization, bank borrowings, short-term corporate bonds, commercial papers, structured notes, income right transfer, margin and securities refinancing, and inter-bank borrowing, which played a significant role in the steady and rapid business development of the Company.

Major financing activities during the year: in 2018, the Company publicly issued 5 tranches of corporate bonds to qualified investors, raising a total of RMB12.24 billion; privately issued 7 tranches of corporate bonds, raising a total of RMB24.37 billion; issued 2 tranches of subordinated bonds, raising a total of RMB6.79 billion; issued 6 tranches of commercial papers on rolling basis, raising a total of RMB14.0 billion; issued 224 tranches of structured notes, raising a total of RMB20.536 billion.

#### 2. *Structure of liabilities*

As of the end of 2018, the total liabilities of the Company amounted to RMB224.138 billion. Excluding the transaction settlement funds from customers, the liabilities amounted to RMB175.227 billion. Liabilities mainly included corporate bonds, private issue of corporate bonds, subordinated bonds, commercial paper, structured notes, bank borrowings and financing of bond repurchase. As of the end of 2018, the balance of bonds payable amounted to RMB53.419 billion, accounting for 30.49% of the liabilities. Long-term borrowings amounted to RMB1.380 billion, accounting for 0.79% of the liabilities. The balance of commercial paper payable amounted to RMB34.850 billion, accounting for 19.89% of the liabilities. The balance of financial assets sold under repurchase agreements amounted to RMB61.268 billion, accounting for 34.96% of the liabilities. Short-term borrowings amounted to RMB1.582 billion, accounting for 0.90% of the liabilities. Interbank borrowings amounted to RMB3.519 billion, accounting for 2.01% of the liabilities. Currently, the Company has no debts overdue. The solvency of the Company is strong and the liquidity risk is controllable.

## Chapter 4: Report of the Board of Directors

### 3. *Liquidity management*

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

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

## Chapter 4: Report of the Board of Directors

### (VIII) Business innovation and risk control during the Reporting Period

#### 1. Business innovation during the Reporting Period

In 2018, the Company fully seized the new opportunities for the provision of capital market service amid the forming of modern economic systems and the new demands from our customers are increasingly complicated and personalized. We have been proactively promoting the innovation of finance technology applications and commencing active innovation of our businesses, products and services, all of these effort has obtained fruitful results.

**In respect of brokerage and wealth management business**, we will continue to promote the development of wealth management business with the assistance of technologies, namely, the successively launched PC version and APP6.0 of Zhiyuan Yi Hu Tong (智遠一戶通) for smart online transaction, so as to provide customers with intelligent services including intelligent stock selection, intelligent market monitoring, voice assistant as well as real-time profit and loss analysis. We have launched the Turing stock assessment (圖靈診股) to improve our wealth management platform, and provide more comprehensive support for wealth advisor business ranging from customer service to product marketing and intelligent instruments. We will gradually launch the Alpha series innovative trading platform and total asset investment management platform for institutional and professional investors.

**In respect of investment banking business**, we solely underwrite the first two “Belt and Road (B&R)” Panda Bonds – China Merchants Port Holdings Company Limited “B&R” corporate bonds and Iowa China Offshore Holdings (Hong Kong) Limited “B&R” corporate bonds in the market, in order to facilitate the issuance of CMBS for the first domestic shelf-registered long-term rental apartment. It is our first time to introduce foreign investors to subscribe domestic ABS subordinated bonds through the “Bond Connect”. We will closely monitor and seize new business opportunities brought by Shanghai-London Stock Connect and science and technology innovation board, so as to expand business in new economic system.

**In respect of investment management business**, we have launched the All-star private FOF product and quantitative unicorn private portfolio products by keeping abreast of market hot spots and investors’ needs. We have completed the issuance of first QDIE cross-border equity investment products, therefore generating new channels for our cross-border business.

**In respect of investment and trading business**, we have promoted the innovative development of our international business and have obtained the pilot qualification to conduct cross-border business and the qualifications for market maker business for “Bond Connect (Northbound Trading)”. We have obtained the primary dealer qualification of OTC option business and the market maker qualification of copper options, crude oil and nickel futures in the Shanghai Futures Exchange, and we can improve our market-making business for derivatives through the use of financial technologies. We have obtained the qualification for credit derivative business and successfully executed credit protection contracts.

## Chapter 4: Report of the Board of Directors

### 2. Risk control of the innovative businesses

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

The Company has established an innovative development committee which acts as the decision making organ for promotion of innovative businesses and related important matters. The Company sets up an innovative office to centralize the management and coordination of innovative businesses and to formulate policies such as Rules of Meeting of the Innovative Development Committee (創新發展委員會議事規則) and Management System of Innovative Businesses (創新活動管理制度). In accordance with the requirements of the Company, an innovative business shall be approved through formal procedures before commencement. The risk management department and legal and compliance department of the Company will participate in the early stages of an innovative business such as proposal, planning and review in order to identify risks, conduct stress tests and compliance examination to prevent legal risks and to ensure the feasibility and overall quality of such innovative business. They also guide the business departments to formulate and improve the policies and procedures under the internal control system. Major innovative businesses shall be subject to specific approval of the Risk Management Committee of the Company.

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

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

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

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

### (IX) Establishment and shutting down of branches during the reporting period

In 2018, pursuant to the Approval for Establishment of 16 Branches by China Merchants Securities Co., Ltd. from CSRC Shenzhen Office (Shen Zheng Ju Xu Ke Zi [2018] No. 43) (《深圳證監局關於核准招商證券股份有限公司設立16家分支機構的批覆》(深證局許可字[2018]43號)), the Company established 16 securities branches in 9 cities, including Beijing. 6 of which have officially commenced operation, while 10 of which have been under preparation but yet to open. The Company has a total of 249 securities branches in operation.



## Chapter 4: Report of the Board of Directors

### III. DISCUSSION AND ANALYSIS OF FUTURE DEVELOPMENT OF THE COMPANY

#### (I) Industry Landscape and Trend

##### 1. *Competition Landscape of the Securities Industry*

The securities industry has entered into a period of reshaping where supports only offer to the excellence but eliminating inferiority to expedite situation reshuffle, leading to a situation that “the stronger one stays sturdy, the powerful one holds the highest authority, the leader dominates top position, while the weak is to be ousted”. Under which, the Matthew effect is irreversible. Looking back to the last few years, large-scale brokers stand at the commanding position for the development of industry, which causes increasingly concentration of the domestic securities industry.

##### 2. *Development Trend of the Securities Industry*

Looking forward, the trend of “supports only offer to the excellence but eliminating inferiority” in supervisory level will continue to prevail. When conducting review on consolidated accounts, implementing key innovative pilot projects and carrying out the evaluation of compliance categorization, the supervisory level may act in the favour of the large-scale brokers with strong capital strength and leading operating scale. Strong capital strength and leading operating scale are the crucial foundations for large-scale brokers to seize business opportunities and each broker is facing the challenge of continuous capital replenishment and enhancement of market position.

#### (II) Development strategies of the Company

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

China’s securities industry will remain in the era of significant opportunities. Firstly, the domestic economy will transit from a stage of rapid growth to a stage of high-quality development. Being an important vehicle to serve the real economy by providing financial services, there are fertile soil for the securities industry to maintain long-term, healthy and sustainable growth. Secondly, given fast accumulation of residents’ wealth, together with the growing demand for higher-quality financial consumption, investment and wealth management services, institutional investors will gradually become leading players in the market and generate more diversified business demands and more profitable models for the securities companies. Thirdly, as supply-side structural reform progressing, plus the pace of ownership reform of state-owned enterprises expediting and the implementation of national strategies including innovation-driven tactics underway, all these will bring about strategic business development opportunities to securities companies in various aspects like M&A and restructuring, equity investments in emerging industries and bond financing. Fourthly, there will be more financial instruments available, the operating systems and trading mechanisms will be improved in a faster way and the two-way opening-up will reach a new level, all of which will contribute to a prosperous outlook for cross-market investments and transactions that are free from restriction of time and space.

## Chapter 4: Report of the Board of Directors

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

First, the slowdown in macroeconomic growth rate in China and the execution of increasingly intensified measures in preventing and resolving significant risks and dealing with financial deleveraging, the securities industry in China will be difficult to shortly replicate the rapid growth in the last few years. Second, the ecosystem of the financial industry is being reconstructed by new technologies including mobile internet, big data, cloud computing, blockchain and artificial intelligence. Third, the rapid increase in customers' demands will speed up the transformation of the business model of securities companies to integrated and digitalized operation, which poses huge challenges to the organization and operation capabilities as well as comprehensive risk management capabilities of securities companies. Fourth, it is inevitable for the securities industry to be under comprehensive and strict control, thus the business, organization and operation model of securities companies must be upgraded and reformed. Fifth, China has significantly relaxed the limitation on the proportion of foreign investment in the financial industry. International financial institutions will leverage on global resources, well-developed customer service models as well as flexible and rapid innovation capability, which imposes direct impacts to the relatively traditional business management system and customer service model of China's securities industry.

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

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

### 4. *Innovative areas where the Company intends to explore in 2019*

In 2019, the Company will continue to focus on innovative-driven operation, actively explore various kinds of businesses and innovative products, and persistently enhance its ability to improve the provision of diversified services to customers. On the one hand, the Company will keep abreast with the trend of innovations and grasp the opportunities arising from innovative businesses such as science and technology innovation board, CDR, Shanghai-London Stock Connect, Bond Connect, exchange-traded and OTC options and cross-border proprietary business. On the other hand, the Company will expedite the development of financial technologies based on the aims of "digitalization, intellectualization", facilitate innovations in financial technologies, explore innovative application of financial technologies in different areas namely wealth management, investment banking, risk management, etc., and strengthen the capabilities of the APP of the Company in customer attractions, customers' experience, customer services, risk control, striving to equip the Company with high technologies for further stable development.

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### (III) Business plans

2019 is the beginning of the Company's new five-year strategy and also the key to the success of "Quality and Efficiency Improvement" and "Double Hundred Actions". In 2019, the Company will maintain its existing business, stabilize and increase revenue, improve quality and efficiency, so as to be well poised for transformation for a good start of the five year strategy. We will place more effort on reform to ensure all measures for transformation will be successful and well-prepared for future development, we will stick to compliance, risk controls and maintain healthy operations.

### (IV) Potential risks and corresponding measures

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

#### 1. Risk Management

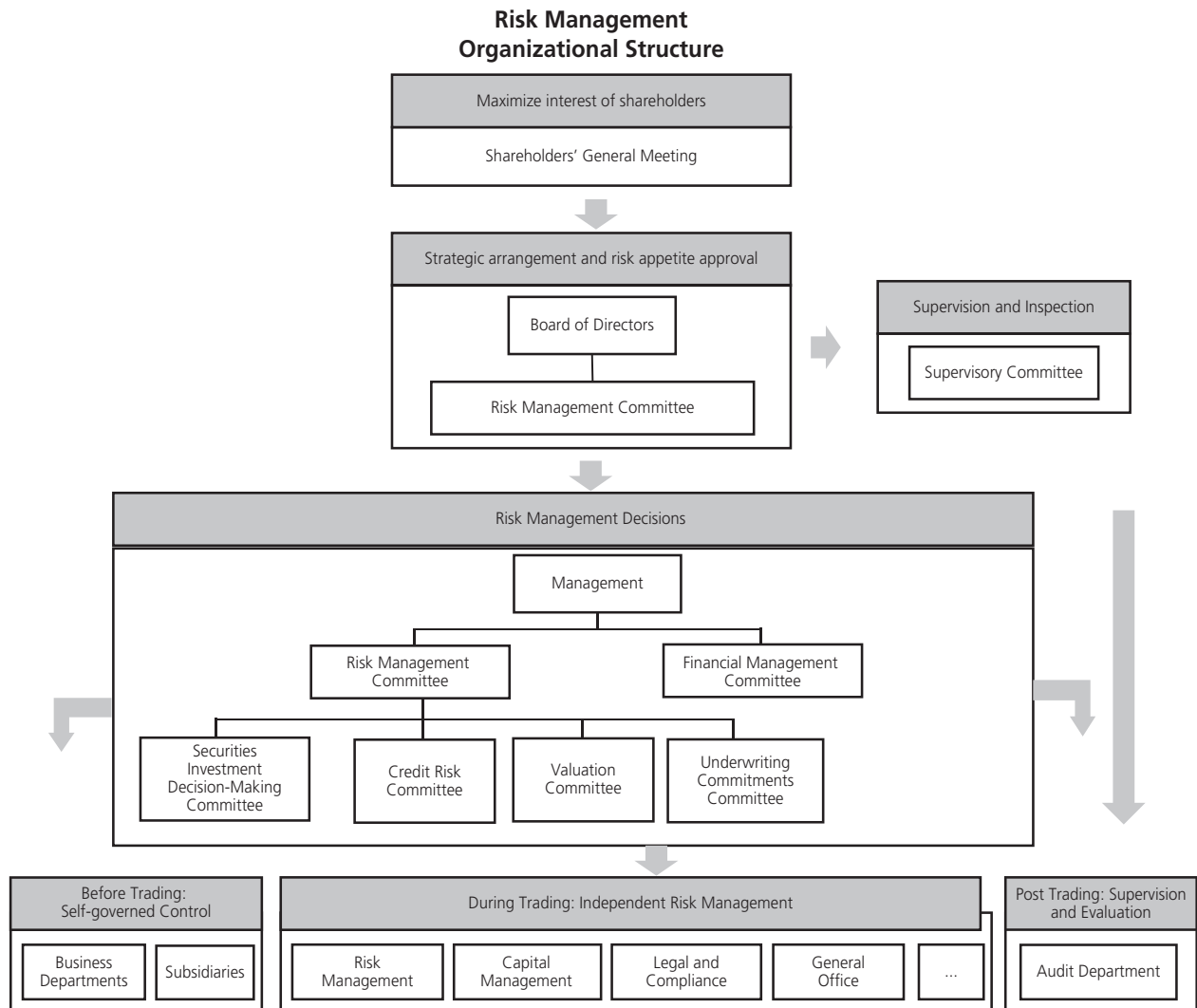
##### (1) Risk management structure

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

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

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The chart below sets out our risk management organizational structure:



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

- ① The Board and its Risk Management Committee are primarily responsible for reviewing and approving the risk management system, the risk appetite, risk tolerance and various risk limit indicators of the Company, considering and approving the allocation plan of economic capital of the Company, convening quarterly meetings to review quarterly risk reports and thoroughly assessing the risk management of the Company.
- ② The Supervisory Committee is responsible for supervising and examining the overall operation of the risk management system of the Company.
- ③ The senior management is responsible for the overall risk management in the Company's business operations. They regularly review risk assessment reports, formulate risk management measures and establish risk limit indicators. The Risk Management Committee and the Financial Management Committee are set up under the senior management. The Risk Management Committee serves as the highest risk management decision-maker at the operation level. The Company has also appointed a Chief Risk Officer to oversee the formation of the overall risk management system, monitor, evaluate and report the overall risk level, and provide risk management advice for business decision-making of the Company. In addition, Securities Investment Decision-making Committee, Credit Risk Committee, Valuation Committee and Underwriting Commitments Committee were set up under the Risk Management Committee, which are responsible for making collective decisions based on experts' suggestions on issues relating to securities investment, credit risk, securities evaluation and underwriting risks within their respective scopes of authorization. The risk management of subsidiaries is managed by the overall risk management system of the Company through vertical management approach. The person-in-charge of risk management of subsidiaries shall be nominated, appointed, removed and appraised by the Chief Risk Officer of the Company.
- ④ As a department to coordinate market, credit and operating risks management of the Company, the Risk Management Department is responsible for managing the market risks and credit risks, as well as assisting and guiding other business departments in managing operational risks of the Company. As a department in charge of the liquidity risk management of the Company, the Capital Management Department is responsible for managing liquidity risks and the formation of the liquidity risk management system. The Legal and Compliance Department is responsible for managing the compliance and legal risks of the Company and assisting the Chief Compliance Officer in reviewing, supervising and examining the compliance of both the business operations of the Company and the employees' practices and behaviours. The General Office, together with the Risk Management Department and other relevant departments, are responsible for managing the reputation risks of the Company. The Audit Department is responsible for auditing and examining the effectiveness and execution of the risk management procedures of the Company as well as conducting an overall evaluation of the internal control system of the Company at least once a year.
- ⑤ Each of the business departments, branches and wholly-owned subsidiaries of the Company is directly responsible for risk management and supervision of their respective business and management fields.

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

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### (2) Risk management system

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

### (3) Quantitative risk management indicator system

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

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

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### (4) Risk management culture

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

### (5) Risk management of IT system

The Company fully understands the importance of IT system in the modern risk management and has facilitated the setting up of different types of systems. Various upgrades and buildings of risk management information system had been completed in 2018, including advanced risk management IT systems either developed in collaboration with the IT Department of the Company or introduced from home and abroad. A relatively comprehensive market risk management IT system has been established covering the acquisition of daily real-time market information, monitoring of business risks, quantified risk analysis and measurement and risk reports from multiple dimensions, layers and perspectives. The system was continuously updated to include more data and business types. It conducts highly efficient and comprehensive risk monitoring and analysis for all domestic and overseas parent company and subsidiaries, and carries out effective identifications, measurements, inspections, evaluations and reporting of all kinds of risk. A net capital monitoring mechanism has been established according to the Administrative Measures for Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》) issued by the CSRC to effectively monitor various risk indicators for net capitals. Based on the mechanism, a monitoring system of consolidated risk control indicators has been developed to further strengthen the risk management of the Group. The company has established a comprehensive risk management portal system, a market risk management system, credit risk management system, operational risk management system, liquidity risk management system and an economic capital management system. Among them, the comprehensive risk management portal system has integrated the business functions of all risk management systems, therefore it can comprehensively display risk status of the Company. Market risk management system has been following functions such as automatic generation of periodic reports, quota management, analysis and reporting of

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various risks and departmental risks. Credit risk management system has been following functions including customer information management and the management for the same customer, credit management, default management, warning management, core statistics and inquiry. Operational risk management system has been following functions including risk and control self-assessment (RCSA), key risk indicators (KRI), and loss data collection (LDC), etc. Liquidity risk management system includes liquidity monitoring statement, liquidity gap management, analysis on assets and liabilities, scenario analysis and pressure tests and model for realization of financial assets. Economic capital management system has the functions of daily calculation and summary display of market risks, credit risks, operational risks and economic capitals, or authorizing approval authorities to increase the risk limit.

### 2. *Market Risk and Corresponding Measures*

#### (1) Profile

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

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

#### (2) Market risk management approaches

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

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

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



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### (3) Responsibilities of market risk management

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

### (4) Measurement of market risk

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

#### ① VaR

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

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

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

### ② Stress test

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

### ③ Sensitivity analysis

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

## (5) Market risk limit management system

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

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

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

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

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

#### (1) Profile

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

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

#### (2) Management of credit risk

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

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

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

① Credit risk limit

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

② Internal credit rating

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

③ Quantitative management of collaterals

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

④ Credit risk measurement model

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

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### (3) Responsibility for managing credit risk

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

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

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

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

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

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

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

Risk exposure of investment in domestic and overseas bonds

Unit: RMB'000

	December 31, 2018	December 31, 2017
<b>Issuers in Mainland China</b>		
<b>PRC sovereign bonds</b>	50,939,463	16,745,926
AAA	36,480,181	13,298,519
AA+	7,255,461	6,417,574
AA	1,222,258	1,691,688
AA-	—	—
Below AA-	15,539	—
A-1	553,357	547,835
Non-rated	23,207,093	19,242,217
<b>Sub-total</b>	<b>119,673,352</b>	<b>57,943,759</b>
<b>Issuer in Hong Kong and other regions</b>		
<b>PRC sovereign bonds</b>	9,740	
A	102,910	179,278
B	956,562	1,754,647
C	—	—
D	—	—
Non-rated	197,842	323,454
<b>Sub-total</b>	<b>1,267,054</b>	<b>2,257,379</b>
<b>Total</b>	<b>120,940,406</b>	<b>60,201,138</b>

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

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

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

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### 4. Operational Risk Management and Corresponding Measures

#### (1) Overview

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

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

#### (2) Operational Risk Management

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

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

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

### 5. *Liquidity Risks and corresponding measures*

#### **(1) Overview**

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

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

#### **(2) Duties of liquidity risk management**

The Financial Management Committee under the Operating Management is responsible for formulating the liquidity policy for management. A treasure operating mechanism for centralized management and control of liquidity risk has been established, and the Capital Management Department is responsible for liquidity management. The Company, after thorough consideration of the status of liabilities, business development, market situation, etc., implements dynamic management of the use of fund of all business segments of the Company and sets up financing initiatives.



## Chapter 4: Report of the Board of Directors

### (3) Management measures for liquidity risk

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

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

### (V) Major customers and suppliers

The Company provides various businesses and services to meet the different demands of enterprises, individuals and institutions. Its customers are primarily located in China. The Company serves individual, institutional and corporate customers across a spectrum of sectors. More services will be provided to overseas customers as the internationalization of the Company proceeds and our overseas business expands. The Company expects to serve more overseas customers, as it seeks to further expand our business internationally in the future.

In 2018, revenue attributable to the five largest customers of the Company accounted for less than 30% of its total revenue.

To the knowledge of our Directors, none of our Directors, Supervisors and their respective associates or any shareholders holding more than 5% of our issued share capital had any interests in any of our five largest customers.

The Company has no major suppliers due to the nature of its business.

### (VI) Contingent liabilities and charge on assets

As at the end of the Reporting Period, the Group did not have any significant contingent liabilities or asset charges.

## Chapter 5: Major Events

### I. PROPOSALS ON PROFIT DISTRIBUTION FOR ORDINARY SHARES OR CONVERSION OF CAPITAL RESERVE

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

While striving to achieve sustainable growth and development, the Company also attached great importance to provide reasonable, steady and constant returns to investors.

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

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

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

During the Reporting Period, the Company formulated and implemented the 2017 annual profit distribution plan in accordance with the requirements on the policy, decision-making process and arrangement of dividend under the Plan on Shareholders Returns of China Merchants Securities Co., Ltd. (2015-2017) (《招商證券股份有限公司股東回報規劃(2015年-2017年)》) and the Articles of Association of China Merchants Securities Co., Ltd. (《招商證券股份有限公司章程》).

## Chapter 5: Major Events

The proposal on profit distribution for 2017: based on the total share capital of 6,699,409,329 shares, a cash dividend of RMB3.46 (tax inclusive) will be distributed to every 10 shares. The actual total cash dividend distributed for the period amounted to RMB2,317,995,627.83, representing 40.06% of the net profit attributable to the owners of the parent company for 2017 according to the consolidated financial statements.

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

The profit distribution policy adopted by the Company is in compliance with laws and regulations as well as stipulations of the Plan on Shareholders' Returns of China Merchants Securities Co., Ltd. (2015-2017) (《招商證券股份有限公司股東回報規劃(2015年-2017年)》) and the Articles of Association. The dividend distribution standard and ratio were specified and clear, and the relevant decision-making process and arrangement are complete. The independent Directors of the Company have fully performed their responsibilities in the course of profit distribution and the legitimate rights and interests of minority shareholders were safeguarded.

The 2017 annual profit distribution plan of the Company was implemented on August 17, 2018.

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

Unit: RMB Yuan

Year	Bonus share for every 10 shares (share)	Dividend for every 10 shares (RMB) (tax inclusive)	Conversion into share capital for every 10 shares (share)	Cash dividends (tax inclusive)	Net profit attributable to holders of ordinary shares of the listed company for the year as stated in the consolidated financial statements	Percentage of net profit attributable to holders of ordinary shares of the listed company as stated in the consolidated financial statements (%)
2018	0	2.64	0	1,768,644,062.86	4,424,985,940.97	39.97
2017	0	3.46	0	2,317,995,627.83	5,785,955,137.26	40.06
2016	0	1.89	0	1,266,188,363.18	5,403,450,595.57	23.43
2016 interim	0	1.54	0	894,452,871.47	2,241,825,030.22	39.90

- Note: 1. Based on the total share capital of the Company of 6,699,409,329 shares as of the end of the year, the total cash dividend distributed for 2018 will be amounted to RMB1,768,644,062.86, representing 39.97% of the net profit attributable to the owners of the parent company for 2018 as stated in the consolidated financial statements. Upon implementation of profit distribution, shares registered in the designated account for repurchase of Company's shares as at the date of registration of equity for this profit distribution should not have the right to profit distribution.
2. The 2016 annual and interim cash dividend of the Company amounted to RMB2,160,641,234.65 in aggregate, representing 39.99% of the net profit attributable to the owners of the parent company for 2016 as stated in the consolidated financial statements;

## Chapter 5: Major Events

### (III) Tax reduction

#### 1. A Shareholders

Pursuant to the Notice on Issues Regarding Differentiated Individual Income Tax Policy for Dividends and Bonuses of Listed Company (Cai Shui [2015] No. 101) (《關於上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2015]101號)) and the Notice on Issues Regarding the Implementation of Differentiated Individual Income Tax Policy for Dividends and Bonuses of Listed Company (Cai Shui [2012] No. 85) (《關於實施上市公司股息紅利差別化個人所得稅政策有關問題的通知》(財稅[2012]85號)) jointly issued by the Ministry of Finance, the State Administration of Taxation and the CSRC, for individual shareholders, if the term of shareholding (a period from the date of acquisition of the listed shares on public offering and transferring markets by the individual to the date one day before the shares are transferred and settled) is within one month (inclusive), all the dividend and bonus incomes thereof are counted as taxable income at the effective tax rate of 20%. If the term of shareholding is between one month and one year (inclusive), temporarily, 50% of the dividend and bonus incomes are counted as taxable income at the effective tax rate of 10%. If the term of shareholding is over one year, temporarily, the dividend and bonus incomes are exempted from individual income taxes. When dividends and bonuses are distributed by a listed company, such company, temporarily, shall not withhold or pay any individual income taxes on behalf of the individuals whose term of shareholding is within one year (inclusive), instead, the taxable incomes shall be calculated by the securities registration and settlement company based on the term of shareholding when the individual transfers those shares and the company shall withhold and pay the taxes through the securities registration and settlement company. For dividend and bonus incomes obtained by securities investment funds from listed companies, the individual income taxes thereof are calculated and levied pursuant to the provisions in the document of Cai Shui [2012] No. 85 (財稅[2012]85號文).

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

## Chapter 5: Major Events

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

For institutional investors, the taxes on their dividend and bonus incomes shall be paid by themselves.

### 2. *H Shareholders*

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

## Chapter 5: Major Events

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

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

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

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

## Chapter 5: Major Events

### II. PERFORMANCE OF UNDERTAKINGS

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

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

## Chapter 5: Major Events

Background	Type	Party(ies)	Details	Effective time and validity period	Whether the undertakings have a performance deadline	Whether the undertakings have been strictly performed in a timely manner	Reason for not performed in a timely manner	Follow-up actions, in case of undertakings not performed in a timely manner
Undertakings related to initial public offering	Lock-up of shares	China Merchants Group	H Shares subscribed under the Global Offering shall be locked up for three years commencing from the listing date of H Shares of the Company.	Three years from the listing date of H Shares of the Company	Yes	Yes	—	—
Undertakings related to refinancing	Lock-up of shares	CM Finance Investment	No transfer of A Shares subscribed in the non-public offering is allowed within 60 months from the date of completion of the non-public offering of A Shares in May 2014.	60 months	Yes	Yes	—	—
Other undertakings to minority shareholders	Others	China Merchants Group and China Ocean Shipping	When there is unusual price movement in the shares of the Company, they will not reduce their shareholdings in the Company and will increase their shareholdings in accordance with laws when appropriate.	When there is unusual price movement in the shares of the Company	Yes	Yes	—	—

### III. EXPLANATION ON THE REASONS FOR AND EFFECTS OF CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES

Beginning from January 1, 2018, the Group has adopted the amendments to the Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments, the Accounting Standards for Business Enterprise No. 23 – Transfer of Financial Assets, the Accounting Standards for Business Enterprise No. 24 – Hedging Accounting and the Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments” announced by the Ministry of Finance in 2017. The changes in new accounting standards had impact on the opening balances of the Group’s financial statements for 2018. Major effects are as follow: 1. there was no significant impact on the total asset, liabilities and equity attributable to owners. The total asset increased by RMB65,238.37; total liabilities decreased by RMB821,189.15, and the equity attributable to owners increased by RMB886,427.52; 2. there were changes in the internal structure of financial assets and equity attributable to owners.



## Chapter 5: Major Events

Beginning from January 1, 2018, the Group adopted the amendment to the Accounting Standards for Business Enterprises No. 14 – Revenue announced by the Ministry of Finance in 2017. The application of new accounting standard did not impose any significant impact on the financial statement as of January 1, 2018 of the Group.

For details of the said changes in accounting policies, please refer to “Changes in Key Accounting Policies and Accounting Estimates” under “Chapter 10 Financial Report” of this report.

### IV. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRMS

Unit: RMB10,000

	Originally Appointed	Currently Appointed
Name of domestic accounting firm	ShineWing Certified Public Accountants LLP	Deloitte Touche Tohmatsu Certified Public Accountants LLP
Remuneration	213	195
Term of appointment	6 years	1 year
Name of international accounting firm	SHINEWING (HK) CPA Limited	Deloitte Touche Tohmatsu
Remuneration	100	80
Term of appointment	2 years	1 year
	Name	Remuneration
Accounting firm for internal control and auditing	Deloitte Touche Tohmatsu Certified Public Accountants LLP	35

In accordance with the relevant requirements of the Administrative Measures for Bidding regarding the Appointment of Accounting Firms by Financial Enterprises (Trial) (Cai Jin [2010] No. 169) 《金融企業選聘會計師事務所招標管理辦法(試行)》(財金[2010]169號), ShineWing Certified Public Accountants LLP had been our auditor for annual auditing for more than 5 years. The Company has changed the auditor for annual domestic and overseas auditing for 2018 to Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu.

## Chapter 5: Major Events

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

- (I) The Company's business unit at Jiangbin Road, Fuqing City received a "Determinations on Administrative Penalty" (Fu Yin Fa Zi [2018] No. 14) (《行政處罰決定書》(福銀罰字[2018]14號)) from the People's Bank of China Fuzhou Sub-branch on April 4, 2018, which claimed that the business unit did not comply with the regulation to confirm the identity of its clients when dealing with the affairs including opening deposit account, opening fund account, opening securities account for clients, transfer of custody, etc. from January 1, 2016 to December 31, 2016. As such, the business unit, its manager and deputy operating director were imposed administrative penalty. The Company has immediately requested timely rectification of the issues by the business unit.
- (II) A "Determinations on Administrative Penalty" (Fu Yin Fa Zi [2018] No. 1) (《行政處罰決定書》(阜銀罰字[2018]1號)) was issued by the People's Bank of China Fuyang Sub-branch on July 10, 2018, which claimed that there was inaccurate information regarding the identity of certain clients' in the sub-branch located at Fuyang and risks arising from clients were not classified in time. As such, the business unit was fined by RMB0.2 million as an administrative penalty. The Company has requested timely rectification of the issues by the business unit.

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

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

### VII. CONNECTED TRANSACTIONS

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

We entered into a Securities and Financial Products, Transactions and Services Framework Agreement with China Merchants Group on September 21, 2016 (the "Framework Agreement") for a term commencing from the listing date of H Shares to December 31, 2018. Pursuant to the Framework Agreement, we and China Merchants Group and/or its associates agreed to conduct securities and financial transactions with one another, and provide securities and financial products as well as financial services to one another, in our respective ordinary and usual course of business based on normal commercial terms and market practices at prevailing market prices or rates.

## Chapter 5: Major Events

### A. Securities and financial products and transactions

#### *Reasons for the transactions*

We conduct securities and financial transactions with China Merchants Group and/or its associates in our ordinary course of business from time to time. We select the most suitable securities and financial products provided by different suppliers (including China Merchants Group and/or its associates, which are our connected persons, and independent third parties) based on our internal evaluation system and procedures after taking into consideration various factors including the cost, market condition and our risk exposure, business needs and development requirements. The estimated annual caps of the total inflow amount and total outflow amount of the securities and financial products and transactions contemplated under the Framework Agreement for the three years ending December 31, 2018 are as follows:

Securities and financial products and transactions	RMB million		
	2016	2017	2018
Inflow	96,000	115,500	140,000
Outflow	96,000	115,500	140,000

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

#### *Historical figures*

The Group had securities and financial products transactions with China Merchants Group and/or its associates, with a total cash inflow of RMB1,215.26 million and a total cash outflow of RMB3,951.36 million. All of them did not exceed the caps for 2018.

Securities and financial products and transactions	RMB million
	As at December 31, 2018
Inflow	1,215.26
Outflow	3,951.36

## Chapter 5: Major Events

### B. Financial services

#### *Reasons for the transactions*

In our ordinary course of business, we provide various financial services to our clients, which include China Merchants Group and its associates. Due to their business needs and our expertise and professional capabilities, we had been engaged by China Merchants Group and its associates to provide financial services including (but not limited to) underwriting, sponsoring, financial advisory and financial products agency sale services from time to time. The estimated annual caps of the financial services (insofar as an annual cap is required to be set for that service) to be provided under the Framework Agreement for the three years ending December 31, 2018 are as follows:

Financial services	RMB million		
	2016	2017	2018
Revenues generated by us	1,025	1,535	2,300
Fees paid by us	440	660	890

#### *Historical figures*

As at December 31, 2018, the Group provided securities and financial services to China Merchants Group and/or its associates and generated revenues of RMB84.2259 million, which was below the annual cap of 2018. The Group received securities and financial services from China Merchants Group and/or its associates and paid fee of RMB0, which was below the annual cap of 2018. The figures are set out in the table below:

Financial services	RMB million
	As at December 31, 2018
Revenues generated by us (total)	84.23
Underwriting and sponsoring services	2.69
Financial and insurance products agency sale services	6.44
Other investment banking services	54.33
Leasing of trading seats	20.77
Fees paid by us	0

Details of the above connected transactions are set out in note 61 to the consolidated financial statements in this report.

## Chapter 5: Major Events

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

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

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

### *Confirmation of independent auditor*

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

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

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

For details of other related party transactions subject to listing rules for A Shares, please refer to the Announcement on the Contemplated Ordinary Related Party Transactions of the Company for 2019 posted on the SSE website, China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily.

## Chapter 5: Major Events

## VIII. MATERIAL CONTRACTS AND THEIR PERFORMANCE

## Guarantees

Unit: RMB100 million

Guarantees provided by the Company (excluding guarantees for subsidiaries)													
Guarantor	Relationship between the guarantor and the listed company	Guarantee	Amount of guarantee	Date of guarantee (date of agreement)	Effective date of guarantee	Expiry date of guarantee	Types of guarantee	Completion of guarantee	Guarantee overdue	Outstanding amount of guarantee overdue	Counter-guarantee	Guarantee for related parties	Relationship
—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total guarantees provided during the Reporting Period (excluding guarantees for subsidiaries)													0
Balance of guarantees as at the end of the Reporting Period (A) (excluding guarantees for subsidiaries)													0
Guarantees for subsidiaries by the Company and its subsidiaries													
Total guarantees for subsidiaries during the Reporting Period													19.45
Balance of guarantees for subsidiaries as at the end of the Reporting Period (B)													67.94
Total guarantees (including guarantees for subsidiaries)													
Total guarantees (A+B)													67.94
Ratio of total guarantee to net assets of the Company (%)													8.42
Among which:													
Guarantees for shareholders, and their related parties (C)													0
Debt guarantee provided directly or indirectly for companies with gearing ratio over 70% (D)													0
Amount of guarantees in excess of 50% of the net assets (E)													0
Total amount of the above three types of guarantees (C+D+E)													0
Outstanding guarantees subject to joint and several liabilities													—
Details of guarantees							<p>As at the end of the Reporting Period:</p> <ol style="list-style-type: none"> <li>The Company provided a counter-guarantee in a total amount of HK\$1.77 billion (equivalent to RMB1.551 billion) to the Bank of China for China Merchants Securities International Company Limited, a wholly-owned subsidiary of the Company, as a security for the obtaining of foreign bank facilities by CMS International.</li> <li>CMS International provided bank loan guarantees in a total amount of RMB1.743 billion (including US\$5 million and HK\$1.95 billion) for China Merchants Securities (HK) Co., Limited and China Merchants Securities (UK) Limited, the wholly-owned subsidiaries of the Company.</li> <li>The provision of guarantees in favour of the transaction counterparties under the respective ISDA Agreement, CSA Agreement and other purchase and sales agreements entered into by China Merchants Securities Investment Management (HK) Co., Limited and China Merchants Securities (UK) Limited, wholly-owned subsidiaries of the Company, were approved by the board of directors of CMS International between October 2013 to April 2018.</li> <li>The provision of guarantees for China Merchants Futures (HK) Co. Limited and China Merchants Securities (UK) Limited, wholly-owned subsidiaries of the CMS International, under the Master Clearing Agreement were approved by the board of directors of CMS International between September 2013 to April 2015.</li> <li>The provision of guarantees for China Merchants Securities Investment Management (HK) Co., Limited, a wholly-owned subsidiary of the Company, under the TBMA/ISMA Global Master Repurchase Agreement was approved by the board of directors of CMS International in May 2018.</li> <li>Provision of guarantees in favor of CMS International for all obligations under the lease of office in Kwun Tong and all losses and indemnification obligations which may arise from the lease by CMS International and its subsidiaries was approved by the board of directors of CMS International in the year of 2018.</li> <li>On January 20, 2014, the Resolution regarding the Provision of Net Assets Guarantee for an Asset Management Subsidiary to be Established by the Company was approved at the first extraordinary meeting of the fourth session of the Board in 2014, which allowed the Company to provide net assets guarantee of up to RMB500 million for an asset management subsidiary, CMS Asset Management. On September 27, 2016, the Resolution regarding the Increase in Commitment for Net Assets Guarantee in favour of the Asset Management Subsidiary by the Company was approved at the 42th meeting of the fifth session of the Board, which allowed the Company to increase the net assets guarantee in favour of CMS Asset Management by no more than RMB3 billion in stages (together with the original guarantee of RMB500 million, the maximum amount shall be no more than RMB3.5 billion), and authorized the management of the Company to perform in stages, or terminate, such net assets guarantee within the above limit based on the actual operating condition of CMS Asset Management.</li> </ol> <p>The balance of net assets guarantee provided by the Company for CMS Asset Management as at the end of 2018 amounted to RMB3.5 billion.</p>						

## Chapter 5: Major Events

### IX. OTHER MAJOR EVENTS

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

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

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

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

#### (III) Qualification of accounts

According to the statistics of the internal data centre of the Company, as at December 31, 2018, there were 6,115 unqualified capital accounts, 6,255 unqualified securities accounts, 1,078,787 dormant capital accounts, 1,690,299 dormant securities accounts, 52 capital accounts under freezing order, 1,231 securities accounts under freezing order, 570 risk disposal capital accounts (including dormant accounts of companies to be disposed of), 2,761 risk disposal securities accounts (including dormant accounts of companies to be disposed of) and 69,802 capital accounts under the A share capital accounts and securities accounts of the Company.

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

For details, please see the relevant content as set out in “Events after the Balance Sheet Date” under “Chapter 10 – Financial Report” in this report.

## Chapter 5: Major Events

### X. FULFILLMENT OF SOCIAL RESPONSIBILITIES

#### (I) Poverty alleviation

##### 1. Targeted poverty alleviation

In 2018, the China Merchants Securities continued to implement the “Decision of the PRC State Council on Poverty Alleviation” (Zhong Fa [2015] No. 34) (《中共中央國務院關於打贏脫貧攻堅戰的決定》(中發[2015]34號)) and the objectives of the working conference of the central committee on poverty alleviation through development pursuant to the general working plan formulated by the Party committee of the CSRC. In active response to the appeal of the government and the CSRC, the Company has made full use of the characteristics of the securities industry and carried out targeted poverty alleviation.

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

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

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

Supporting measures:

- (1) With earnest will of poverty alleviation, the Party committee of the Company has set up a leading group thereof headed by HUO Da, the Secretary of Party Committee and chairman of the Board of Directors. The Company’s General Office organizes targeted poverty alleviation and establishes project teams targeting each impoverished counties with members from various departments to coordinate resources from relevant departments in effective response to the needs of poverty alleviation.
- (2) The Company has formulated the Special Scheme on Evaluating the Fulfilment of Social Responsibilities Such as Poverty Alleviation by China Merchants Securities (《招商證券脫貧攻堅等社會責任履行情況專項評估方案》), whereby the Company coordinates and guides all departments to actively implement specific poverty alleviation works so as to ensure the effective performance of these works.

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

In 2018, the Company has been and is carrying out the poverty alleviation works in following areas:



## Chapter 5: Major Events

### (1) In respect of Industry

- a In January 2018, the Company assisted listing on NEEQ of Bazhong Shengquan Water Supply Co, Ltd. in Bazhou District, Bazhong City.
- b In April 2018, leveraging on the information resources and intermediary channels of China Merchants Securities, we facilitated the strategic cooperation of Muyuan Foods, a listed company in Neixiang County, Henan Province with SDIC, for which SDIC invested RMB0.7 billion.
- c We assisted in the underwriting and sponsoring of initial public offering (IPO) projects for ChinaLin Securities, a regional financial corporate in Tibet; Yang's Fruits in Xunwu County, Jiangxi Province; and Nanyang Jinguan Electric Co. Ltd in Neixiang County, Henan Province, among which, the IPO project of ChinaLin Securities had been completed and had raised a proceed of RMB977 million, while the service agreements in relation to IPO projects of Yang's Fruits and Jinguan Electric have been executed, and the projects are under way.
- d In August and October 2018, the Company assisted Muyuan Foods Co., Ltd in the issue of the fourth and fifth batch of super & short-term commercial paper for the year 2018, gaining a total amount of financing of RMB1.1 billion.
- e Over the year of 2018, we have underwritten 2 green bonds (including assets securitized products) listed on Shanghai and Shenzhen stock exchanges which gained a total amount of financing of RMB2.856 billion; we have participated in 136 bids for legal issue of local government bonds in Shanghai and Shenzhen stock exchanges, among which 35 bids were successful, amounting to RMB3.886 billion in total.

### (2) In respect of Finance

- a Establishment of branch offices. On July 3, 2018, the business unit set up in Neixiang County, Henan Province, by the Company had commenced operation. This business unit will provide a full range of investment and financing services including underwriting, acquisition and merger, asset restructuring, financial consultancy and investment advice.
- b We assisted in the preparation of three-year actions for poverty alleviation and development in financial aspect in Neixiang County. During July to August in 2018, by collaborating with the Chinese Academy of Social Sciences, we designated a team of financial experts to carry out on-spot researches and discussions in Lushi County, Lankao County in Henan Province; Jingtangshan City Ji'an City, Jiangxi Province; and Huishui County and Weining County in Huizhou Province respectively, which helped collect abundant primary information for formulation of plan.

## Chapter 5: Major Events

### (3) In respect of Welfare

- a Specialized training for cadres from impoverished counties. The Company donated RMB0.6 million for holding two specialized training sessions themed with “Understanding capital market, enhancing county-level economy” for government cadres and representatives from outstanding corporates. Each session lasted one week and the quota was 60 students. In October 2018, the first session was successfully held, while the second session is expected to be held during the first half of 2019.
- b “Summer Blossom•University Tuition Subsidies for Students in Poverty”. To help students successfully receive admission to the universities for further study, the Company donated RMB0.6 million to offer financial aids amounted to RMB5,000 to each of 120 poor students from Neixiang County and Shitai County, who have received admissions to universities in 2018. Besides, we launched an internal donation initiative, and our staff have donated RMB90,700 in total, which will be utilized for funding 18 poor students from Shitai Country for higher education in 2018. This project will be continuing in a long run.
- c Funding poor high school students. We donated RMB78,000 to provide financial aids for 30 poor high school students from the No.1 High School in Xinghe County, Inner Mongolia, a national-level impoverished county. This project has been carried out for 3 years in a row since 2016, and has gained an accumulated donation of RMB234,000.
- d Literacy improvement project for children from impoverished counties. From August 5 to 11, 2018, we donated RMB300,000 organized “(Specific) Training and Poverty Alleviation Project for Kindergarten Principals and Core Cadres”(幼兒園園長及骨幹教師(定向)培訓扶貧項目), aiming at enhancing the practice level of preschool teachers in Maigaiti County and the general language competence of children of ethnic minority children. This project provides one week of closed-end training in Beijing for 50 kindergarten principals and core cadres from the country.
- e Charity trekking project in Xi County, Shanxi Province. On September 27, 2018, being a charity partnership of the “Great Walker Fund-raising Trekking Event”, the Company donated RMB200,000 to support the event that carried out by Securities Association of China and China Foundation for Poverty Alleviation. Such charity race targeted to offer assistance to Xi County, Shanxi Province. In the meantime, we proactively teamed up our staff to join the race. Our team raised RMB20,000 during the event.

## Chapter 5: Major Events

- f Internship Program for university students across the nation (千校萬崗大學生就業幫扶計劃). On August 8, 2016, we made a donation of RMB5 million to China Foundation for Youth Entrepreneurship and Employment to establish the “CMS Specific Funds for the Employment of University Students”(招商證券大學生就業專項基金), which will be implemented together with our Internship Program for university students across the nation. Each year, we offer no less than 1,000 internship opportunities for students who are intended to start their career in the financial sector. We will prioritize students from non-employed families, poor rural households, and families with preferential treatment or subsistence allowance. Since the official commencement of this initiative in August 2016, the number of interns that CMS has accepted reached 3,469, among which, there were 411 interns from families with financial difficulties. The project will last for 3 years.
- g Collection of poverty alleviation projects from our branches. In May 2018, we launched an activity calling for charity projects themed with “targeted poverty alleviation” in order to collect potential poverty alleviation projects in the regions where our branches are located. Leveraging on the Company’s resources, we try to help more impoverished counties to increase local productivity and maintain a sustainable source of income by promoting plantation, packaging and sales of local agricultural products. These projects are currently underway.

### (4) In respect of Consumption

- a We introduced the e-commerce platform “Benlai”(本來生活) to help Neixiang County in Henan Province become famous with its tomato products. On July 17, 2018, CMS, Zhongyi High-tech Industrial Park (中以高新產業園) in Neixiang County and Benlai signed a trilateral cooperation agreement to promote the value of tomato products in Neixiang in certain aspects including production, quality control, branding and logistics, in order to build vegetables and fruits brands in Neixiang, represented by Pinky Cherry Tomato (粉貝貝小番茄) and Prince David Tomato (大衛王子番茄).
- b Arranging the Company’s Labor union to purchase local specialties from Shitai County and Neixiang County to support the sales of agricultural products from impoverished counties.

## Chapter 5: Major Events

## 3. Poverty alleviation effect

Unit: 10,000 Currency: RMB

Indicators	Amounts and details
I. Total	
Including: 1. Funds	178.9
2. Conversion of money from materials	–
3. Number of people under poverty alleviation with documentary cards (person)	–
II. By category	
1. Industrial development	–
Including: 1.1 Project types	<ul style="list-style-type: none"> <li>✓ Agriculture and forestry</li> <li><input type="checkbox"/> Tourism</li> <li>✓ E-commerce</li> <li><input type="checkbox"/> Asset income promotion</li> <li><input type="checkbox"/> Technology</li> <li>✓ Others</li> </ul>
1.2 Number of projects (project)	44
1.3 Investment	–
1.4 Number of people under poverty alleviation with documentary cards (person)	–
2. Transfer employment	–
Including: 2.1 Investment in vocational skills training	–
2.2 Number of people receiving vocational skills training (person/time)	–
2.3 Number of poor people being employed under poverty alleviation with documentary cards (person)	–
3. Relocation	–
Including: 3.1 Number of poor people receiving help in relocation and employment (person)	–

## Chapter 5: Major Events

Indicators	Amounts and details
4. Education	–
Including: 4.1 Subsidies to students in need	67.8
4.2 Number of poor students receiving subsidized (person)	150
4.3 Investment for improving educational resources in impoverished areas	30
5. Health care	–
Including: 5.1 Investment in medical and health resources in poverty areas	–
6. Ecological protection	–
Including: 6.1 Project title	<ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> Ecological protection and construction</li> <li><input type="checkbox"/> Establishing Way of Compensation for Ecological Protection</li> <li><input checked="" type="checkbox"/> Establishing ecological public welfare post</li> <li><input type="checkbox"/> Others</li> </ul>
6.2 Amount of investment	–
7. Guaranteed basic living standard	–
Including: 7.1 Investment in left-behind children, women and senior people	–
7.2 Number of left-behind children, women and senior people receiving help (person)	–
7.3 Investment in assisting poor people with physical disabilities	–
7.4 Number of poor people with disabilities receiving help (person)	–
Including: 8.1 Contributions to east-west poverty alleviation collaboration	–
8.2 Contributions to fixed-point poverty alleviation	60
8.3 Charity funds for poverty alleviation	–
9. Other projects	–
Including: 9.1 Number of projects (project)	–
9.2 Amount of investment	21.1
9.3 Number of people under poverty alleviation with documentary cards (person)	–
9.4 Explanation for other projects	–

## Chapter 5: Major Events

Indicators	Amounts and details
III. Awards (details and levels)	
	In June 2018, the Company was awarded "First Group of Companies Launching Poverty Alleviation Network for Responsible Consumption" (責任消費扶貧行動網絡首批發起單位) by China Foundation for Poverty Alleviation.
	In August 2018, the Company was awarded "2018 Poverty Alleviation and Innovation Award for Securities Brokers" (2018券商行業扶貧創新獎) By Sina.
	In November 2018, the Company was awarded "2018 Excellent Example Award of Poverty Alleviation by Education" (2018年教育扶貧優秀案例獎) by Securities Times.

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

Plans for poverty alleviation in 2019 are as follows:

##### (1) In respect of Industry

- a. Based on the actual status of outstanding corporations in Neixiang County, Henan Province, we will make business guidance for their projects of IPOs or Listing on NEEQ respectively, and assist them to utilize instruments in capital market to expand business scale.
- b. We will continue to carry out our charity projects call-out activity themed with "targeted poverty alleviation".

##### (2) In respect of Finance

Collaborating with the Chinese Academy of Social Sciences, we will continue to assist Neixiang County, Henan Province in completing its three year poverty alleviation through financial development.

##### (3) In respect of Consumption

- a. Coordinating with labor union to purchase local agricultural products from impoverished counties;
- b. Promoting agricultural products from impoverished counties to employees and clients through media to drive consumption.

##### (4) In respect of Welfare

- a. We will continue to deliver the first training session of Confidence School (扶志學堂) for local government cadre from Neixiang County, Henan Province;
- b. Based on the needs of two targeted counties for poverty alleviation, we will plan charity projects to help improve the conditions of local infrastructure, medical equipment and agricultural condition in a more focused manner.

## Chapter 5: Major Events

### (II) Performance of social responsibilities

Please refer to the 2018 Corporate Social Responsibility Report of China Merchants Securities Co., Ltd. (《招商證券股份有限公司2018年度社會責任報告》) and Environmental, Social and Governance Report published by the Company on the same date of this report on the SSE website and on the Hong Kong Stock Exchange website, respectively.

### (III) Environmental protection

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

Please refer to the 2018 Corporate Social Responsibility Report of China Merchants Securities Co., Ltd. (《招商證券股份有限公司2018年度社會責任報告》) and Environmental, Social and Governance Report published by the Company on the same date of this report on the SSE website and on the Hong Kong Stock Exchange website, respectively.

## XI. OTHER DISCLOSURES

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

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

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

As of the date of this report, none of the Directors or Supervisors held any equity interests in another business which is likely to compete, either directly or indirectly, with the business of the Company.

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

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

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

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

## Chapter 5: Major Events

### **(V) Permitted indemnity provision**

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

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

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

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

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

### **(VIII) Remunerations to Directors, Supervisors and five highest-paid individuals**

Details of remunerations to the Directors, Supervisors and five highest-paid individuals of the Company are set out in "Change in shareholdings and remunerations of existing and resigned/retired Directors, Supervisors and senior management during the Reporting Period" under Chapter 7 and "60. Individuals with highest emoluments" in "Notes to the consolidated financial statements" under Chapter 10 of this report.

For the year ended December 31, 2018, no Director or Supervisor has given up or agreed to give up any remuneration.

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

During the Reporting Period, the Company did not redeem the listed securities of the Company. During the year, neither the Company nor any of its subsidiaries have purchased or sold the listed securities of the Company.



## Chapter 5: Major Events

### (X) Use of net proceeds from H share issuance

In October 2016, the Company made an initial public offering of H Shares and issued 891,273,800 H Shares in total. The net proceeds from the Offering of H Shares (the "Net Proceeds") was approximately HK\$10.392 billion (equivalent to approximately RMB8.947 billion) after deducting issuance expense. According to the "Use of proceed" contained in the Prospectus, the Company shall use the Net Proceeds for the following purposes:

- (1) approximately 25% for developing the brokerage and wealth management business of the Group. As of December 31, 2018, the accumulated actual usage was approximately RMB2,257 million (as affected by exchange rate fluctuations, the accumulated actual usage was approximately RMB20 million, higher than the committed usage);
- (2) approximately 25% for expanding the institutional client services and investment and trading business of the Group. As of December 31, 2018, the accumulated actual usage was approximately RMB2,257 million (as affected by exchange rate fluctuations, the accumulated actual usage was approximately RMB20 million, higher than the committed usage);
- (3) approximately 25% for contributing additional capital to CMS International to support its business. As of December 31, 2018, the accumulated actual usage was approximately RMB1,855 million, and the remaining balance of approximately RMB382 million has not been used;
- (4) approximately 20% for contributing capital to the Company's subsidiaries and associated companies, as well as establishing new subsidiaries. As of December 31, 2018, the accumulated actual usage was approximately RMB1,495 million, and the remaining balance of approximately RMB294 million has not been used; and
- (5) approximately 5% for working capital and general corporate purposes. As of December 31, 2018, the accumulated actual usage was approximately RMB460 million (as affected by exchange rate fluctuations, the accumulated actual usage was approximately RMB13 million higher than the committed usage).

As of December 31, 2018, the balance of net proceeds raised from the offering of H share amounted to HK\$354 million and RMB462 million. Upon translation of HK dollar into Renminbi at the central parity rate of HK dollar against Renminbi as of December 31, 2018, the sum of the above proceeds in HK dollar and Renminbi was RMB772 million.

The Company planned to change the use of the unutilised proceeds. For details, please refer to the announcement regarding "Proposed Change in Use of Part of the Net Proceeds from the Offering of H share" issued on March 13, 2019 on the Hong Kong Stock Exchange. The Company will convene a shareholders' general meeting to consider and approve (if thought fit) the resolution regarding the proposed change in the use of part of the Net Proceeds. A circular containing further details in relation to the above resolution and the notice of the shareholders' general meeting of the Company will be despatched to the shareholders of the Company as and when appropriate.

## Chapter 6: Changes in Ordinary Shares and Shareholders

### I. Changes in Ordinary Share Capital

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

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

During the Reporting Period, there was no change in the total number of shares and the share capital structure of the Company.

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

At the seventeenth meeting of the sixth session of the Board held on March 12, 2019, the “Resolution in respect of Repurchase of A Shares of the Company by Centralized Auctions”(《關於以集中競價交易方式回購公司A股股份方案的議案》) and the “Resolution in respect of Right Issue for 2019”(《關於公司2019年度配股方案的議案》) have been passed. For details, please refer to the relevant announcements announced on March 13, and March 12, 2019 on SSE website and the Hong Kong Stock Exchange website, respectively.

## Chapter 6: Changes in Ordinary Shares and Shareholders

### II. Issue and Listing of Securities

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

Unit: share Currency: RMB

Class of shares and their derivative securities	Trading code	Security abbreviation	Date of issue completion	Offer price (or interest rate (%))	Issuance amount	Date of listing	Transaction Amount permitted for listing	Trading place	Date of closing
<b>Convertible corporate bonds, bonds with warrants and corporate bonds</b>									
The 2018 Corporate Bonds (First tranche) Publicly Issued by China Merchants Securities Co., Ltd. to Qualified Investors	143460	18 China Merchants G1 (18招商G1)	February 5, 2018	5.35	1.940 billion	February 9, 2018	1.940 billion	SSE	February 5, 2021
The 2018 Type One Corporate Bonds (Second Tranche) Publicly Issued By China Merchants Securities Co., Ltd. to Qualified Investors	143626	18 China Merchants G2 (18招商G2)	June 12, 2018	4.78	2.0 billion	June 26, 2018	2.0 billion	SSE	June 12, 2020
The 2018 Type Two Corporate Bonds (Second Tranche) Publicly Issued by China Merchants Securities Co., Ltd. to Qualified Investors	143627	18 China Merchants G3 (18招商G3)	June 12, 2018	4.78	1.0 billion	June 26, 2018	1.0 billion	SSE	June 12, 2021
The 2018 Type Two Corporate Bonds (Third Tranche) Publicly Issued by China Merchants Securities Co., Ltd. to Qualified Investors	143712	18 China Merchants G5 (18招商G5)	July 18, 2018	4.38	2.50 billion	July 25, 2018	2.50 billion	SSE	July 18, 2021
The 2018 Type One Corporate Bonds (Fourth Tranche) Publicly Issued by China Merchants Securities Co., Ltd. to Qualified Investors	143392	18 China Merchants G6 (18招商G6)	August 8, 2018	3.94	3.00 billion	August 17, 2018	3.00 billion	SSE	August 8, 2021

## Chapter 6: Changes in Ordinary Shares and Shareholders

Class of shares and their derivative securities	Trading code	Security abbreviation	Date of issue completion	Offer price (or interest rate (%))	Issuance amount	Date of listing	Transaction Amount permitted for listing	Trading place	Date of closing
The 2018 Type One corporate bonds (fifth tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors	143762	18 China Merchants G8 (18招商G8)	September 7, 2018	4.23	1.80 billion	September 18, 2018	1.80 billion	SSE	September 7, 2021
The 2018 Type One Corporate Bonds (first tranche) privately issued by China Merchants Securities Co., Ltd.	150179	18 China Merchants F1 (18招商F1)	March 13, 2018	5.15	2.050 billion	March 22, 2018	2.050 billion	SSE	September 9, 2018
The 2018 Type two Corporate Bonds (first tranche) privately issued by China Merchants Securities Co., Ltd.	150180	18 China Merchants F2 (18招商F2)	March 13, 2018	5.30	3.00 billion	March 22, 2018	3.00 billion	SSE	March 13, 2019
The 2018 Type One Corporate Bonds (second tranche) privately issued by China Merchants Securities Co., Ltd.	150200	18 China Merchants F3 (18招商F3)	March 20, 2018	5.18	1.120 billion	March 29, 2018	1.120 billion	SSE	September 16, 2018
The 2018 Type Two Corporate Bonds (third tranche) privately issued by China Merchants Securities Co., Ltd.	150302	18 China Merchants F6 (18招商F6)	April 19, 2018	4.75	3.80 billion	April 27, 2018	3.80 billion	SSE	May 4, 2019
The 2018 Corporate Bonds (fourth tranche) privately issued by China Merchants Securities Co., Ltd.	150414	18 China Merchants F7 (18招商F7)	May 21, 2018	4.84	5.90 billion	May 30, 2018	5.90 billion	SSE	June 5, 2019
The 2018 Corporate Bonds (fifth tranche) privately issued by China Merchants Securities Co., Ltd.	150456	18 China Merchants F8 (18招商F8)	September 17, 2018	3.78	3.00 billion	October 10, 2018	3.00 billion	SSE	April 11, 2019
The 2018 Corporate Bonds (sixth tranche) privately issued by China Merchants Securities Co., Ltd.	150750	18 China Merchants F9 (18招商F9)	October 15, 2018	3.79	3.00 billion	October 24, 2018	3.00 billion	SSE	July 12, 2019

## Chapter 6: Changes in Ordinary Shares and Shareholders

Class of shares and their derivative securities	Trading code	Security abbreviation	Date of issue completion	Offer price (or interest rate (%))	Issuance amount	Date of listing	Transaction Amount permitted for listing	Trading place	Date of closing
The 2018 Corporate Bonds (seventh tranche) privately issued by China Merchants Securities Co., Ltd.	150930	18 China Merchants F10 (18招F10)	December 5, 2018	4.15	2.50 billion	December 13, 2018	2.50 billion	SSE	December 5, 2021
The 2018 Subordinated Bonds (first tranche) of China Merchants Securities Co., Ltd.	150078	18 China Merchants C1 (18招商C1)	January 12, 2018	5.56	1.640 billion	January 23, 2018	1.640 billion	SSE	January 12, 2020
The 2018 Subordinated Bonds (second tranche) of China Merchants Securities Co., Ltd.	150097	18 China Merchants C2 (18招商C2)	January 22, 2018	5.70	5.150 billion	February 1, 2018	5.150 billion	SSE	January 22, 2020
Other derivative securities									
GF Asset Management – margin loan debts (first tranche) of China Merchants Securities under Asset-Backed Special Programs (preferred asset-backed securities)	139259	China Merchants 1 preferred (招商1優)	November 14, 2018	3.95	950 million	December 14, 2018	950 million	SZSE	May 14, 2020
GF Asset Management – margin loan debts (first tranche) of China Merchants Securities under Asset-Backed Special Programs (secondary asset backed securities)	139260	China Merchants 1 Secondary (招商1次)	November 14, 2018	-	50 million	December 14, 2018	50 million	SZSE	May 14, 2020

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

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

In September 2017, the Company received the Approval on the Public Offering of Corporate Bonds by China Merchants Securities Co., Ltd. to Qualified Investors (Zheng Jian Xu Ke [2017] No. 1669) (《關於核准招商證券股份有限公司向合格投資者公開發行公司債券的批覆》(證監許可[2017]1669號)) from the CSRC, pursuant to which the CSRC approved the Company's public offering of corporate bonds with total face value of no more than RMB8.5 billion to qualified investors. During 2018, the Company publicly offered a total of one tranche of corporate bonds to qualified investors based on this approval.

In April 2018, the Company received the Approval on the Public Offering of Corporate Bonds by China Merchants Securities Co., Ltd. to Qualified Investors (Zheng Jian Xu Ke [2018] No. 612) (《關於核准招商證券股份有限公司向合格投資者公開發行公司債券的批覆》(證監許可[2018]612號)) from the CSRC, pursuant to which the CSRC approved the Company's public offering of corporate bonds with total face value of no more than RMB11.8 billion to qualified investors. During 2018, the Company publicly offered a total of four tranches of corporate bonds to qualified investors based on this approval.

## Chapter 6: Changes in Ordinary Shares and Shareholders

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

In February 2018, the Company received the No Objection Letter for the Offer for Sale of Corporate Bonds Privately Issued by China Merchants Securities Co., Ltd. ((Shang Zheng Han [2018] No. 160) 《關於對招商證券股份有限公司非公開發行公司債券掛牌轉讓無異議的函》(上證函[2018]160號)) from the SSE, pursuant to which the SSE has no objection to the offer for sale of corporate bonds privately issued by the Company to qualified investors in the amount of no more than RMB40 billion on the SSE. During 2018, the Company had issued a total of seven tranches of privately-offered corporate bonds.

### 3. *Issuance of subordinated bonds of securities companies*

In January 2017, the Company received the No Objection Letter for the Offer for Sale of Subordinated Bonds Privately Issued by China Merchants Securities Co., Ltd. (Shang Zheng Han [2017] No. 100) 《關於對招商證券股份有限公司非公開發行次級債券掛牌轉讓無異議的函》(上證函[2017]100號) issued by the SEE, pursuant to which the SEE has no objection to the offer for sale of the subordinated bonds privately issued by the Company in an amount of RMB10.0 billion to qualified investors. During 2018, the Company issued a total of two tranches of securities companies subordinated bonds on the SSE.

### 4. *Asset-Backed Special Program*

In May 2018, the Company received the No Objection Letter for the Offer for Sale of Margin Loan Debts (the first to tenth tranches) Issued by GF Asset Management - China Merchants Securities on the SZSE under the Asset-Backed Special Program" (Shen Zheng Han [2018] No. 268) 《關於廣發資管「廣發資管-招商證券融出資金債權第(1-10)期資產支持專項計劃」符合深交所挂牌條件的無異議函》(深證函[2018]268號)) issued by SZSE from GF Securities Asset Management (Guangdong) Co., Ltd., the manager of the "GF Asset Management – China Merchants Margin Loan Debts ((the first to tenth tranches) Asset-Backed Special Program) (廣發資管－招商證券融出資金債權第(1-10)期資產支持專項計劃), pursuant to which, SZSE has no objection to the compliance of listing requirements of the legal documents including proposals and asset transfer agreements of the special program. Relevant debts will be issued by tranches under the Special Program with the total amount of not more than RMB8 billion. During 2018, the Company issued one tranche of securities under the Asset-backed Special Program on the SZSE.

## Chapter 6: Changes in Ordinary Shares and Shareholders

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

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

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

### III. Shareholders and Controlling shareholder

#### (I) Number of Shareholders

Number of holders of the ordinary shares as of the end of the Reporting Period	99,936
Number of holders of the ordinary shares as of the end of the month preceding the disclosure of the annual report	111,975

## Chapter 6: Changes in Ordinary Shares and Shareholders

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

Unit: share

Top ten shareholders							
Name of shareholder (in full)	Changes during the Reporting Period	Number of shares held at the end of the period	Percentage (%)	Number of restricted shares held	Pledged or locked-up		Nature of shareholders
					Status	Number	
China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	173,193,797	1,575,308,090	23.51	815,308,642	Nil	—	State-owned legal person
Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)	—	1,310,719,131	19.56	—	Nil	—	State-owned legal person
HKSCC Nominees Limited (香港中央結算(代理人)有限公司)	33,780	980,038,560	14.63	—	Nil	—	Overseas legal person
China Ocean Shipping Company Limited (中國遠洋運輸有限公司)	—	418,948,014	6.25	—	Nil	—	State-owned legal person
Hebei Port Group Co., Ltd. (河北港口集團有限公司)	—	264,063,640	3.94	—	Nil	—	State-owned legal person
China Communications Construction Company Ltd. (中國交通建設股份有限公司)	—	209,399,508	3.13	—	Nil	—	State-owned legal person
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	-25,512,723	200,313,024	2.99	—	Nil	—	Unknown
COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運(廣州)有限公司)	—	83,999,922	1.25	—	Nil	—	State-owned legal person
Central Huijin Asset Management Ltd. (中央匯金資產管理有限責任公司)	—	77,251,600	1.15	—	Nil	—	State-owned legal person
Shenzhen Huaqiang New City Investment Group Co., Ltd. (深圳華強新城市投資集團有限公司)	—	53,620,700	0.80	—	Nil	—	Domestic non-state owned legal person



## Chapter 6: Changes in Ordinary Shares and Shareholders

Top ten holders of unrestricted shares			
Name of shareholder	Number of tradable unrestricted shares held	Class and number of shares	
		Class	Number
Shenzhen Jisheng Investment Development Co., Ltd. (深圳市集盛投資發展有限公司)	1,310,719,131	RMB ordinary shares	1,310,719,131
HKSCC Nominees Limited (香港中央結算(代理人)有限公司)	980,038,560	Overseas listed foreign shares	980,038,560
China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	759,999,448	RMB ordinary shares	759,999,448
China Ocean Shipping Company Limited (中國遠洋運輸有限公司)	418,948,014	RMB ordinary shares	418,948,014
Hebei Port Group Co., Ltd. (河北港口集團有限公司)	264,063,640	RMB ordinary shares	264,063,640
China Communications Construction Company Ltd. (中國交通建設股份有限公司)	209,399,508	RMB ordinary shares	209,399,508
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	200,313,024	RMB ordinary shares	200,313,024
COSCO Shipping (Guangzhou) Co., Ltd. (中遠海運(廣州)有限公司)	83,999,922	RMB ordinary shares	83,999,922
Central Huijin Asset Management Ltd. (中央匯金資產管理有限責任公司)	77,251,600	RMB ordinary shares	77,251,600
Shenzhen Huaqiang New City Investment Group Co., Ltd. (深圳華強新城市投資集團有限公司)	53,620,700	RMB ordinary shares	53,620,700
Statement on the related relationships or concerted actions among the aforesaid shareholders	<p>Among the above top ten shareholders,</p> <ol style="list-style-type: none"> <li>1. CM Finance Investment and Jisheng Investment are all subsidiaries of China Merchants Group, the controlling shareholder of the Company;</li> <li>2. China Ocean Shipping and COSCO Shipping (Guangzhou) Co., Ltd. are all subsidiaries of China COSCO Shipping Corporation Limited.</li> </ol>		

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

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

## Chapter 6: Changes in Ordinary Shares and Shareholders

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

Unit: share

No.	Name of shareholders of restricted shares	Number of restricted shares held	Listing and trading status of restricted shares		Restrictions
			Date of being released for listing and trading	Number of additional shares to be listed and traded	
1	China Merchants Finance Investment Holdings Co., Ltd. (深圳市招融投資控股有限公司)	815,308,642	May 27, 2019	—	Lock-up period of 60 months after the closing of private offering of shares of the Company in 2014.
Statement on the related relationships or concerted actions among the aforesaid shareholders		Nil			

#### (IV) Disclosure of interests

##### 1. *Interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations of the directors, supervisors and chief executives*

As at December 31, 2018, the Company is not aware of other Directors, Supervisors and chief executives having any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position which they were taken or deemed to have under such provisions of the SFO), or pursuant to section 352 of the SFO, to be entered in the register required to be maintained by the Company referred to therein, or pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

## Chapter 6: Changes in Ordinary Shares and Shareholders

### 2. Disclosure of Interests of Controlling Shareholder and Substantial Shareholders

As at December 31, 2018, based on the information available to the Company and to the best knowledge of the Directors, the following persons (other than Directors, Supervisors and the chief executives) had interests or short positions in the shares or underlying shares which would be required to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

No.	Name of de controlling shareholder and substantial shareholders	Class of shares	Nature of interest	Number of shares held (shares)	Percentage of total number of issued shares of the Company (%)	Percentage of total number of issued A Shares/ H Shares of the Company (%)	Long positions <sup>6</sup> / short positions <sup>7</sup> / shares available for lending
1	China Merchants Group (招商局集團)	A Shares	Interest held by controlled corporations <sup>1</sup>	2,886,027,221	43.08	50.46	Long position
		H Shares	Interest held by controlled corporations <sup>2</sup>	67,706,400	1.01	6.91	Long position
2	China Merchants Finance Investment Holdings Co., Ltd. 深圳市招融投資控股有限公司	A Shares	Beneficial owners and interest of corporation controlled by substantial shareholders <sup>3</sup>	2,886,027,221	43.08	50.46	Long position
3	Shenzhen Jisheng Investment Development Co., Ltd. 深圳市集盛投資發展有限公司	A Shares	Beneficial owner	1,310,719,131	19.56	22.92	Long position
4	China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司)	A Shares	Interest held by controlled corporations <sup>4</sup>	502,947,936	7.51	8.79	Long position
		H Shares	Interest held by controlled corporations <sup>5</sup>	157,094,400	2.34	16.02	Long position
5	China Ocean Shipping Company Limited (中國遠洋運輸有限公司)	A Shares	Beneficial owner	418,948,014	6.25	7.33	Long position
6	PICC Life Insurance Company Limited (中國人民人壽保險股份有限公司)	H Shares	Beneficial owner	333,300,000	4.98	34.00	Long position
7	COSCO SHIPPING Financial Holdings Co., Limited	H Shares	Beneficial owner	157,094,400	2.34	16.02	Long position
8	Best Winner Investment Limited	H Shares	Beneficial owner	67,706,400	1.01	6.91	Long position

## Chapter 6: Changes in Ordinary Shares and Shareholders

### Notes:

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

## Chapter 6: Changes in Ordinary Shares and Shareholders

### IV. Details of Controlling Shareholders

#### Details of Controlling Shareholders

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

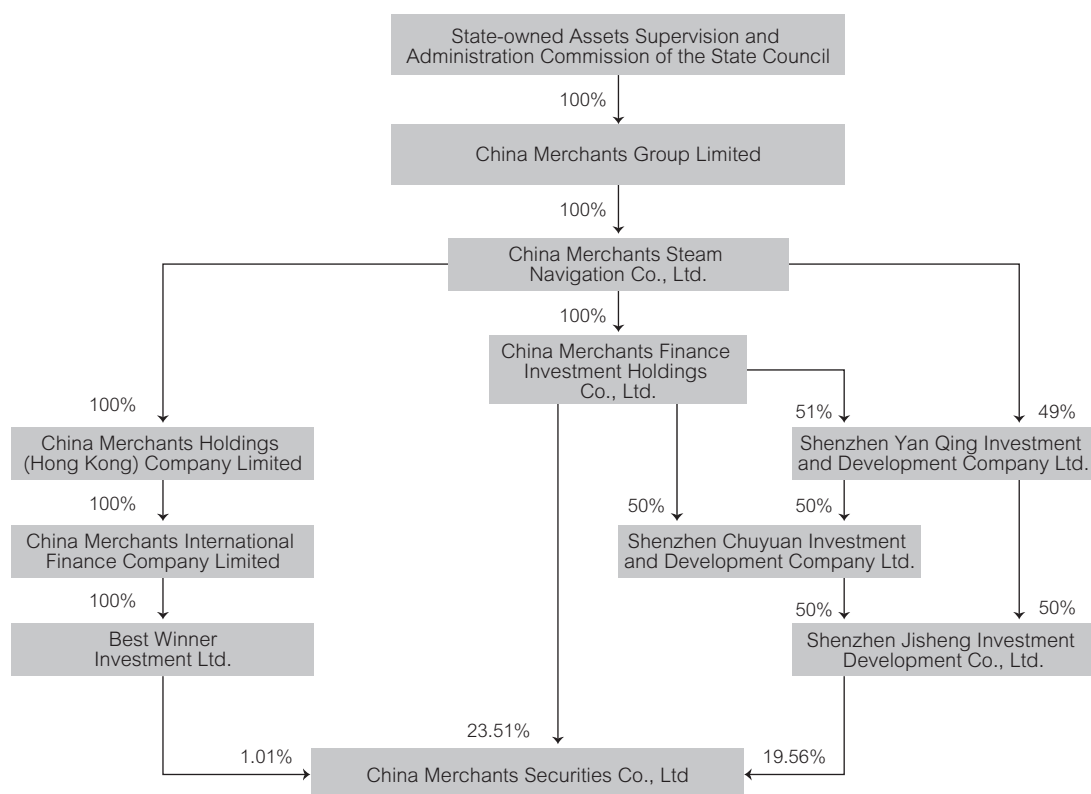
Name	China Merchants Group Limited
Person in charge or legal representative	LI Jianhong (李建紅)
Date of incorporation	October 14, 1986
Principal business	Sea and land transportation and agency of goods, leasing and agency of sea and land transportation tools and equipment, investment in and management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

## Chapter 6: Changes in Ordinary Shares and Shareholders

Name	China Merchants Group Limited
Control and shareholdings in other domestic or overseas listed companies during the Reporting Period	<p>Holding 87.81% interests in China Merchants Port Group Company Limited (招商局港口集團股份有限公司); 74.35% interests in China Merchants Land Limited; 68.72% interests in China Merchants Expressway Network &amp; Technology Holdings Co., Ltd, 68.70% interests in Sinotrans Shipping Ltd., 66.31% interests in Sinotrans Limited, 63.47% interests in China Merchants Shekou Industrial Zone Holdings Co., Ltd, 60.95% interests in Sinotrans Air Transportation Development Co., Ltd., 54.28% interests in China Merchants Energy Shipping Co., Ltd., 39.54% interests in China Merchants Port Holdings Company Limited, 29.97% interests in China Merchants Bank Co., Ltd., 29.94% interests in Anhui Expressway Company Limited, 27.59% interests in China Merchants China Direct Investments Limited, 26.77% interests in Shanghai International Port (Group) Co., Ltd., 24.58% interests in China International Marine Containers (Group) Co., Ltd., 24.05% interests in Sichuan Expressway Company Limited; 21.05% interests in Dalian Port (PDA) Company Limited, 17.75% interests in Fujian Expressway Development Co., Ltd. (福建發展高速公路股份有限公司), 16.52% interests in Heilongjiang Transport Development Co., Ltd., 16.02% interests in Shangdong Hi-Speed Company Limited, 15.43% interests in Henan Zhongyuan Expressway Co., Ltd., 15.21% interests in Hubei Chutian Expressway Co., Ltd., 14.04% interests in Jilin Expressway Co., Ltd., 13.86% interests in Guangxi Wuzhou Communications Co., Ltd., 11.69% interests in Jiangsu Expressway Company Limited, 7.04% interests in Modern Investment Co., Ltd. (現代投資股份有限公司), 4.02% interests in Shenzhen Expressway Company Limited, 3.09% interests in Ningbo Zhoushan Port Co., Ltd. (寧波舟山港股份有限公司), 2.54% interests in Qingdao Port International Co., Ltd., 1.20% interests in Oriental Times Media Corporation, 0.37% interests in Hunan Sunward Intelligent Machinery Co., Ltd., and 0.16% interests in CMMB Vision Holdings Limited.</p>
Others	Nil

## Chapter 6: Changes in Ordinary Shares and Shareholders

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



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

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

Unit: 10,000 Currency: RMB

Name of corporate shareholder	Person in charge or legal representative	General manager	Date of incorporation	Organization code	Registered capital	Principal business or operation
Shenzhen Jisheng Investment Development Co., Ltd.	XU Xin (徐鑫)	WANG Zhangwei (王章為)	December 11, 2001	73414637-5	60,000	Investment (projects are separately reported); domestic business, commodity supply and sales (excluding licensed, exclusive or franchised commodities); economic information consultancy (excluding restricted items).
Statement	Jisheng Investment is a subsidiary of China Merchants Group, the controlling shareholder of the Company.					

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

### I. CHANGE IN SHAREHOLDINGS AND REMUNERATIONS

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

Name	Position (Notes)	Gender	Year of Birth	Term commencement date	Term expiration date	No. of shares held at the beginning of the Year	No. of shares held at the end of the Year	Changes (+/-) in shareholdings during the Year	Reason for changes	Total remuneration from the Company during the Reporting Period (before tax) (RMB10,000)	Remuneration from related parties
HUO Da (霍達)	Chairman of the Board Executive Director	Male	1968	May 2017	May 2020	—	—	—	—	446.71	No
SU Min (蘇敏)	Non-executive Director	Female	1968	June 2016	May 2020	—	—	—	—	—	Yes
SU Jian (粟健)	Non-executive Director	Male	1972	June 2017	May 2020	—	—	—	—	—	Yes
XIONG Xianliang (熊賢良)	Non-executive Director	Male	1967	December 2014	May 2020	—	—	—	—	—	Yes
XIONG Jiantao (熊劍濤)	Executive Director President Chief Operating Officer (Resigned) Vice President (Resigned)	Male	1968	May 2017 December 2018 May 2017 December 2005	May 2020 November 2021 December 2018 December 2018	—	—	—	—	368.29	No
PENG Lei (彭磊)	Non-executive Director	Female	1972	August 2007	May 2020	—	—	—	—	—	Yes
HUANG Jian (黃堅)	Non-executive Director	Male	1969	August 2012	May 2020	—	—	—	—	—	Yes
WANG Daxiong (王大雄)	Non-executive Director	Male	1960	September 2016	May 2020	—	—	—	—	—	Yes
CHEN Zhigang (陳志剛)	Non-executive Director	Male	1972	June 2017	May 2020	—	—	—	—	—	Yes
XIANG Hua (向華)	Independent Non-executive Director	Male	1971	July 2017	May 2020	—	—	—	—	20	Yes
XIAO Houfa (肖厚發)	Independent Non-executive Director	Male	1967	July 2017	May 2020	—	—	—	—	20	Yes



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

Name	Position (Notes)	Gender	Year of Birth	Term commencement date	Term expiration date	No. of shares held at the beginning of the Year	No. of shares held at the end of the Year	Changes (+/-) in shareholdings during the Year	Reason for changes	Total remuneration from the Company during the Reporting Period (before tax) (RMB10,000)	Remuneration from related parties
XIONG Wei (熊偉)	Independent Non-executive Director	Male	1975	August 2017	May 2020	—	—	—	—	20	No
HU Honggao (胡鴻高)	Independent Non-executive Director	Male	1954	July 2017	May 2020	—	—	—	—	20	No
WONG Ti (汪棟)	Independent Non-executive Director	Male	1958	January 2018	May 2020	—	—	—	—	20	No
ZHOU Linda Lei (周語茵)	Chairman of the Supervisory Committee	Female	1968	July 2014	May 2020	—	—	—	—	366.70	No
LI Xiaofei (李曉霽)	Shareholder Representative Supervisor	Male	1970	July 2014	May 2020	—	—	—	—	—	Yes
WANG Zhangwei (王章為)	Shareholder Representative Supervisor	Male	1972	June 2017	May 2020	—	—	—	—	—	Yes
MA Yunchun (馬蘊春)	Shareholder Representative Supervisor	Male	1968	June 2017	May 2020	—	—	—	—	—	Yes
FANG Xiaobing (房小兵)	Shareholder Representative Supervisor	Male	1970	July 2011	May 2020	—	—	—	—	—	No
ZHANG Zehong (張澤宏)	Shareholder Representative Supervisor	Male	1972	July 2011	May 2020	—	—	—	—	—	Yes
YI Hongyan (尹虹艷)	Employee Representative Supervisor	Female	1971	August 2007	May 2020	—	—	—	—	104.41	No
HE Min (何敏)	Employee Representative Supervisor	Female	1975	July 2009	May 2020	—	—	—	—	87.85	No
XIONG Zhigang (熊志鋼)	Employee Representative Supervisor	Male	1977	May 2017	May 2020	—	—	—	—	95.90	No
DENG Xiaoli (鄧曉力)	Vice President Chief Risk Officer (Resigned)	Female	1967	November 2005 August 2014	November 2021 December 2018	—	—	—	—	329.74	No
LI Zongjun (李宗軍)	Vice President	Male	1965	July 2015	November 2021	—	—	—	—	329.59	No

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

Name	Position (Notes)	Gender	Year of Birth	Term commencement date	Term expiration date	No. of shares held at the beginning of the Year	No. of shares held at the end of the Year	Changes (+/-) in shareholdings during the Year	Reason for changes	Total remuneration from the Company during the Reporting Period (before tax) (RMB10,000)	Remuneration from related parties
WU Huifeng (吳慧峰)	Secretary to the Board Vice President	Male	1974	December 2014 November 2018	May 2020 November 2021	—	—	—	—	289.17	No
ZHAO Bin (趙斌)	Vice President Chief Compliance Officer (Resigned)	Male	1969	November 2018 January 2016	November 2021 December 2018	—	—	—	—	289.16	No
HU Yu (胡宇)	Chief Risk Officer Chief Compliance Officer	Male	1964	December 2018 December 2018	November 2021 November 2021	—	—	—	—	—	No
WANG Yan (王岩)	Executive Director (Resigned) President and Chief Executive Officer (Resigned)	Male	1965	December 2011 January 2012	August 2018 August 2018	—	—	—	—	175.03	No
YANG Jun (楊鈞)	Independent Non-executive Director (Resigned)	Male	1957	June 2011	January 2018	—	—	—	—	—	Yes
SUN Yizheng (孫議政)	Vice President (Resigned)	Male	1968	November 2009	November 2018	—	—	—	—	314.27	No
Total	—	—	—	—	—	—	—	—	—	3,296.82	—

- Notes: 1. On February 15, 2019, in the sixteenth meeting of the sixth session of the Board, the appointment of Mr. Wu Guangyan (吳光焰) and Mr. Xie Jijun (謝繼軍) as vice presidents was approved, of which, the term of appointment of Mr. Wu Guangyan commenced from February 15, 2019 until November 23, 2021. On March 11, 2019, upon approval by the CSRC Shenzhen Office of its qualification to be a managerial-level senior management of a securities company, Mr. Xie Jijun officially assumed his position as a vice president of our Company with a term from March 11, 2019 to November 23, 2021.
2. No share incentive scheme was implemented during the Reporting Period.
3. Payment of 40% of the annual performance-based bonus payable to the Directors, chairman of the Supervisory Committee and senior management who worked full time for the Company shall be deferred for a term of 3 years. The deferred payment of remuneration shall be divided equally.
4. The total remuneration before tax of Directors, chairman of the Supervisory Committee and senior management who worked full time for the Company has not been confirmed yet. Further information will be disclosed upon confirmation.
5. The Directors, chairman of the Supervisory Committee and senior management who worked full time for the Company did not receive any non-cash remuneration.

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

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

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

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

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

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

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

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

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

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

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

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



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

Name	Major working experience
CHEN Zhigang (陳志剛)	<p>Mr. CHEN has served as our non-executive Director since June 2017. Mr. CHEN has working experience in various financial and insurance enterprises. Specifically, he has been supervisor, secretary to discipline inspection commission office and member of the party committee of PICC Pension Company Limited since August 2018; executive director and legal representative of PICC Health Pension Management (Guangzhou) Co., Ltd 人保健康養老管理(廣州)有限公司 since August 2018; secretary to the board of PICC Life Insurance Company Limited from February 2018 to August 2018; executive director of PICC Life Insurance Company Limited from January 2018 to August 2018; vice president of PICC Life Insurance Company Limited from January 2017 to August 2018; and vice president of PICC Health Insurance Company Limited from April 2011 to January 2017. Mr. CHEN served as assistant to the president of PICC Health Insurance Company Limited from September 2009 to April 2011; and successively held position in the People's Bank of China, the Financial Committee of the CPC Central Committee (中央金融工委) and the China Banking Regulatory Commission from July 1993 to August 2009, including the position of deputy director (deputy at the bureau level) of the training center of the China Banking Regulatory Commission.</p> <p>Mr. CHEN obtained a bachelor's degree in economics from Hangzhou University (now known as Zhejiang University), a master's degree in economics from the Chinese Academy of Social Sciences and a doctoral degree from Renmin University of China in July 1993, July 1999 and July 2005, respectively. He was granted the qualification of senior economist in November 2003.</p>
XIANG Hua (向華)	<p>Mr. XIANG has served as our independent non-executive Director since July 2017. Mr. XIANG has experience in foreign exchange practices and capital market management. Specifically, he has been chief executive officer of Turui Investment Management Co., Ltd. (圖瑞投資管理有限公司) since January 2018, and he was chief executive officer and chief operating officer of Deepwater Capital Limited from October 2014 to November 2017; general manager of SAFE Investment Company Limited from July 2009 to February 2014; and head of the Central Foreign Exchange Business Center of the State Administration of Foreign Exchange from March 2004 to July 2009. Mr. XIANG successively acted as officer and deputy head of the Balance of Payments Department and General Affairs Department of the State Administration of Foreign Exchange from August 1994 to March 2004.</p> <p>Mr. XIANG obtained a bachelor's degree in economics from Beijing Normal University and a master's degree in economics from Renmin University of China in 1994 and 2001, respectively.</p>

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

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

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

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

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

Name	Major working experience
LI Xiaofei (李曉霏)	<p>Mr. LI has served as our Supervisor since July 2014. Mr. Li has been a standing member of the Execution Committee of China Merchants Financial Services Business Unit since June 2018; deputy general manager of China Merchants Finance Holdings Co., Ltd. since November 2017; supervisor of China Greatwall Securities Co., Ltd. since July 2015. He was an assistant to the general manager of China Merchants Finance Holdings Co., Ltd. from November 2014 to November 2017; general manager of the human resources department of China Merchants Finance Holdings Co., Ltd. from May 2010 to September 2016; senior manager of the human resources department of China Merchants Group from October 2006 to May 2010; and manager of the administration and human resources department and secretary to the board of directors of Grand Auto Park Company Limited (深圳市平方汽車園區有限公司) from October 2003 to October 2006. Mr. LI joined Shenzhen Nanyou (Holdings) Ltd. since July 1993, and has held such positions as secretary (chief at section level) of the general manager office, deputy manager of the planning and development department and deputy manager of the leasing department.</p> <p>Mr. LI obtained a master's degree in economics majoring in labour economics from Renmin University of China in January 2004.</p>
WANG Zhangwei (王章為)	<p>Mr. WANG has served as our Supervisor since June 2017. Mr. WANG has been assistant to the general manager and concurrent general manager of the supervision department, head of the discipline inspection commission office and general manager of the audit centre of China Merchants Finance Holdings Co., Ltd. since May 2016; director of Shenzhen Yan Qing Investment and Development Co. Ltd., Shenzhen Chu Yuan Investment and Development Co., Ltd. and Shenzhen Jisheng Investment Development Co., Ltd. since November 2014; and supervisor of China Merchants Finance Investment Holdings Co. Ltd. since September 2011. He was general manager of Shenzhen Yan Qing Investment and Development Company Ltd. from November 2014 to August 2018; general manager of Shenzhen Chuyuan Investment and Development Company Ltd. from November 2014 to July 2018; general manager of Shenzhen Jisheng Investment Development Co., Ltd. from November 2014 to July 2018. Mr. WANG was general manager of the finance department and supervision office and head of the discipline inspection commission office of China Merchants Finance Holdings Co., Ltd. from June 2014 to May 2016; general manager of finance department of China Merchants Finance Holdings Co., Ltd. from June 2008 to June 2014; senior manager of the audit department of China Merchants Group Limited from August 2002 to June 2008; manager of the finance department of China Merchants Technology Holdings Co., Ltd. from May 2001 to August 2002; manager of the audit department of China Merchants Shekou Holdings Co., Ltd. from April 2000 to May 2001; project manager of Shenzhen Chinese Accountants Firm (深圳中華會計師事務所) from October 1996 to April 2000; and accountant of Shenzhen Sanjiu Group (深圳三九集團) from July 1995 to October 1996.</p> <p>Mr. WANG obtained a bachelor's degree from Dongbei University of Finance and Economics and an MBA degree from University of South Australia in July 1995 and April 2008, respectively. He is a certified public accountant in the PRC and an international certified internal auditor.</p>

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

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

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

Name	Major working experience
ZHANG Zehong (張澤宏)	<p>Mr. ZHANG has served as our Supervisor since July 2011. Mr. ZHANG has been vice president of Shenzhen Huaqiang Holdings Limited since August 2014; director of Shenzhen Huaqiang Industry Co., Ltd. (listed on the SZSE, stock code: 000062) since June 2012; and director of Shenzhen Huaqiang Electronic Commerce Co., Ltd. since July 2015. Mr. ZHANG served as general manager of Huaqiang Industry from June 2012 to August 2014; vice president of Huaqiang Holdings from November 2011 to June 2012; assistant to the president of Huaqiang Holdings from January 2007 to November 2011; managing director of Shenzhen Huaqiang Dingxin Investment Co., Ltd. from December 2008 to June 2012; and head of the auditing department, finance department, and settlement center of Huaqiang Holdings from October 2003 to October 2008.</p> <p>Mr. ZHANG obtained a bachelor's degree in economics majoring in accounting from Xi'an Shiyou University (formerly known as Xi'an Shiyou College) and a master's degree in economics majoring in accounting from Shaanxi Institute of Finance and Economics (now merged into Xi'an Jiaotong University) in June 1994 and July 1997, respectively. Mr. ZHANG was granted the title of Intermediate Accountant by the Ministry of Finance in May 1999.</p>
YIN Hongyan (尹虹艷)	<p>Ms. YIN has served as our employee representative Supervisor since August 2007. Ms. YIN has been general manager of our Human Resources Department since August 2018. She was general manager of our Department of Retail Brokerage and Department of Operations and Administration from August 2017 to August 2018. Ms. YIN served as deputy general manager and then general manager of our Department of Operations and Administration from April 2009 to August 2017; manager of our Shenzhen Fumin Road securities branch from April 2007 to April 2009; assistant to the general manager of our Private Customer Service Department from January 2006 to April 2007; deputy manager of our Shenzhen Fumin Road securities branch from January 2005 to January 2006; and assistant to manager and head of the customer service department of our Shenzhen Zhenhua Road securities branch from July 2000 to February 2005.</p> <p>Ms. YIN obtained a doctoral degree in law majoring in sociology from Nankai University in June 2006.</p>
HE Min (何敏)	<p>Ms. HE has served as our employee representative Supervisor since July 2009. Ms. HE has been general manager of our Finance Department since February 2019. Ms. HE served as deputy general manager of our Finance Department from April 2009 to February 2019, and assistant to the general manager of our Finance Department from April 2006 to April 2009. Ms. HE started her service at our Finance Department from July 1999.</p> <p>Ms. HE obtained a bachelor's degree in economics majoring in accounting and a master's degree in management majoring in accounting, both from Zhongnan University of Economics and Law (formerly Zhongnan University of Finance and Economics), in July 1996 and June 1999, respectively. Ms. HE was granted the qualification of Certified Public Accountant in October 1999 by the Chinese Institute of Certified Public Accountants.</p>

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

Name	Major working experience
<p>XIONG Zhigang (熊志鋼)</p>	<p>Mr. XIONG has served as our employee representative Supervisor since May 2017 and general manager of our Audit Department since December 2017. Mr. XIONG has served as the Supervisor of CMS Investment since December 2017. Mr. XIONG was chief compliance officer, chief risk officer and secretary to the board of directors of China Merchants Securities Asset Management Co., Ltd. from May 2015 to December 2017. He worked for the preparatory panel of China Merchants Securities Asset Management Co., Ltd. from October 2014 to April 2015. Mr. XIONG served as officer and deputy head of the CSRC Shenzhen Office from September 2003 to August 2014; and financial manager of the financial management department of Huawei Technologies Co., Ltd. from July 2000 to August 2003.</p> <p>Mr. XIONG obtained a bachelor's degree in economics majoring in auditing from Nankai University and a master's degree in finance from Beijing University in June 2000 and July 2007, respectively. Mr. XIONG was granted the qualifications of Certified Public Accountant by the Chinese Institute of Certified Public Accounts, Internal Auditor by the China Institute of Internal Audit, International Internal Auditor (IIA) by the Institute of Internal Auditors as well as the title of Intermediate Accountant by the Ministry of Finance of the PRC in December 2004, November 2001, November 2001 and May 2004, respectively.</p>
<p>DENG Xiaoli (鄧曉力)</p>	<p>Ms. DENG has served as our Vice President since November 2005. She has been a chairman of the Board of Directors of CMS Zhiyuan since January 2019 and chairman of the Board of Directors of CMS Asset Management since March 2019. She served as our Chief Risk Officer from August 2014 to December 2018; and has been director of China Merchants Fund since November 2006; vice chairman of the board of directors of China Merchants Fund since November 2013. She was a director of CMS International from January 2006 to January 2019; secretary to the Board from August 2014 to December 2014; and deputy general manager and then general manager of our Risk Management Department from March 2002 to March 2006 (during such period she had been seconded by the CSRC to be a member of the administrative take-over group of China Southern Securities). Ms. DENG was senior analyst in the risk management department of Citigroup Inc. from August 1998 to October 2001; and senior risk analyst of Providian Financial Corporation from June 1997 to August 1998.</p> <p>Ms. DENG obtained a bachelor's degree in science majoring in management science from Shandong University, a master's degree and a doctoral degree in economics from the State University of New York in July 1989, December 1993 and December 1996, respectively. Ms. DENG was granted the title of Senior Economist (Finance) in December 2013.</p>

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

Name	Major working experience
LI Zongjun (李宗軍)	<p>Mr. LI has served as our Vice President since July 2015. Mr. LI has been chairman of the board of directors of China Merchants Futures since March 2019, director of E-Capital Transfer Co., Ltd since January 2019. He served as chairman of the board of directors of CMS Zhiyuan from January 2015 to January 2019; assistant to the President from December 2014 to July 2015; deputy general manager of China Merchants Food Supply Chain Management Co., Ltd.* (招商局食品供應鏈管理有限公司) from January 2014 to September 2014; deputy general manager of China Merchants Capital Investments Co., Ltd. from April 2013 to January 2014; deputy general manager of the corporate planning department of China Merchants Group from February 2006 to April 2013; assistant to general manager of China Merchants Holdings (International) Company Limited from March 2003 to February 2005; deputy manager of the overseas listing department of COSCO's asset management center from September 1997 to April 1999; and assistant to the general manager of COSCO Finance Co., Ltd. (formerly COSCO Group Finance Co., Ltd.) and general manager of its Beijing securities department from March 1994 to October 1997.</p> <p>Mr. LI obtained a bachelor's degree in economics and a master's degree in economics, both from Nankai University, in July 1987 and April 1990, respectively. Mr. LI was granted the qualification of senior economist by the Ministry of Transport in October 1998.</p>
WU Huifeng (吳慧峰)	<p>Mr. WU has served as our vice president since November 2018 and our Secretary to the Board since December 2014. Mr. WU served as assistant to the President from May 2014 to March 2015; co-general manager of the Board office from June 2014 to June 2015; our Supervisor from July 2007 to May 2014; and our Director from May 2004 to July 2007. Mr. WU held the following positions in China Merchants Finance Holdings Co., Ltd.: deputy general manager from September 2013 to May 2014; assistant to the general manager from July 2008 to September 2013; general manager of the human resources department from June 2008 to May 2010; and general manager of the finance and audit department from June 1999 to June 2008. Mr. WU served as deputy manager of the finance department of Shanghai Nanshan Real Estate Development Co., Ltd. (上海南山房地產開發有限公司) (formerly Shanghai Chengnan Real Estate Development Company (上海誠南房地產開發公司)) from August 1998 to June 1999; and employee and head of the settlement center of China Nanshan Development (Group) Co., Ltd. from June 1996 to August 1998.</p> <p>Mr. WU obtained a bachelor's degree in economics majoring in accounting from the Shanghai University of Finance and Economics and a master's degree in economics majoring in finance from Peking University in June 1996 and January 2012, respectively. Mr. WU was granted the qualification of accountant in May 1998 by the Ministry of Finance of the PRC.</p>



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

Name	Major working experience
ZHAO Bin (趙斌)	<p>Mr. ZHAO has served as our vice president since November 2018. He served as our Chief Compliance Officer from January 2016 to December 2018. He has been working as executive director of CMS Investment since January 2019. Mr. ZHAO has been a director of China Merchants Futures since July 2008; director of CMS Asset Management since July 2015; chairman of the supervisory committee of China Merchants Fund since September 2017; and chief compliance officer of CMS Asset Management since January 2018. Mr. ZHAO served as general manager of our Department of Retail Brokerage from April 2008 to January 2016, and during such period, he also served as general manager of our Channel Management Department from April 2013 to January 2014. Mr. ZHAO was our employee representative Supervisor from July 2007 to May 2011; general manager of our Private Customer Service Department from January 2006 to April 2009; manager of our Shenzhen Nanshan Nanyou Road securities branch from August 2001 to January 2006; deputy manager (person-in-charge) of our Shenzhen Longgang securities branch from August 1999 to August 2001; and assistant to the general manager of our Brokerage Business Department from January 1999 to August 1999. Mr. ZHAO had held the following positions in the securities department of China Merchants Bank: assistant to the manager and manager of Haikou branch from March 1996 to December 1998; head of Futian branch from May 1995 to March 1996; and staff member of the securities department from July 1992 to May 1995.</p> <p>Mr. ZHAO obtained a bachelor's degree in economics majoring in international finance from Shenzhen University and a master's degree in science majoring in project management from the University of Greenwich in June 1992 and February 2010 respectively.</p>

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Name	Major working experience
HU Yu (胡宇)	<p>Mr. HU has been the compliance officer and chief risk officer since December 2018. From August to November 2018, he was the deputy head of capital operation department of China Merchants Group. He served as the member of CPC Committee and the secretary of Disciplinary Committee of Guangdong Bureau of the China Securities Regulatory Commission from November 2016 to July 2018. From February 2015 to October 2016, he was the member of CPC Committee and the secretary of Disciplinary Committee of Hainan Bureau of the China Securities Regulatory Commission. He served as the deputy principal staff member of Department of Policy and Regulations, the principal staff member of Department of Intermediary Supervision, the deputy officer and director of Office of the Party Committee as well as the director of No.1 Inspection Office of Shenzhen Bureau of the China Securities Regulatory Commission from July 1996 to January 2015. He has taught at the foreign language teaching and research office of Jiangxi Medical College from July 1989 to August 1994. From September 1981 to August 1985, he was a teacher in Xishan Middle School (西山中學).</p> <p>Mr. HU obtained the Bachelor of Arts degree from Jiangxi Normal University (江西師範大學) and the Master's degree in Finance from Graduate School of People's Bank of China in July 1989 and July 1996, respectively.</p>

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

Name	Major working experience
<p>WANG Yan (王岩)</p>	<p>Mr. WANG has served as our executive Director from December 2011 to August 2018. Mr. WANG has experience in management of securities and financial companies via serving in management or administrative positions of various securities companies and banks. Specifically, he has been economic and technical consultant of the People's Government of Jilin Province since July 2012, and he served as our President and Chief Executive Officer from January 2012 to August 2018; chairman of the board of directors of CMS International from September 2015 to August 2018; and director of CMS International and China Merchants Securities (HK) Co., Limited in succession from October 2011 to August 2018; executive director of CMS Investment from December 2017 to August 2018; and vice chairman of the board of directors of Qingdao Asset Management Co., Ltd. from December 2017 to August 2018. Mr. WANG was director of China Merchants Securities Investment Management (HK) Co., Limited, CMS Capital (HK) Co., Limited and China Merchants Nominees (HK) Co., Limited from October 2011 to May 2014; executive president and concurrent chief operating officer, acting chief executive officer, and then executive president and chief executive officer of BOC International Holdings Limited from March 2005 to September 2011; deputy general manager of the Hong Kong branch of Industrial and Commercial Bank of China Limited (listed on the SSE, stock code: 601398; listed on the Hong Kong Stock Exchange, stock code: 1398) from April 2000 to January 2005 (during such period he also served as deputy general manager of Industrial and Commercial Bank of China (Asia) Limited from July 2001 to December 2004); representative and then chief representative of the New York branch of ICBC from February 1997 to April 2000; and deputy division head of the general planning division of the international business department of ICBC from August 1991 to February 1997.</p> <p>Mr. WANG obtained a bachelor's degree and a master's degree in law majoring in international law, and a doctoral degree in economics majoring in national economics, all from Peking University, in July 1986, July 1989 and January 2005, respectively. Mr. WANG was granted the title of senior economist by ICBC in August 1999.</p>

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

Name	Major working experience
YANG Jun (楊鈞)	<p>Mr. YANG has served as our independent non-executive Director from June 2011 to January 2018. Mr. YANG has experience in financial and property transaction management. Specifically, he had been an independent director of Shanghai Zhenhua Heavy Industries Company Limited (listed on the SSE, stock code: 600320) since April 2015. He has held various positions at Shanghai United Assets and Equity Exchange from July 2005 to August 2017, including assistant to the president, general manager of the Beijing headquarters, head of financial property transaction center, chief operating officer of equity trading and general manager of the equity trading department. Mr. YANG also has experience of serving at people's courts, including holding different positions at the various levels of people's courts in Shanghai. He was approved by the Supreme People's Court of the People's Republic of China as grade four senior judge in November 1998.</p> <p>Mr. YANG obtained a bachelor's degree in laws from the East China University of Political Science and Law (formerly the East China College of Political Science and Law) and a master's degree in civil laws from Peking University in August 1983 and July 1991, respectively.</p>
SUN Yizheng (孫議政)	<p>Mr. SUN has served as our Vice President from November 2009 to November 2018. Mr. SUN has been a director of ECT from January 2015 to January 2019. Mr. SUN has been director and chairman of the board of directors of Guangdong Equity Exchange Co., Ltd. since September 2013 and since April 2017, respectively. Mr. SUN served as managing director of our Investment Banking Department and assistant to the President from October 2007 to December 2009. Mr. SUN worked in the Listed Companies Department and the Listed Companies Supervision Department of the CSRC from February 1998 to April 2001.</p> <p>Mr. SUN obtained a master's degree in engineering majoring in management engineering from Xi'an Jiaotong University and a doctoral degree in management majoring in technical economics and management from Tsinghua University in June 1992 and January 2002, respectively.</p>

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

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

#### (I) Positions in shareholders

Name	Name of shareholder	Position	Date of Appointment	Date of Termination
CHEN Zhigang (陳志剛)	PICC Life Insurance Company Limited	Secretary to the board	February 2018	August 2018
	PICC Life Insurance Company Limited	Executive director	January 2018	August 2018
	PICC Life Insurance Company Limited	Vice president	January 2017	August 2018
WANG Zhangwei (王章為)	Shenzhen Jisheng Investment Development Co., Ltd.	Director	November 2014	to date
	China Merchants Finance Investment Holdings Co., Ltd.	Supervisor	September 2011	to date
	Shenzhen Jisheng Investment Development Co., Ltd.	General manager	November 2014	July 2018
FANG Xiaobing (房小兵)	China Communications Construction Company Ltd.	General manager of the financial management department	August 2014	to date
Statement of positions in shareholders' company		Nil		

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

## (II) Positions in other companies

Name	Name of company	Position	Date of Appointment	Date of Termination
HUO Da (霍達)	CMS International	Director	January 2019	to date
	17th Public Offering Review Committee of the CSRC	Part-time committee member	September 2017	January 2019
SU Min (蘇敏)	China Merchants Group Limited	Standing vice officer of the Execution Committee of China Merchants Financial Services Business Unit	June 2018	to date
	Bosera Funds	Director	September 2018	to date
	China Merchants Finance Holdings Co., Ltd.	General manager	September 2015	to date
	China Merchants Finance Holdings Company Limited	Director	December 2015	to date
	China Merchants Capital Investments Co., Ltd.	Supervisor	January 2016	August 2018
	China Merchants Venture Capital Management Co., Ltd.	Director	November 2015	August 2018
	China Merchants Bank	Director	September 2014	to date
SU Jian (粟健)	China Merchants Group	Head of the finance department (property rights department)	July 2017	to date
	China Merchants Port Holdings Company Limited	Executive Director	October 2017	to date
	China Merchants Energy Shipping Co., Ltd.	Director	August 2017	to date
	China Merchants Expressway Network & Technology Holdings Co., Ltd.	Director	July 2017	to date
XIONG Xianliang (熊賢良)	China Merchants Group	Director of development research center	August 2018	to date
	China Merchants Technology and Innovation Development Institute (招商局科技創新發展研究院)	Dean	August 2018	to date
	China Merchants Group	Head of strategic development department	March 2015	to date
	China Merchants Group	Head of the security and supervision department	February 2017	October 2018

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

Name	Name of company	Position	Date of Appointment	Date of Termination
XIONG Jiantao (熊劍濤)	China Merchants Futures	Chairman of the board of directors	March 2008	March 2019
	CMS Asset Management	Chairman of the board of directors	March 2015	March 2019
	CMS International	Director	September 2015	to date
PENG Lei(彭磊)	China Merchants Group	Standing member of the Execution Committee of China Merchants Financial Services Business Unit	June 2018	to date
	China Merchants Finance Holdings Co., Ltd.	Deputy general manager	April 2016	to date
	China Merchants Ping An Asset Management Co.	Director	December 2018	to date
	China Merchants Commerce Leasing Co., Ltd	Director	August 2018	to date
	Bosera Funds	Director	November 2017	September 2018
	Morgan Stanley Huaxin Fund Management Co., Ltd.	Director	March 2015	to date
	China Great Wall Securities Co., Ltd.	Director	June 2011	to date
HUANG Jian (黃堅)	Shanghai Rural Commercial Bank Co., Ltd.	Director	June 2018	to date
	China COSCO Shipping Corporation Limited	General manager of capital operation department	September 2016	to date
	COSCO SHIPPING Captive Insurance Co., Ltd.	Director	August 2017	to date
	Lanhai Medical Investment Co., Ltd.	Director	May 2017	to date
	COSCO SHIPPING Development Co., Ltd.	Non-executive director	June 2016	to date
	COSCO SHIPPING Technology Co., Ltd.	Director	December 2017	January 2019

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

Name	Name of company	Position	Date of Appointment	Date of Termination
WANG Daxiong (王大雄)	COSCO SHIPPING Captive Insurance Co., Ltd.	Chairman of the board of directors	October 2017	to date
	COSCO SHIPPING Financial Co., Limited	Chairman of the board of directors	March 2014	to date
	COSCO SHIPPING Development Co., Ltd.	Chief executive officer, executive director	May 2016	to date
	China Merchants Bank	Director	November 2016	to date
	New China COSCO Financial Holdings Limited	Vice chairman of the board of directors	March 2017	to date
CHEN Zhigang (陳志剛)	PICC Pension Company Limited	Chairman of the supervisory committee, Secretary of the discipline committee and member of the Party committee	August 2018	to date
	PICC Health Pension Management (Guangzhou) Co., Ltd. (人保健康養老管理(廣州)有限公司)	Executive director, legal representative	August 2018	to date
XIANG Hua (向華)	Turui Investment Management Co., Ltd. (圖瑞投資管理有限公司)	Chief executive officer	January 2018	to date
XIAO Houfa (肖厚發)	HuaPu TianJian Certified Public Accountants LLP	Principal partner	January 2014	to date



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

Name	Name of company	Position	Date of Appointment	Date of Termination
XIONG Wei (熊偉)	Princeton University	Teacher	July 2000	to date
	Princeton University	Professor of Economics	July 2007	to date
	Princeton University	Trumbull-Adams Professor of Finance	July 2014	to date
	Shenzhen Finance Institute, CUHK (SZ)	Director	January 2016	to date
	Chinese University of Hong Kong, Shenzhen	Academic Dean of the School of Economics and Management	June 2015	to date
	Hong Kong Institute for Monetary Research	Academic adviser	July 2012	to date
HU Honggao (胡鴻高)	Fudan University	Professor of law, doctoral advisor	January 2008	to date
	Shanghai Tofflon Science and Technology Co., Ltd.	Independent director	March 2014	to date
	Shanghai Amarsoft Information & Technology Co., Ltd.	Independent director	March 2017	to date
WONG Ti (汪棣)	51 Credit Card Inc.	Independent non-executive director	July 2018	to date
	Fosun United Health Insurance Co., Ltd. (復星聯合健康保險股份有限公司)	Independent director	July 2017	to date
	Asia-Pacific Property & Casualty Insurance Co., Ltd.	Independent director	April 2016	to date
	Vivasolis Biotechnology Co., Ltd. (中國台灣旭昶生物科技股份有限公司)	Supervisor	August 2016	to date
LI Xiaofei (李曉霏)	China Merchants Group	Standing member of the Execution Committee of China Merchants Financial Services Business Unit	June 2018	to date
	China Merchants Finance Holdings Co., Ltd.	Deputy general manager	November 2017	to date
	China Great Wall Securities Co., Ltd.	Supervisor	July 2015	to date

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

Name	Name of company	Position	Date of Appointment	Date of Termination
WANG Zhangwei (王章為)	China Merchants Finance Holdings Co., Ltd.	Assistant to the general manager and concurrent general manager of the supervision department, head of the discipline inspection commission office, general manager of the audit department	May 2016	to date
	Shenzhen Yan Qing Investment and Development Company Ltd.	Director	November 2014	to date
	Shenzhen Chuyuan Investment and Development Company Ltd.	Director	November 2014	to date
	Shenzhen Yan Qing Investment and Development Company Ltd.	General manager	November 2014	August 2018
	Shenzhen Chuyuan Investment and Development Company Ltd	General manager	November 2014	July 2018
MA Yunchun (馬蘊春)	Hebei Port Group Investment Management Co., Ltd.	General manager	January 2016	to date
	Hebei Port Group Shanghai Investment Management Company	Chairman of the board of directors, general manager	January 2016	to date
FANG Xiaobing (房小兵)	CCCC Financial Leasing Co., Ltd.	Director	May 2018	to date
	Yellow River Property & Casualty Insurance Co., Ltd.	Supervisor	August 2017	to date
	CCCC Fund Management Co., Ltd.	Director	August 2016	to date
	CCCC Finance Company Ltd.	Director	March 2016	to date
	Jiang Tai Insurance Brokers Co., Ltd.	Supervisor	October 2015	to date
ZHANG Zehong (張澤宏)	Shenzhen Huaqiang Holdings Limited	Vice president	August 2014	to date
	Shenzhen Huaqiang Industry Co., Ltd.	Director	June 2012	to date
	Shenzhen Huaqiang Electronic Commerce Co., Ltd.	Director	July 2015	to date
XIONG Zhigang (熊志鋼)	CMS Investment	Supervisor	December 2017	to date

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

Name	Name of company	Position	Date of Appointment	Date of Termination
DENG Xiaoli (鄧曉力)	CMS Zhiyuan	Chairman of the Board	January 2019	to date
	CMS Asset Management	Chairman of the Board	March 2019	to date
	China Merchants Fund	Vice chairman of the board of directors	November 2013	to date
	China Merchants Fund	Director	November 2006	to date
	CMS International	Director	January 2006	January 2019
LI Zongjun (李宗軍)	China Merchants Futures	Chairman	March 2019	To date
	ECT	Director	January 2019	to date
	CMS Zhiyuan	Chairman of the board of directors	January 2015	January 2019
ZHAO Bin (趙斌)	CMS Investment	Executive director	February 2019	to date
	China Merchants Futures	Director	July 2008	to date
	CMS Asset Management	Director	July 2015	to date
	China Merchants Fund	Chairman of the supervisory committee	September 2017	to date
	CMS Asset Management	Chief compliance officer	January 2018	to date
HU Yu (胡宇)	China Merchants Group	Deputy head of the capital operation department	August 2018	November 2018
	Guangdong Regulatory Bureau	Member of the Party committee, secretary of the discipline committee	November 2016	July 2018

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

Name	Name of company	Position	Date of Appointment	Date of Termination
WANG Yan (王岩)	The People's Government of Jilin Province	Economic and Technical Consultant	July 2012	to date
	Qingdao Asset Management Co., Ltd.	Vice chairman of the board of directors	December 2017	August 2018
	CMS International	Chairman of the board of directors	September 2015	August 2018
	CMS Investment	Executive director	December 2017	August 2018
YANG Jun (楊鈞)	Shanghai Zhenhua Heavy Industries Company Limited	Independent director	April 2015	to date
SUN Yizheng (孫議政)	Guangdong Equity Exchange Co., Ltd.	Chairman of the board of directors	April 2017	to date
	Guangdong Equity Exchange Co., Ltd.	Director	September 2013	to date
	ECT	Director	January 2015	January 2019

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

### III. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making procedures of remuneration of Directors, Supervisors and senior management	The Remuneration and Appraisal Committee considers and reviews the remuneration policy, standard and proposal for the Directors and senior management, and makes recommendations to the Board on the formulation of official and transparent procedures for determining the remuneration policy. Remuneration of the senior management shall be considered and determined by the Remuneration and Appraisal Committee under the Board.
Basis for determination of remuneration of Directors, Supervisors and senior management	Remuneration of the senior management shall be determined by the Remuneration and Appraisal Committee under the Board with reference to the principal duties of relevant managerial positions, the results of performance assessment as well as the remuneration level in the market, according to the Company's pilot scheme of Management Methods of the Remuneration of Senior management.
Remuneration paid to Directors, Supervisors and senior management	Please refer to "I. Change in Shareholdings and Remuneration" of this chapter.
Aggregate remuneration payable to Directors, Supervisors and senior management as of the end of the Reporting Period	Remunerations before tax received by Directors, Supervisors and senior management from the Company during the Reporting Period totalled RMB32.9682 million, of which a total of RMB25.4196 million was for senior executives/ executive Directors, a total of RMB6.5486 million was for Supervisors, and a total of RMB1 million was for independent non-executive Directors. Please refer to "I. Change in Shareholdings and Remuneration" of this chapter.

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

### IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Change and effective date	Date of Change	Reason
WONG Ti (汪棣)	Independent non-executive Director	Elected	January 29, 2018	Elected at the shareholders' meeting
XIONG Jiantao (熊劍濤)	President	Appointed	December 15, 2018	Appointed by the Board
WU Huifeng (吳慧峰)	Vice president	Appointed	November 23, 2018	Appointed by the Board
ZHAO Bin (趙斌)	Vice president	Appointed	November 23, 2018	Appointed by the Board
HU Yu (胡宇)	Chief Risk Officer	Appointed	December 18, 2018	Appointed by the Board
	Chief Compliance Officer	Appointed	December 24, 2018	Appointed by the Board
XIONG Jiantao (熊劍濤)	Vice president, Chief Operation Officer	Resigned	December 15, 2018	Work adjustment
DENG Xiaoli (鄧曉力)	Chief Risk Officer	Resigned	December 17, 2018	Work adjustment
ZHAO Bin (趙斌)	Chief Compliance Officer	Resigned	December 17, 2018	Work adjustment
YANG Jun (楊鈞)	Independent non-executive Director	Resigned	January 29, 2018	Expiry of the term of office
WANG Yan (王岩)	Executive Director, President and Chief Executive Officer	Resigned	August 17, 2018	Resignation
SUN Yizheng (孫議政)	Vice President	Resigned	November 23, 2018	Resignation

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

On May 26, 2017, Mr. WONG Ti was elected as an Independent Non-executive Director of the sixth session of Board of the Company at the 2016 Annual General Meeting of the Company. On January 29, 2018, the CSRC Shenzhen Office approved the qualification of Mr. WONG Ti as an Independent Director in a securities firm, and Mr. WONG Ti has officially served as an Independent Non-executive Director of the Company with his term of office ending on the expiry date of the current session of the Board; Mr. YANG Jun ceased to act as the Independent Non-executive Director of the Company.

On November 23, 2018, Mr. XIONG Jiantao was appointed as President of the Company at the fourteenth meeting of the sixth session of the Board of the Company. On December 15, 2018, the regulatory authority approved the qualification of Mr. XIONG Jiantao as President of the Company, and Mr. XIONG Jiantao has officially served as President of the Company with his term of office commencing from December 15, 2018 and ending on November 23, 2021. At the fourteenth meeting of the sixth session of the Board of the Company, Ms. DENG Xiaoli and Mr. LI Zongjun were reappointed as Vice President of the Company, and Mr. WU Huifeng and Mr. ZHAO Bin were appointed as Vice President of the Company. The term of office of the above Vice Presidents commenced from the date of approval at the fourteenth meeting of the sixth session of the Board, and shall end on November 23, 2021.

On December 17, 2018, Mr. HU Yu was appointed as Chief Compliance Officer and Chief Risk Officer of the Company at the fifteenth meeting of the sixth session of the Board of the Company. On December 18, 2018, the CSRC Shenzhen Office approved the qualification of Mr. HU Yu as the senior management of a securities firm, and Mr. HU Yu has officially served as Chief Risk Officer of the Company with his term of office commencing from December 18, 2018 and ending on November 23, 2021. On December 24, 2018, the CSRC Shenzhen Office issued a no objection letter with respect to the appointment of Mr. HU Yu as Chief Compliance Officer of the Company, and Mr. HU Yu has officially served as Chief Compliance Officer of the Company with his term of office commencing from December 24, 2018 and ending on November 23, 2021. Mr. ZHAO Bin and Ms. DENG Xiaoli ceased to act as Chief Compliance Officer and Chief Risk Officer of the Company respectively, with effect from the date of approval at the fifteenth meeting of the sixth session of the Board.

On August 17, 2018, the Board of the Company received the written letter of resignation delivered by Mr. WANG Yan, the Executive Director, President and Chief Executive Officer. Mr. WANG Yan resigned such positions for personal reasons as our Executive Director, member of the Strategy Committee of the Board, member of the Risk Management Committee of the Board, member of the Nomination Committee of the Board, the President and Chief Executive Officer. Mr. WANG Yan held no position of the Company since the resignation. According to the Articles of Association and Working Rules of the President, the letter of resignation by Mr. WANG Yan took effect upon the date that the letter of resignation was delivered to the Board.

On November 23, 2018, the Board of the Company received the written letter of resignation delivered by Mr. SUN Yizheng, Vice President of the Company. Mr. SUN Yizheng resigned as Vice President of the Company for personal reasons. According to the Articles of Association, the letter of resignation by Mr. SUN Yizheng took effect upon the date that the letter of resignation was delivered to the Board.

On February 15, 2019, it was agreed to appoint Mr. WU Guangyan and Mr. XIE Jijun as Vice President of the Company at the sixteenth meeting of the sixth session of the Board of the Company. In particular, the term of office of Mr. WU Guangyan commenced from the date of approval at this meeting of the Board and shall end on November 23, 2021. On March 11, 2019, upon approval by the CSRC Shenzhen Office of his qualification to be a managerial-level senior management of a securities company, Mr. Xie Jijun officially assumed its position as a vice president of our Company with a term from March 11, 2019 to November 23, 2021.

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

### V. Compositions of All Kinds of Special Committees under the Board

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

- (1) Strategy Committee comprises of 7 members: HUO Da, XIONG Xianliang, WANG Yan (resigned in August 2018), XIONG Jiantao, WANG Daxiong, CHEN Zhigang, XIANG Hua, of which, HUO da acts as the convener.
- (2) Risk Committee comprises of 7 members: SU Min, SU Jian, WANG Yan (resigned in August 2018), PENG Lei, WANG Daxiong, CHEN Zhigang, XIANG Hua, of which, SU Min acts as the convener.
- (3) Audit Committee comprises of 5 members: XIAO Houfa, SU Jian, HUANG Jian, WONG Ti, HU Honggao, of which, XIAO Houfa acts as the convener.
- (4) Remuneration and Appraisal Committee comprises of 5 members: XIANG Hua, SU Min, PENG Lei, XIONG Wei, WONG Ti, of which, XIANG Hua acts as the convener.
- (5) Nomination Committee comprises of 5 members: XIONG Wei, WANG Yan (resigned in August 2018), PENG Lei, XIAO Houfa, HU Honggao, of which, XIONG Wei acts as the convener.



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

### VI. EMPLOYEES OF THE PARENT COMPANY AND MAJOR SUBSIDIARIES

#### (I) Employees

Number of employees of the parent company	8,984
Number of employees of major subsidiaries	680
Total number of employees	9,664
Number of resigned and retired employees with expenses borne by the parent company and major subsidiaries	47
<b>Classification by business function</b>	
<b>Business function</b>	<b>Number</b>
Management and administration	390
Securities and futures brokerage	7,250
Investment banking	758
Investment management	195
Investment and trading	157
Research	193
Legal and compliance, risk management and internal audit	156
IT	334
Finance and accounting	134
Others	97
<b>Total</b>	<b>9,664</b>
<b>Classification by education background</b>	
<b>Education background</b>	<b>Number (person)</b>
Doctor	83
Master	2,690
Bachelor	4,826
Below bachelor's Degree	2,065
<b>Total</b>	<b>9,664</b>

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

### (II) Remuneration

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

### (III) Training

According to the core strategy of “Transformation” and “Quality and Efficiency Improvement”, the Company closely aligned with the requirements of business development, planned and implemented classified and specific training programs in three aspects, including profession, management and general training programs, and focused on the trainings on financial technologies, covering all employees in order to support their growth and enhance the core competitiveness of the Company.

1. Profession training was conducted for all employees to raise their profession in securities and innovation capability through 35 sessions of internal themed training covering marketing, integrated operation, wealth management, innovative businesses and basic skills.
2. Management training was provided for backup, new and current management and senior management members to enhance their overall management abilities through 6 themed training programs covering management transformation, leadership, management creativity, global vision and the latest financial knowledge.
3. General training was mainly provided for basic level employees to improve their professionalism through various forms of online and offline training programs covering diversified subjects including corporate culture, compliance and risk control, rules and systems, business procedures and vocational skills through 33 sessions of trainings.

### (IV) Outsourced services

Hours of outsourced services	10,187,352 hours
Total remuneration paid for outsourced services	RMB42.9661 million

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

### VII. OTHERS

As of December 31, 2018, the Company entered into the securities agency contracts with 2,639 agents.

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

## Chapter 8: Corporate Governance Report

### I. OVERVIEW OF CORPORATE GOVERNANCE

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

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

During the Reporting Period, the Company held one shareholders' general meetings to consider 10 resolutions; nine Board meetings to consider 31 resolutions and review 13 reports; 21 meetings of committees under the Board for 2018 to consider 36 resolutions (proposals) and review 22 reports; as well as five meetings of the Supervisory Committee to consider 15 resolutions and review four reports.

#### (I) Shareholders and Shareholders' General Meetings

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

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

## Chapter 8: Corporate Governance Report

### (II) Directors and the Board

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

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

#### 1. Composition of the Board

The Company have a board of directors accountable to the shareholders' general meeting. The Board consists of 14 directors, more than one-third of which are independent Directors. There are two executive Directors, seven non-executive Directors and five independent non-executive Directors in the Board. The Directors are elected at shareholders' general meetings. They serve a term of three years which starts from the date on which they are elected at the shareholders' general meeting and their qualifications as directors and independent directors of securities company are obtained from the CSRC or its authorised institutions. Directors are eligible for re-elections upon expiry of their terms of office. Independent non-executive Directors shall not hold office for more than six consecutive years. Please see "I. Change in Shareholdings and Remuneration" in "Chapter 7 Directors, Supervisors, Senior Management and Employees" of this report for the composition of the Board and the biographies of the Directors of the Company.

## Chapter 8: Corporate Governance Report

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

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

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

## Chapter 8: Corporate Governance Report

### (III) Supervisors and Supervisory Committee

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

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

### (IV) Senior Management

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

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

## Chapter 8: Corporate Governance Report

### (V) Chairman and General Manager

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

### (VI) Liability Insurances for Directors, Supervisors and Senior Management of the Company

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

### (VII) Party Committee

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



## Chapter 8: Corporate Governance Report

### (VIII) Information Disclosure and Transparency

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

### (IX) Stakeholders

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

## II. SHAREHOLDERS' GENERAL MEETINGS

Meeting	Date of meeting	Inquiry of index of designated website for the publication of poll results	Poll results	Date of Announcement on Resolutions
2017 Annual General Meeting	June 22, 2018	SSE website, Hong Kong Stock Exchange Website	Passed	June 23, 2018, June 22, 2018

## Chapter 8: Corporate Governance Report

## III. DUTY PERFORMANCE OF DIRECTORS

## (I) Attendance of Directors at Board Meetings and Shareholders' General Meetings

Name of Director	Whether an independent Director	Attendance of Board meetings						Attendance of Shareholders' general meeting
		Number of Board meetings requiring attendance	Attendance in person (times)	Attendance through correspondence (times)	Attendance by proxy (times)	Absence (times)	Whether not attending in person for two consecutive meetings	Attendance of Shareholders' general meeting (times)
HUO Da (霍達)	No	9	9	4	0	0	No	1
SU Min (蘇敏)	No	9	9	4	0	0	No	1
SU Jian (粟健)	No	9	9	7	0	0	No	1
XIONG Xianliang (熊賢良)	No	9	9	8	0	0	No	1
XIONG Jiantao (熊劍濤)	No	9	9	4	0	0	No	1
PENG Lei (彭磊)	No	9	9	7	0	0	No	1
HUANG Jian (黃堅)	No	9	9	6	0	0	No	1
WANG Daxiong (王大雄)	No	9	9	7	0	0	No	1
CHEN Zhigang (陳志剛)	No	9	9	8	0	0	No	1
XIANG Hua (向華)	Yes	9	9	4	0	0	No	1
XIAO Houfa (肖厚發)	Yes	9	9	6	0	0	No	1
XIONG Wei (熊偉)	Yes	9	8	6	1	0	No	1

## Chapter 8: Corporate Governance Report

Name of Director	Whether an independent Director	Attendance of Board meetings						Attendance of Shareholders' general meeting
		Number of Board meetings requiring attendance	Attendance in person (times)	Attendance through correspondence (times)	Attendance by proxy (times)	Absence (times)	Whether not attending in person for two consecutive meetings	Attendance of Shareholders' general meeting (times)
HU Honggao (胡鴻高)	Yes	9	9	7	0	0	No	1
WONG Ti (汪隸)	Yes	8	8	3	0	0	No	1
WANG Yan (王岩) (resigned)	No	5	5	4	0	0	No	1
YANG Jun (楊鈞) (resigned)	Yes	1	1	1	0	0	No	0

Number of Board meetings convened in the year	9
Of which: number of onsite meetings	2
Number of meetings convened by way of correspondence	3
Number of meetings convened onsite and by way of correspondence	4

## Chapter 8: Corporate Governance Report

## (II) Convening of Board Meetings

No.	Meeting	Date of Meeting	Resolutions	Voting results	Date of announcement on resolutions
1	7th meeting of the sixth session of the Board	January 30, 2018	Resolution regarding setting up the new securities business unit	Passed	January 31, 2018
2	8th meeting of the sixth session of the Board	March 27, 2018	Resolutions regarding the working report of the Board for 2017; work report of the Audit Committee under the Board for 2017; 2017 operational report of the Company; 2017 annual report; profit distribution of the Company for 2017; compliance management report of the Company for 2017; internal control assessment report of the Company for 2017; audit report on internal control of the Company for 2017; social responsibilities report of the Company for 2017; report on the deposit and usage of proceeds from issuance of H Shares in 2017; budget for proprietary investment of the Company for 2018; budget for charity donations of the Company in 2018; contemplated ordinary related party transactions of the Company for 2018; appointment of auditing firm of the Company for 2018; proposed change of registered address of the Company and make corresponding amendments to the Articles of Association; convention of 2017 annual general meeting; plan of shareholders' returns (2018-2020) of the Company; entering into business cooperation agreement and connected transaction with China Merchants Bank; changes on significant accounting policies of the Company	Passed	March 28, 2018
3	9th meeting of the sixth session of the Board	April 17, 2018	Resolution regarding trial implementation of assessment method for regulation compliance of senior management of the Company	Passed	April 18, 2018
4	10th meeting of the sixth session of the Board	April 26, 2018	First quarterly report of the Company for 2018	Passed	April 27, 2018
5	11th meeting of the sixth session of the Board	June 9, 2018	Resolution regarding participation of Guangdong regional integration of equity market by the associated companies.	Passed	June 12, 2018

## Chapter 8: Corporate Governance Report

No.	Meeting	Date of Meeting	Resolutions	Voting results	Date of announcement on resolutions
6	12th meeting of the sixth session of the Board	August 29, 2018	Resolutions regarding 2018 interim operational report of the Company; 2018 interim report of the Company; amendments to Detailed Rules of Works of the President of China Merchants Securities Co., Ltd.; report on the deposit and usage of proceeds from issuance of H Shares in half year of 2018.	Passed	August 30, 2018
7	13th meeting of the sixth session of the Board	October 29, 2018	Third quarterly report of the Company for 2018	Passed	October 30, 2018
8	14th meeting of the sixth session of the Board	November 23, 2018	Resolution regarding appointment of senior management members of the Company	Passed	November 24, 2018
9	15th meeting of the sixth session of the Board	December 17, 2018	Resolution regarding medium-to-long-term development strategies and development plans for 2019-2023 of the Company; change of compliance officer, chief risk officer of the Company	Passed	December 18, 2018

### (III) Objection Raised by Independent Directors on Relevant Matters of the Company

During the Reporting Period, the independent Directors of the Company did not raise objections against any proposals of the Board or other proposals of the Company for the year.

### (IV) Duty Performance of Independent Directors

For details of the duty performance of independent Directors of the Company, please see the Annual Duty Report of Independent Directors of China Merchants Securities Co., Ltd. for 2018 (《招商證券股份有限公司獨立董事2018年度述職報告》) published on the SSE website and the Hong Kong Stock Exchange website for the same period of this report.

## Chapter 8: Corporate Governance Report

### (V) Implementation of Resolutions Passed at Shareholders' General Meetings by the Board

1. On June 22, 2018, the Resolution regarding the Profit Distribution of the Company for 2017 was considered and approved in the 2017 annual general meeting of the Company. The profit distribution plan was completed during the Reporting Period.
2. On June 22, 2018, the Resolution regarding the Budget for Proprietary Investment the Company for 2018 was considered and approved in the 2017 annual general meeting of the Company. Pursuant to which, the total proprietary amount of equity securities and derivatives of the Company did not exceed (red time) 100% of its net capital. The cost of A-share directional investment did not exceed 25% of its net capital at the end of 2017; the total amount of non-equity securities and derivatives did not exceed (red time) 400% of its net capital. The Company's relevant operational indicators were all kept within the scope of authorization by the shareholders' general meeting during the Reporting Period.
3. On June 22, 2018, the Resolution regarding Contemplated Ordinary Related Party Transactions of the Company for 2018 was considered and approved in the 2017 annual general meeting of the Company. Please refer to the Announcement on the Contemplated Ordinary Related Party Transactions of the Company for 2019 disclosed on the SSE website, the Hong Kong Stock Exchange website, China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily on March 29, 2019 for details of the actual implementation of the ordinary related party transactions of the Company.
4. On June 22, 2018, the Resolution regarding appointment of Auditing Firm of the Company for 2018 was considered and approved in the 2017 annual general meeting of the Company. Pursuant to which, the Company appointed Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the auditors for the annual report and internal control of the Company for 2018.
5. On June 22, 2018, the resolution regarding change of registered address and corresponding amendments to the Articles of Association was considered and approved in the 2017 annual general meeting of the Company. In November 2018, CSRC Shenzhen office approved the corresponding amendments to the of Articles of Association. In November 2018, the procedures of the industrial and commercial registration for the change of the Company's registered address were completed. Please refer to the relevant announcements disclosed on the SSE website, the Hong Kong Stock Exchange website, China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily on November 21, 2018 and November 23, 2018 for details.

## Chapter 8: Corporate Governance Report

### (VI) Others

#### 1. Directors' Training

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

Details of trainings of the Directors are as follows:

HUO Da (霍達) (Chairman of the Board, Executive Director)	He had participated a training camp of "Empowering through reformation, achieving success in the future" for 2018 organised by CMS Securities in October 2018; read Weekly Strategic Report and the Correspondences to the Directors and Supervisors on a weekly and monthly basis.
SU Min (蘇敏) (Non-executive director)	She had joined the second session of "Leadership" training organised by China Merchants Group in May 2018; participated the HKIoD Global Directorship Programme, Highlight Talk: Digital Transformation held by the Hong Kong Institute of Directors; attended the themed forum of "Analysis on challenges caused by Argentine peso crisis and the China's international balance of payments and the corresponding responses" held by China Merchants Group in June 2018; joined special training on safe production for leading positions organised by the China Merchants Group in July 2018; attended the analysis meeting of macro-economic condition and the internal exchange meeting of macro-economy and industrial trend in December 2018; read Weekly Strategic Report and the Correspondences to the Directors and Supervisors on a weekly and monthly basis.
SU Jian (粟健) (Non-executive director)	He had read Weekly Strategic Report and the Correspondences to the Directors and Supervisors on a weekly and monthly basis.
XIONG Xianliang (熊賢良) (Non-executive director)	He had participated the fourth session of industrial reformation and artificial intelligent training organised by China Merchants Group in March 2018; joined a salon training regarding industrial and financial innovation organised by China Merchants Group in June 2018; joined special training on safe production for leading positions organised by the China Merchants Group in July 2018; read Weekly Strategic Report and the Correspondences to the Directors and Supervisors on a weekly and monthly basis.

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<p>XIONG Jiantao (熊劍濤) (Executive Director, President)</p>	<p>He had joined a training regarding the latest development and the best practices of the financial technology industry held in Cambridge, the UK in June 2018; participated a training camp of “Empowering through reformation, achieving success in the future” for 2018 organised by CMS Securities in October 2018; read Weekly Strategic Report and the Correspondences to the Directors and Supervisors on a weekly and monthly basis.</p>
<p>PENG Lei (彭磊) (Non-executive director)</p>	<p>He had read Weekly Strategic Report and the Correspondences to the Directors and Supervisors on a weekly and monthly basis.</p>
<p>HUANG Jian (黃堅) (Non-executive director)</p>	<p>He had read Weekly Strategic Report and the Correspondences to the Directors and Supervisors on a weekly and monthly basis.</p>
<p>WANG Daxiong (王大雄) (Non-executive director)</p>	<p>He had attended the legal affair and risk management training organised by a platform of COSCO Shipping Financial Holdings (中遠海運金控平台) in March 2018; attended the 18th session of lecture regarding rule of law: compliance management training held by SASAC in June 2018; attended lecture regarding law and risk management: how to understand the importance of constitution in promoting comprehensive law-based governance of the country, enhancing awareness of modern procurement system, strengthening centralized-control on procurements by enterprises held by China COSCO Shipping Corporation in July 2018; participated special lecture of rule of law held by China COSCO Shipping Corporation and the 19th session of lecture regarding rule of law: prevention of and solution to legal disputes in respect of corporate governance held by SASAC in August 2018; attended the 20th session of lecture regarding rule of law: legal risk management of PPP business held by SASAC in October 2018; participated the 21st session of lecture regarding rule of law: effective prevention of relevant legal risks in respect of private equity fund management business held by SASAC in December 2018; read Weekly Strategic Report and the Correspondences to the Directors and Supervisors on a weekly and monthly basis.</p>
<p>CHEN Zhigang (陳志剛) (Non-executive director)</p>	<p>He had read Weekly Strategic Report and the Correspondences to the Directors and Supervisors on a weekly and monthly basis.</p>
<p>XIANG Hua (向華) (Independent non-executive director)</p>	<p>He had participated Global Macro Conference Asia Pacific 2018 held by Goldman Sachs in February 2018; attended UBS Wealth Insights Mid Year Outlook 2018 organised by UBS in June 2018; joined a seminar regarding “reform on individual taxation of China” in November 2018; read Weekly Strategic Report and the Correspondences to the Directors and Supervisors on a weekly and monthly basis.</p>



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<p>XIAO Houfa (肖厚發) (Independent non-executive director)</p>	<p>He had participated the 56th session of training for the qualification of being an independent director of listed company organised by SEE in January 2018; attended the sixth national member congress of the Chinese Institute of Certified Public Accountants held in June 2018; participated trainings regarding administration and supervision of certified public accountant industry in September 2018; participated trainings regarding audit work to be done by accounting firms with securities qualifications in November 2018; read Weekly Strategic Report and the Correspondences to the Directors and Supervisors on a weekly and monthly basis.</p>
<p>XIONG Wei (熊偉) (Independent non-executive director)</p>	<p>He had participated a forum regarding corporate finance organised by National Bureau of Economic Research; annual meeting of American Academy of Financial Management and the forum regarding digital economy organised by Luohan Academy in 2018; read Weekly Strategic Report and the Correspondences to the Directors and Supervisors on a weekly and monthly basis.</p>
<p>HU Honggao (胡鴻高) (Independent non-executive director)</p>	<p>He had attended training held by Shanghai Bar Association and Academy of Lawyers (律師學院) in 2018; read Weekly Strategic Report and the Correspondences to the Directors and Supervisors on a weekly and monthly basis.</p>
<p>WONG Ti (汪棣) (Independent non-executive director)</p>	<p>He had read Weekly Strategic Report and the Correspondences to the Directors and Supervisors on a weekly and monthly basis.</p>

### 2. Directors' Remuneration

For details, please refer to "I. Change in Shareholdings and Remuneration" in "Chapter 7 Directors, Supervisors, Senior Management and Employees" of this report.

### 3. Term of Office of Non-executive Directors

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

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### 4. Diversity Policy

#### (1) Purpose

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

#### (2) Statements

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

#### (3) Measurable Objectives

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

#### (4) Monitoring and Reporting

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

#### (5) Review of this Policy

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

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### (6) Disclosure of this Policy

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

### 5. *Nomination Policy*

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

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

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

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### **IV. SIGNIFICANT OPINIONS AND RECOMMENDATIONS PROPOSED BY THE SPECIAL COMMITTEES UNDER THE BOARD IN PERFORMING THEIR DUTIES DURING THE REPORTING PERIOD, DETAILS SHOULD BE DISCLOSED IF THERE WERE DISAGREEMENTS**

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

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

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

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

During the Reporting Period, the Strategy Committee held a total of three meetings.

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No.	Session	Date	Proposal	Report
1	The second meeting of the Strategy Committee of the sixth session of the Board	March 26, 2018	—	2018-2020 Strategic Development Plan of the Company
2	The third meeting of the Strategy Committee of the sixth session of the Board	August 21, 2018	Measures for the Management of Fintech Innovation Fund	—
3	The fourth meeting of the Strategy Committee of the sixth session of the Board	December 17, 2018	Med-to-long term strategy and 2019-2023 Development Plan of the Company	—

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

No.	Name	Number of meetings attended/ Number of meetings held
1	HUO Da (霍達) (Convener)	3/3
2	XIONG Xianliang (熊賢良)	3/3
3	WANG Yan (王岩) (resigned in August 2018)	1/1
4	XIONG Jiantao (熊劍濤)	3/3
5	WANG Daxiong (王大雄)	3/3
6	CHEN Zhigang (陳志剛)	3/3
7	XIANG Hua (向華)	3/3

### (II) Risk Management Committee

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

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

No.	Session	Date	Proposal	Report
1	The fifth meeting of the Risk Management Committee of the sixth session of the Board	March 14, 2018	Budget for proprietary investment of the Company for 2018; compliance management report of the Company for 2017; risk evaluation report of the Company for 2017; report on risk appetite, risk tolerance and allocation of economic capital of the Company for 2018; report on all-inclusive budget for proprietary investment of the Company for 2018; report on net capital and risk control indicators of the Company for 2017.	—
2	The sixth meeting of the Risk Management Committee of the sixth session of the Board	June 21, 2018	Compliance management report of the Company for the first quarter of 2018; risk evaluation report of the Company for the first quarter of 2018.	Responding to the questions raised up at the fifth meeting of the Risk Management Committee of the sixth session of the Board
3	The seventh meeting of the Risk Management Committee of the sixth session of the Board	August 28, 2018	Risk evaluation report of the Company for the second quarter of 2018; compliance report of the Company for the second quarter of 2018; interim working report on internal audit for 2018	Responding to the questions raised up at the sixth meeting of the Risk Management Committee of the sixth session of the Board; 2018 comprehensive stress testing of the Company; compliance management of the investment banking business of the Company
4	The eighth meeting of the Risk Management Committee of the sixth session of the Board	December 6, 2018	Risk evaluation report of the Company for the third quarter of 2018; compliance report of the Company for the third quarter of 2018;	Responding to the questions raised up at the seventh meeting of the Risk Management Committee of the sixth session of the Board

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

No.	Name	Number of meetings attended/ Number of meetings held
1	SU Min (蘇敏) (Convener)	4/4
2	SU Jian (粟健)	4/4
3	WANG Yan (王岩) (resigned in August 2018)	2/2
4	PENG Lei (彭磊)	4/4
5	WANG Daxiong (王大雄)	4/4
6	CHEN Zhigang (陳志剛)	4/4
7	XIANG Hua (向華)	4/4

### (III) Audit Committee

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

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made for the Company to conduct fair and independent investigation on such matters and take appropriate actions; dealing with other matters as delegated by the Board; considering other topics as identified by the Board; and performing other duties required by the listing rules or laws and regulations of the places where the Company is listed.

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

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

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

No.	Session	Date	Proposal	Report
1	The third meeting of the Audit Committee of the sixth session of the Board	January 29, 2018	—	Major findings from the auditing work for 2017 of the Company



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No.	Session	Date	Proposal	Report
2	The fourth meeting of the Audit Committee of the sixth session of the Board	March 13, 2018	The change of auditor of the Company for the year	—
3	The fifth meeting of the Audit Committee of the sixth session of the board	March 26, 2018	2017 Audit Report of the Company; 2017 internal control assessment report of the Company; 2017 audit report on internal control of the Company; 2017 report on the use of proceeds from issuance of H shares; changes in accounting policies of the Company; the contemplated ordinary related party transactions of the Company for 2018; 2017 work performance report of Audit Committee	Audit work for the 2017 annual report of the Company; 2017 final accounts report of the Company; 2017 internal audit report of the Company and 2018 working schedule on internal audit; 2016 review on comprehensive assessment and use of performance results of Audit department; 2017 performance assessment and ratings of Audit Department.
4	The sixth meeting of the Audit Committee of the sixth session of the board	April 26, 2018	First quarterly report of the Company for 2018	—
5	The seventh meeting of the Audit Committee of the sixth session of the board	August 28, 2018	2018 interim internal audit report of the Company, 2018 interim report of A Share and the interim review report of H Share of the Company, 2018 interim report on deposit and use of proceeds from issuance of H Shares	Financial works of the Company for 2018H
6	The eighth meeting of the Audit Committee of the sixth session of the board	September 25, 2018	2018 working schedule on internal control assessment report of the Company	—
7	The ninth meeting of the Audit Committee of the sixth session of the board	October 29, 2018	2018 third quarterly internal audit report of the Company, 2018 third quarterly financial statement of the Company	2018 Working schedule on audit of the Company

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

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

### (IV) Remuneration and Appraisal Committee

The main duties of the Remuneration and Appraisal Committee include: considering, reviewing and providing recommendations on the remuneration policy, standard and proposal of the Directors and senior management of the Company with reference to the principal scope of authorization, duties and importance of the Directors and senior management as well as the remuneration package for similar positions of comparable companies; making recommendations to the Board on the overall remuneration policy and structure of the Directors and senior management of the Company and the formulation of official and transparent procedures for determining the remuneration policy. The remuneration standard and proposal include but are not limited to appraisal standard and procedures, major evaluation system, reward and penalty proposals and systems. The Remuneration and Appraisal Committee is also responsible for reviewing and approving the remuneration proposal for the management in accordance with the corporate missions and targets determined by the Board; reviewing the overall remuneration policy of the Company and the total amount of annual remuneration and examining the remuneration policy and the execution of annual remuneration; reviewing the appraisal system for the Directors and senior management of the Company; making recommendation to the Board on the remuneration of executive Directors and senior management (including salary, pension and compensation (including the compensation as to the loss or termination of office or appointment)), as

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well as the remuneration of non-executive Directors; considering salaries paid by comparable companies, time commitment and responsibilities and employment conditions of other positions of the Company; reviewing and approving compensation payable to Executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with the terms of the employment contracts or is otherwise fair and reasonable; reviewing and approving compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with the terms of the employment contracts or are otherwise reasonable and appropriate; ensuring that no Director or any of his associates is involved in deciding his own remuneration; examining the appraisal standards of the Directors and senior management of the Company; reviewing and examining the performance of the duties of the Directors and senior management, conducting annual performance assessment and providing recommendations; overseeing the implementation of remuneration system of the Company; performing other duties as authorized by the Board; and performing other duties as required by the listing rules or laws and regulations of the places where the Company is listed.

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

No.	Session	Date	Proposal	Report
1	The second meeting of the Remuneration and Appraisal Committee of the sixth session of the Board	March 26, 2018	—	Work debriefing of eight senior management members, HUO Da (霍達) (the Chairman), WANG Yan (王岩) (President and Chief Executive Officer), XIONG Jiantao (熊劍濤) (Vice President and Chief Operating Officer), DENG Xiaoli (鄧曉力) (Vice President and Chief Risk Officer), SUN Yizheng (孫議政) (Vice President), LI Zongjun (李宗軍) (Vice President), WU Hui Feng (吳慧峰) (Secretary to the Board), ZHAO Bin (趙斌) (Chief Compliance Officer)
2	The third meeting of the Remuneration and Appraisal Committee of the sixth session of the Board	April 16, 2018	Trial implementation of special assessment method on the regulation compliance of senior management of the Company	—
3	The fourth meeting of the Remuneration and Appraisal Committee of the sixth session of the Board	April 27, 2018	2017 assessment report on compliance officer of the Board of Director	—

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No.	Session	Date	Proposal	Report
4	The fifth meeting of the Remuneration and Appraisal Committee of the sixth session of the Board	October 16, 2018	2016 total remuneration of the senior management of the Company	—
5	The sixth meeting of the Remuneration and Appraisal Committee of the sixth session of the Board	November 23, 2018	Distribution of bonus balances to the Senior Management of the Company	—

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

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

### (V) Nomination Committee

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

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

No.	Session	Date	Resolution	Report
1	The second meeting of the Nomination Committee of the sixth session of the Board	November 23, 2018	Nomination of senior management for the Company	—
2	The third meeting of the Nomination Committee of the sixth session of the Board	December 17, 2018	Nomination of chief compliance officer, chief risk officer for the Company	—

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

No.	Name	Number of meetings attended/ Number of meetings held
1	XIONG Wei (熊偉) (Convenor)	2/2
2	WANG Yan (王岩) (resigned in August 2018)	0/0
3	PENG Leiv (彭磊)	2/2
4	XIAO Houfav (肖厚發)	2/2
5	HU Honggao (胡鴻高)	2/2

### V. DUTY PERFORMANCE OF SUPERVISORS

During the Reporting Period, the Supervisory Committee of the Company fully performed its duties in corporate governance in accordance with the relevant laws and regulations such as the Company Law and Securities Law and the related provisions regarding the responsibilities of the Supervisory Committee in the Articles of Association. The Supervisory Committee supervised the Board and senior management in respect of their implementation of resolutions of the Shareholders' general meetings, inspected the daily operation and financial position of the Company and conducted investigations and researches on frontline staff. The Supervisors made active explorations by actively providing advice and closely monitoring the risk control and compliance of the Company in order to safeguard the legal interests of the Company, its shareholders and all investors and ensure regulated operation of the Company.

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## (I) Participation of Supervisors in the Supervisory Committee Meetings and Shareholders' General Meetings

Name of Supervisor	Position	Attendance of meetings of the Supervisory Committee						Attendance of Shareholders' general meetings
		Number of meetings of the Supervisory Committee held during the year	Attendance in person	Attendance through correspondence	Attendance by proxy	Absence	Whether not attending in person in two consecutive meetings	Attendance of Shareholders' general meeting
ZHOU Linda Lei (周語茵)	Chairman of the Supervisory Committee	5	5	4	0	0	No	1
LI Xiaofei (李曉霏)	Shareholder Representative Supervisor	5	5	4	0	0	No	1
WANG Zhangwei (王章為)	Shareholder Representative Supervisor	5	5	4	0	0	No	1
MA Yunchun (馬蘊春)	Shareholder Representative Supervisor	5	5	4	0	0	No	1
FANG Xiaobing (房小兵)	Shareholder Representative Supervisor	5	4	4	1	0	No	1
ZHANG Zehong (張澤宏)	Shareholder Representative Supervisor	5	5	3	0	0	No	1
YIN Hongyan (尹虹艷)	Employee Representative Supervisor	5	5	3	0	0	No	1
HE Min (何敏)	Employee Representative Supervisor	5	5	3	0	0	No	1
XIONG Zhigang (熊志鋼)	Employee Representative Supervisor	5	5	3	0	0	No	1
Number of meetings of the Supervisory Committee convened								5
Of which: Number of onsite meetings								1
Number of meetings convened by way of correspondence								3
Number of meetings convened onsite and by way of correspondence								1

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

In 2018, the Supervisory Committee convened a total of five meetings, details of which are set out as follows:

No.	Session	Date of meeting	Proposal	Voting results	Date of Announcement on the resolution
1	The fourth meeting of the sixth session of the Supervisory Committee	March 26, 2018	Work report of the Supervisory Committee of the Company for 2017; annual report of the Company for 2017; 2017 operational report of the Company; internal control assessment report of the Company for 2017; compliance management report of the Company for 2017; social responsibilities report of the Company for 2017; report on the deposit and usage of proceeds from issuance of H Shares in 2017; report on changes in accounting policies of the Company; assessment report on the effectiveness of the Company's compliance management for 2017	Passed	March 28, 2018
2	The fifth meeting of the sixth session of the Supervisory Committee	April 26, 2018	The First quarterly report of the Company for 2018	Passed	April 27, 2018
3	The sixth meeting of the sixth session of the Supervisory Committee	August 28, 2018	2018 Interim report and summary of the Company; 2018 interim operational report of the Company; 2018 interim report on the deposit and use of proceeds from issuance of H Shares	Passed	August 30, 2018
4	The seventh meeting of the sixth session of the Supervisory Committee	October 29, 2018	2018 third quarterly report of the Company	Passed	October 30, 2018
5	The eighth meeting of the sixth session of the Supervisory Committee	December 24, 2018	Audit report in respect of resignation of Mr. WANG Yan (王岩), the former President and the Chief Executive Officer of the Company	Passed	December 25, 2018

## Chapter 8: Corporate Governance Report

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

In 2018, the Supervisory Committee of the Company fully performed its duties in corporate governance in accordance with the relevant laws and regulations such as the Company Law and Securities Law and the related provisions regarding the responsibilities of the Supervisory Committee in the Articles of Association. The Supervisory Committee supervised the Board and senior management in respect of their implementation of resolutions of the general meetings, inspected the daily operation and financial position of the Company, monitored the risk control and compliance of the Company and conducted investigations and researches on frontline staff, actively provided advices and safeguard the legal interests of the Company, its shareholders and all investors and ensure regulated operation of the Company. The major supervision and inspection works are as follows:

#### **1. *Completing assessment on the effectiveness of the Company's compliance management in 2017 and formulating the work plan for 2018***

The Supervisory Committee engaged ShineWing Certified Public Accountants LLP ("SHINEWING") to conduct an assessment on the effectiveness of the Company's compliance management in 2017. According to the Assessment Report on the Effectiveness of the Compliance Management of China Merchants Securities Co., Ltd. in 2017 (《招商證券股份有限公司2017年度合規管理有效性評估報告》) issued by SHINEWING, it is concluded that the Company has developed and effectively implemented corresponding management systems for the businesses and issues subject to assessment during the Reporting Period, and its targets for compliance management were generally fulfilled. There was no material compliance risk found in all aspects. The above report was delivered to and filed with the CSRC Shenzhen Office upon the approval of the fourth meeting of the sixth session of the Supervisory Committee.

The Company engaged Grant Thornton by means of quotation for the assessment on the effectiveness of the Company's compliance management in 2018.



## Chapter 8: Corporate Governance Report

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

The Supervisory Committee conducted two assessments on the business departments during the year:

Assessments were conducted by the Supervisory Committee in Shaoxing, Zhejiang, and Urumqi, Xinjiang on the operation of the business branches in Zhejiang area as well as Urumqi in April and June 2018, respectively. The business branches debriefed their overall business operation to the Supervisory Committee. The Supervisory Committee had thorough communications and discussions with the frontline staff of the business branches, and had provided specific advices or suggestions on various aspects such as wealth management, integrated operations, benchmarking management, marketing, talent recruitment and remunerations, commission rate management, implementation of targeted poverty alleviation project by the business branch, tax incentives in Horgos and room for development in the market, etc.. The questions raised by the frontline staff were reflected to the Management of the Company in the assessment reports or through face-to-face communications with the management with ongoing follow-ups.

### **3. Completion of the audit work in respect of resignation of Mr. WANG Yan (王岩), the former President and the Chief Executive Officer of the Company**

The Supervisory Committee of the Company engaged SHINEWING by way of bid invitation to conduct an audit work in respect of resignation of Mr. WANG Yan (王岩), the former President and the Chief Executive Officer of the Company. The audit report was filed with CSRC Shenzhen Office upon the approval by the eighth meeting of the sixth session of the Supervisory Committee.

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

The Company engaged SHINEWING by way of quotation and procurement to conduct a departure audit of Mr. SUN Yizheng (孫議政), the former Vice President of the Company.

### **5. Other daily duties**

The Supervisory Committee completed the performance appraisals on the Directors of the Company in 2017, and organized 4 supervisors to participate in the training course for directors and supervisors organized by CSRC Shenzhen Office.

## Chapter 8: Corporate Governance Report

### (IV) Independent Opinions of the Supervisory Committee

In 2018, in accordance with the relevant laws and regulations such as the Company Law and Securities Law and the relevant requirements of the Articles of Association, the Supervisory Committee duly performed its duties with an aim to protect the interests of the Company and all shareholders. The Supervisory Committee supervised and inspected the legal operation, major decisions, major operating and financial conditions as well as related party transactions of the Company, and provided the following independent opinions:

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

In 2018, the Board and the management of the Company were able to operate legally in accordance with the Company Law, Securities Law, Articles of Association, and other applicable laws, regulations and rules. As an A+H listed Company, the Company was able to maintain regulated operation in respect of corporate governance, information disclosure and investor relations by adhering to the regulatory policies in both the Mainland China and Hong Kong. The major operational decisions of the Company were reasonable while its decision-making procedures were lawful and effective. The Company has continuously improved its risk management, compliance management and internal control systems and consolidated the management of implementation. All internal management systems were effectively implemented. The Supervisory Committee has not identified any behaviour of the Directors and senior management during their performance of duties that violated the relevant laws, regulations and the Articles of Association or was detrimental to the interests of the Shareholders and the Company.

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

In 2018, the Supervisory Committee duly reviewed the financial statements and financial information of the Company. The Supervisory Committee was of the view that the preparation of the financial statements of the Company was in compliance with the relevant requirements of the Accounting Standards for Enterprises and IFRSs. The 2018 financial statements of the Company were able to reflect the financial position, results of operation and cash flows of the Company. The audit opinions contained in the standard unqualified auditor's report issued by Deloitte Touche Tohmatsu were objective and fair.

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

In 2018, the Supervisory Committee monitored the implementation of resolutions of the shareholders' general meetings. The Supervisory Committee was of the view that the Board was able to duly enforce the resolutions of the shareholders' general meetings and had no such behaviours that were detrimental to the interests of shareholders, in particular the minority shareholders.

## Chapter 8: Corporate Governance Report

### 4. *Related party transactions*

In 2018, the review, voting, disclosure and implementation of the relevant related party transactions of the Company were in compliance with the applicable laws, regulations and the provisions and requirements of the internal management systems of the Company. The pricing of such transactions was fair and reasonable. The Supervisory Committee has not identified any circumstances that were detrimental to the interests of the Company.

### 5. *Review of relevant reports*

The Supervisory Committee reviewed the 2018 Operational Report of the Company (《公司2018年度經營工作報告》), Report on the Deposit and Use of Proceeds from the Offering of H Shares of the Company in 2018 (《公司2018年度H股募集資金使用情況報告》), Internal Control Assessment Report of the Company for 2018 (《公司2018年度內部控制評價報告》), Compliance Management Report of the Company for 2018 (《公司2018年度合規管理工作報告》) and Social Responsibility Report of the Company for 2018 (《公司2018年度社會責任報告》), and had no objection to such reports.

### 6. *Enforcement of the Registration and Management System for Inside Information Holders*

In 2018, the Supervisory Committee supervised the enforcement of the Registration System for Persons with Inside Information. The Supervisory Committee was of the view that the Company has formulated the Registration System for Persons with Inside Information of China Merchants Securities Co., Ltd. (《招商證券股份有限公司內幕信息知情人登記制度》) in accordance with the Regulation on the Establishment of Registration System for Persons with Inside Information by Listed Companies (《關於上市公司建立內幕信息知情人登記管理制度的規定》), relevant laws and regulations and the Articles of Association. The Supervisory Committee has not identified any violation of such policy.

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

In face of severe challenges from external environment in 2018, all Directors and Senior Management of the Company held fast to the strategic focus and led all employees of the Company to meet the strategic requirements of “seize the moment with foresights” by, on the one hand, maintaining current operations and assuring that the year-on-year decreases of the Company’s operating income and net profit would remain lower than the average levels of the top ten players of the industry and the industry as a whole, and that there would be significant increase in the industry share of the operating income and net profit. On the other hand, in respect of the foresights, transformation and reforms had been facilitated with intensified measures on quality and efficiency enhancement. “Double Hundred Actions” had been underway to resolve the most difficult problems concerning the development of the Company so as to reshape the old situation with transformation and reforms, and enable the Company to be well-poised for long-term growth. There was no significant event regarding risk compliance throughout the year, thus the “AA” grade of regulatory rating was maintained and the operation and management remained stable as a whole. The Supervisory Committee had high accreditation to the performance of the Directors and all senior managements of the Company during 2018.

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

## Chapter 8: Corporate Governance Report

### VI. APPRAISAL SYSTEM OF SENIOR MANAGEMENT AND THE ESTABLISHMENT AND IMPLEMENTATION OF INCENTIVE MECHANISM DURING THE REPORTING PERIOD

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

### VII. REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

### VIII. DISCLOSURE OF SELF-ASSESSMENT REPORT OF INTERNAL CONTROL

For details of the self-assessment report of internal control of the Company, please see the 2018 Internal Control Assessment Report of China Merchants Securities Co., Ltd. (《招商證券股份有限公司2018年度內部控制評價報告》) which will be published on the SSE website and the Hong Kong Stock Exchange website on the same date of this report.

### IX. RELEVANT ISSUES BASED ON THE AUDIT REPORT ON INTERNAL CONTROL

For details of the audit report on internal control of the Company, please see the 2018 Audit Report on Internal Control of China Merchants Securities Co., Ltd. (《招商證券股份有限公司2018年度內部控制審計報告》) which will be published on the SSE website and the Hong Kong Stock Exchange website on the same date of this report.

## Chapter 8: Corporate Governance Report

### X. RESPONSIBILITY STATEMENT ON INTERNAL CONTROL AND DEVELOPMENT OF INTERNAL CONTROL SYSTEM

#### (I) Responsibility Statement on Internal Control

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

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

Based on the assessment on the internal control of the Company, the Board believes that the Company has maintained an effective internal control on financial reporting in all material aspects pursuant to the regulations of corporate internal control system and relevant requirement. As of the date of internal control assessment report (December 31, 2018), the Company was not aware of any material deficiency in the internal control for financial reporting and non-financial reporting aspects.

#### (II) Basis for Development of Internal Control for Financial Reporting

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

#### (III) Development of Internal Control System

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

## Chapter 8: Corporate Governance Report

### XI. DEVELOPMENT OF COMPLIANCE MANAGEMENT SYSTEM OF THE COMPANY

#### (I) Development of Compliance Management System of the Company

In 2018, under its five-level compliance management structure comprising the Board, Senior Management, Chief Compliance Officer, Legal and Compliance Department, and other departments, branches and subsidiaries at all levels, and the three-line of compliance management framework consisting of the shareholders' general meeting, the Board and management, the Company duly performed its compliance management duties and maintained proper compliance level. The Company fully promoted the implementation of New Regulations on Compliance Management by interpreting the new regulations, formulating plans of implementation, sorting out and publishing various business compliance flowcharts and compliance control points as well as management guidelines for compliance officers, defining assessment points, and conducting training for compliance officer pursuant to requirements of New Regulations on Compliance Management and the de facto situation of the Company. Meanwhile, in accordance with changes in external regulatory policies and the progress of its business development, the Company actively organized the relevant departments to timely formulate internal rules and regulations, embedded the new regulations into various business processes and sessions, and reviewed more than 100 new or revised internal laws and regulations, effectively improved the Company's internal control management. It revised several compliance management policies, namely "the Measures for the Report of Doubtful Transaction", "Client Complaint-handling Management Approaches", "The Policy on Managing Rules and Regulations", continuously improved the compliance management system, formulated and issued "Management Measures of Subsidiaries for Compliance", comprehensively standardized the principal of compliance management, the procedures and the responsibilities of each responsible entity, strictly implemented the "Accountability Regulations" and "Rules on Accountability Management" applicable to major and important violations and general violations, and establish a sound compliance accountability system.

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

In 2018, the Company stepped up its compliance check by carrying out routine inspections and risk incidents triggering tests, and expanding the scope of its preventive compliance inspection to all business lines. In particular, the Company carried out preventive inspections which focused on high-risk areas, new businesses and major regulatory concerns, and timely identified and controlled the potential compliance risk and overall improvement. A total of 37 compliance inspections were carried out throughout the year, In respect of the problems identified by compliance check and suggestions for rectification, adoption rate was 100%, in order to ensure smooth execution of the business regulations.

## Chapter 8: Corporate Governance Report

### XII. PROGRESS OF AUDIT

During the Reporting Period, the supervision of the audit department acted in consistence with the philosophy of “seizing the moment with foresights”, as well as “recognizing, adapting to, and pursuing reforms”, and further executed the overall transformation from “mistake discovery and correction” to “risk prevention” and “value adding”.

During the Reporting Period, the Company completed a total of 138 audit control and inspection items of various types, in which 27 were related to audit of the business and management of headquarters and subsidiaries, covering the internal anti-money laundering (AML) system of the brokerage business, agency sales of financial products business, securities-backed lending business, IPO business, fixed income proprietary investment business, derivative investment business, asset management investment business, private equity investment business, settlement business, information technology operation and maintenance management, etc.; compulsory departure audit and departure audit of the officers of 110 branches (securities business department and branch offices); and the Company’s internal control effectiveness self-assessment project.

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

### XIII. MISCELLANEOUS

#### (I) Compliance with Code on Securities Transactions

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

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### (II) Responsibilities of Directors for Financial Statements

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

The Board of the Company has confirmed that it took responsibility for the preparation of the annual report for the year ended December 31, 2018 of the Group.

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

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

### (III) Joint Company Secretaries

Mr. WU Huifeng and Ms. KWONG Yin Ping Yvonne are the joint company secretaries of the Company, whose appointments were made in July 2015 and April 2016, respectively, and became effective in October 2016. Mr. WU Huifeng is the secretary to the Board and the main contact person within the Company. Ms. KWONG Yin Ping Yvonne is a vice president of SW Corporate Services Group Limited. According to Rule 3.29 of the Hong Kong Listing Rules, as of December 31, 2018, both Mr. WU Huifeng and Ms. KWONG Yin Ping Yvonne have received over 15 hours of relevant professional trainings.

### (IV) Interests of Shareholders

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

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



## Chapter 8: Corporate Governance Report

The Board of the Company welcomes the shareholders' advice and encourages shareholders to attend the Shareholders' general meetings to ask the Board or management directly about any doubts they may hold. Shareholders may convene extraordinary general meetings or submit temporary proposals to general meetings according to the procedures set out in Articles 75 and 80 of the Articles of Association, which has been published on the SSE website, Hong Kong Stock Exchange website and Company's website. The Company will arrange for the Board and the Management to answer shareholders' questions in its general meeting.

### (V) Auditor's Remuneration

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

### (VI) Relationship with Investors

During the Reporting Period, the Company had contacts with 574 domestic and foreign analysts and institutional investors on 70 occasions through analyst presentations on annual results announcements and interim results announcement, by giving speeches at investment strategy seminars or forums organized by domestic and foreign securities firms, by reception of visits from institutional investors and by participation of securities analyst seminars. We had communicated with more than 344 investors via SSE E-Interaction, telephone, email and shareholders' general meeting.

In 2018, the capital market reforms and system innovation were progressing, while the opening of securities industry was expediting, enabling rapid forming of a landscape of "the stronger one stays sturdy, the powerful one holds highest authority, the leader dominates top position, while the weak is to be ousted". The Company is actively sharing development tactics with domestic and foreign investors and accomplishing the aims of financial technology-leading development, transformation of wealth management business, preparation for the science and technology board and facilitation of mergers and acquisitions. The key objectives are promoting innovative businesses and maintaining proper risk controls on securities-backed lending and proprietary business. All these aim at providing an in depth understandings of the future investment value of the Company to the analysts and long-term stakeholders.

### (VII) Risk Management

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

## Chapter 8: Corporate Governance Report

### (VIII) Management of Inside Information

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

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

On December 15, 2017, the resolution regarding the amendments to the Articles of Association of China Merchants Securities Co., Ltd. was considered and approved at the first extraordinary general meeting for 2017 of the Company. In July, 2018, the Company received "Approval of CSRC Shenzhen Office on the Amendments to the Important Provisions in the Articles Association of China Merchants Securities Co., Ltd." from the CSRC Shenzhen Office (Shen Zheng Xu Ke Zi [2018] No. 53) that the amendments to the Important Provisions in the Article Association of the Company was approved.

On June 22, 2018, a resolution regarding change of registered address of the Company and amendment to the Articles of Association has been approved in the shareholders' general meeting for 2017. In November 2018, the Company received "Approval of CSRC Shenzhen Office on the Amendments to the Important Provisions in the Articles Association of China Merchants Securities Co., Ltd." from the CSRC Shenzhen Office (Shen Zheng Xu Ke Zi [2018] No. 90) that the amendments to the Important Provisions in the Article Association of the Company was approved.

For details, please refer to the relevant announcements issued on December 16, 2017 and June 23, July 31 and November 21, 2018.

## Chapter 9: Corporate Bonds

### I. GENERAL INFORMATION OF CORPORATE BONDS

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

Unit: 100 million Currency: RMB

Name	Abbreviation	Code	Issue completion date	Date of expiry	Remaining balance	Interest rate (%)	Payment of principal and interest	Trading place	Eligibility of investors
2012 Type Three Corporate Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司2012年公司債券品種三)	12 China Merchants 03 (12招商03)	122234	March 5, 2013	March 5, 2023	55.00	5.15	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	SSE	Public offering to investors
The 2014 corporate bonds publicly issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司公開發行2014年公司債券)	14 China Merchants Bonds (14招商債)	122374	May 26, 2015	May 26, 2025	55.00	5.08	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	SSE	Public offering to investors
The 2017 corporate bonds (first tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2017年公司債券(第一期))	17 China Merchants G1 (17招商G1)	143327	October 13, 2017	October 13, 2019	45.00	4.78	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	SSE	Public offering to qualified investors
The 2017 corporate bonds (second tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2017年公司債券(第二期))	17 China Merchants G2 (17招商G2)	143342	October 23, 2017	October 23, 2020	10.60	4.78	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	SSE	Public offering to qualified investors
The 2017 corporate bonds (third tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2017年公司債券(第三期))	17 China Merchants G3 (17招商G3)	143369	October 31, 2017	October 31, 2020	10.00	4.85	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	SSE	Public offering to qualified investors
The 2018 corporate bonds (first tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2018年公司債券(第一期))	18 China Merchants G1 (18招商G1)	143460	February 5, 2018	February 5, 2021	19.40	5.35	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	SSE	Public offering to qualified investors
The 2018 Type One Corporate Bonds (second tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2018年公司債券(第二期)(品種一))	18 China Merchants G2 (18招商G2)	143626	June 12, 2018	June 12, 2020	20.00	4.78	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	SSE	Public offering to qualified investors
The 2018 Type Two Corporate Bonds (second tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2018年公司債券(第二期)(品種二))	18 China Merchants G3 (18招商G3)	143627	June 12, 2018	June 12, 2021	10.00	4.78	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	SSE	Public offering to qualified investors
The 2018 Type Two Corporate Bonds (third tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2018年公司債券(第三期)(品種二))	18 China Merchants G5 (18招商G5)	143712	July 18, 2018	July 18, 2021	25.00	4.38	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	SSE	Public offering to qualified investors
The 2018 Type One Corporate Bonds (fourth tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2018年公司債券(第四期)(品種一))	18 China Merchants G6 (18招商G6)	143392	August 8, 2018	August 8, 2021	30.00	3.94	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	SSE	Public offering to qualified investors

## Chapter 9: Corporate Bonds

Name	Abbreviation	Code	Issue completion date	Date of expiry	Remaining balance	Interest rate (%)	Payment of principal and interest	Trading place	Eligibility of investors
The 2018 Type One Corporate Bonds (fifth tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2018年公司債券(第五期)(品種一))	18 China Merchants G8 (18招商G8)	143762	September 7, 2018	September 7, 2021	18.00	4.23	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	SSE	Public offering to investors
The 2019 Corporate Bonds (first tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2019年公司債券(第一期))	19 China Merchants G1 (19招商G1)	155208	March 8, 2019	March 8, 2022	15.00	3.59	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	SSE	Public offering to investors
The 2017 Subordinated Bonds (first tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年次級債券(第一期))	17 China Merchants C1 (17招商C1)	145899	November 27, 2017	November 27, 2019	22.00	5.45	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	SSE	Private offering to qualified institutional investors
The 2018 Subordinated Bonds (first tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2018年次級債券(第一期))	18 China Merchants C1 (18招商C1)	150078	January 12, 2018	January 12, 2020	16.40	5.56	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	SSE	Private offering to qualified institutional investors
The 2018 Subordinated Bonds (second tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2018年次級債券(第二期))	18 China Merchants C2 (18招商C2)	150097	January 22, 2018	January 22, 2020	51.50	5.70	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	SSE	Private offering to qualified institutional investors
The 2018 Type Two Corporate Bonds (third tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2018年非公開發行公司債券(第三期)(品種二))	18 China Merchants F6 (18招商F6)	150302	April 19, 2018	May 4, 2019	38.00	4.75	One-off payment of principal and interest upon expiry	SSE	Private offering to qualified institutional investors
The 2018 Corporate Bonds (fourth tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2018年非公開發行公司債券(第四期))	18 China Merchants F7 (18招商F7)	150414	May 21, 2018	June 5, 2019	59.00	4.84	One-off payment of principal and interest upon expiry	SSE	Private offering to qualified institutional investors
The 2018 corporate bonds (fifth tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2018年非公開發行公司債券(第五期))	18 China Merchants F8 (18招商F8)	150456	September 17, 2018	April 11, 2019	30.00	3.78	One-off payment of principal and interest upon expiry	SSE	Private offering to qualified institutional investors
The 2018 corporate bonds (sixth tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2018年非公開發行公司債券(第六期))	18 China Merchants F9 (18招商F9)	150750	October 15, 2018	July 12, 2019	30.00	3.79	One-off payment of principal and interest upon expiry	SSE	Private offering to qualified institutional investors
The 2018 corporate bonds (seventh tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2018年非公開發行公司債券(第七期))	18 China Merchants F10 (18招商F10)	150930	December 5, 2018	December 5, 2021	25.00	4.15	Annual payment of interest and one-off payment of principal upon expiry where the final interest payment shall be made together with the principal.	SSE	Private offering to qualified institutional investors
The 2019 Type One corporate bonds (first tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2019年非公開發行公司債券(第一期)(品種一))	19 China Merchants F1 (19招商F1)	151113	January 17, 2019	July 19, 2019	15.00	3.38	One-off payment of principal and interest upon expiry	SSE	Private offering to qualified institutional investors
The 2019 Type Two corporate bonds (first tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2019年非公開發行公司債券(第一期)(品種二))	19 China Merchants F2 (19招商F2)	151114	January 17, 2019	October 14, 2019	35.00	3.48	One-off payment of principal and interest upon expiry	SSE	Private offering to qualified institutional investors

## Chapter 9: Corporate Bonds

### Payment of Interest and Principal of Corporate Bonds during the Reporting Period

Name	Abbreviation	Code	Issue completion date	Date of expiry	Amount (RMB100 million)	Payment of interest and principal and implementation of special clause
The 2012 Type Three Corporate Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司2012年公司債券品種三)	12 China Merchants 03 (12招商03)	122234	March 5, 2013	March 5, 2023	55.00	Payment of interest in full as scheduled
The 2014 corporate bonds publicly issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司公開發行2014年公司債券)	14 China Merchants Bonds (14招商債券)	122374	May 26, 2015	May 26, 2025	55.00	Payment of interest in full as scheduled
The 2017 perpetual subordinated bonds (first tranche) of China Merchants Securities Co., Ltd (招商證券股份有限公司2017年永續次級債券(第一期))	17 China Merchants Y1 (17招商Y1)	145340	February 17, 2017	February 17, 2022	40.00	Payment of interest in full as scheduled
The 2017 perpetual subordinated bonds (second tranche) of China Merchants Securities Co., Ltd (招商證券股份有限公司2017年永續次級債券(第二期))	17 China Merchants Y2 (17招商Y2)	145371	March 3, 2017	March 3, 2022	50.00	Payment of interest in full as scheduled
The 2017 perpetual subordinated bonds (third tranche) of China Merchants Securities Co., Ltd (招商證券股份有限公司2017年永續次級債券(第三期))	17 China Merchants Y3 (17招商Y3)	145545	May 22, 2017	May 22, 2022	37.00	Payment of interest in full as scheduled
The 2017 perpetual subordinated bonds (fourth tranche) of China Merchants Securities Co., Ltd (招商證券股份有限公司2017年永續次級債券(第四期))	17 China Merchants Y4 (17招商Y4)	145579	June 19, 2017	June 19, 2022	23.00	Payment of interest in full as scheduled
The 2017 subordinated bonds (first tranche) of China Merchants Securities Co., Ltd (招商證券股份有限公司2017年次級債券(第一期))	17 China Merchants C1 (17招商C1)	145899	November 27, 2017	November 27, 2019	22.00	Payment of interest in full as scheduled
The 2017 Corporate Bonds (first tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2017年公司債券(第一期))	17 China Merchants G1 (17招商G1)	143327	October 13, 2017	October 13, 2019	45.00	Payment of interest in full as scheduled
The 2017 Corporate Bonds (second tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2017年公司債券(第二期))	17 China Merchants G2 (17招商G2)	143342	October 23, 2017	October 23, 2020	10.60	Payment of interest in full as scheduled

## Chapter 9: Corporate Bonds

Name	Abbreviation	Code	Issue completion date	Date of expiry	Amount (RMB100 million)	Payment of interest and principal and implementation of special clause
The 2017 Corporate Bonds (third tranche) publicly issued by China Merchants Securities Co., Ltd. to qualified investors (招商證券股份有限公司面向合格投資者公開發行2017年公司債券(第三期))	17 China Merchants G3 (17招商G3)	143369	October 31, 2017	October 31, 2020	10.00	Payment of interest in full as scheduled
The 2012 Type One Corporate Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司2012年公司債券品種一)	12 China Merchants 01 (12招商01)	122232	March 5, 2013	March 5, 2018	30.00	Payment of interest and principal in full as scheduled
The 2012 Type Two Corporate Bonds of China Merchants Securities Co., Ltd. (招商證券股份有限公司2012年公司債券品種二)	12 China Merchants 02 (12招商02)	122233	March 5, 2013	March 5, 2018	15.00	Payment of interest and principal in full as scheduled
The 2015 subordinated bonds (second tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2015年第二期次級債券)	15 China Merchants 02 (15招商02)	123227	March 24, 2015	March 24, 2018	100.00	Payment of interest and principal in full as scheduled
The 2015 subordinated bonds (fourth tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2015年第四期次級債券)	15 China Merchants 03 (15招商03)	123211	April 13, 2015	April 13, 2018	50.00	Exercise of redemption right and payment of interest and principal in full as scheduled
The 2017 securities companies short-term corporate bonds (sixth tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券(第六期))	China Merchants 1707 (招商1707)	117570	August 9, 2017	May 16, 2018	32.40	Payment of interest and principal in full as scheduled
The 2017 securities companies short-term corporate bonds (seventh tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券(第七期))	China Merchants 1708 (招商1708)	117571	August 25, 2017	August 25, 2018	11.00	Payment of interest and principal in full as scheduled
The 2017 securities companies short-term corporate bonds (eighth tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券(第八期))	China Merchants 1709 (招商1709)	117572	September 6, 2017	June 13, 2018	30.00	Payment of interest and principal in full as scheduled
The 2017 securities companies short-term corporate bonds (ninth tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券(第九期))	17 China Merchants D9 (17招商D9)	145810	September 20, 2017	September 20, 2018	22.00	Payment of interest and principal in full as scheduled
The 2017 securities companies short-term corporate bonds (tenth tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券(第十期))	17 China Merchants D10 (17招商D10)	145827	October 12, 2017	July 9, 2018	29.30	Payment of interest and principal in full as scheduled

## Chapter 9: Corporate Bonds

Name	Abbreviation	Code	Issue completion date	Date of expiry	Amount (RMB100 million)	Payment of interest and principal and implementation of special clause
The 2017 securities companies short-term corporate bonds (eleventh tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券(第十一期))	17 China Merchants D11 (17招商D11)	145879	October 24, 2017	October 19, 2018	46.80	Payment of interest and principal in full as scheduled
The 2017 securities companies short-term corporate bonds (twelfth tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券(第十二期))	17 China Merchants D12 (17招商D12)	145891	October 30, 2017	October 30, 2018	36.00	Payment of interest and principal in full as scheduled
The 2017 securities companies short-term corporate bonds (thirteenth tranche) of China Merchants Securities Co., Ltd. (招商證券股份有限公司2017年證券公司短期公司債券(第十三期))	17 China Merchants D13 (17招商D13)	145703	November 15, 2017	August 12, 2018	22.80	Payment of interest and principal in full as scheduled
The 2018 Type One corporate bonds (first tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2018年非公開發行公司債券(第一期)(品種一))	18 China Merchants F1 (18招商F1)	150179	March 13, 2018	September 9, 2018	20.50	Payment of interest and principal in full as scheduled
The 2018 Type One corporate bonds (second tranche) privately issued by China Merchants Securities Co., Ltd. (招商證券股份有限公司2018年非公開發行公司債券(第二期)(品種一))	18 China Merchants F3 (18招商F3)	150200	March 20, 2018	September 16, 2018	11.20	Payment of interest and principal in full as scheduled

### Details of the Issuance of Other Corporate Bonds

In February 2018, the Company received the No Objection Letter for the Offer for Sale of Corporate Bonds Privately Issued by China Merchants Securities Co., Ltd. ((Shang Zheng Han [2018] No. 160) (《關於對招商證券股份有限公司非公開發行公司債券掛牌轉讓無異議的函》(上證函[2018]160號)) from the SSE, pursuant to which the SSE has no objection to the offer for sale of corporate bonds privately issued by the Company to qualified investors in the amount of no more than RMB40 billion. As of the date of approval for the publication of this annual report, the Company had issued a total of eight tranches of privately-offered corporate bonds on the Shanghai Stock Exchange and raised RMB29.37 billion.

In April 2018, the Company received the Approval on the Public Offering of Corporate Bonds by China Merchants Securities Co., Ltd. to Qualified Investors (Zheng Jian Xu Ke [2018] No. 612) (《關於核准招商證券股份有限公司向合格投資者公開發行公司債券的批覆》(證監許可[2018]612號)) from the CSRC, pursuant to which the CSRC approved the Company's public offering of corporate bonds with total face value of no more than RMB11.8 billion to qualified investors. As at the date of approval for the publication of this annual report, the Company offered a total of five tranches of corporate bonds and raised RMB11.8 billion.

## Chapter 9: Corporate Bonds

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

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

Abbreviation	Code	Trustee	Credit rating agency
12 China Merchants 03 (12招商03)	122234	Huatai United Securities	Shanghai Brilliance
14 China Merchants Bonds (14招商債)	122374	Everbright Securities	Shanghai Brilliance
17 China Merchants G1 (17招商G1)	143327	Everbright Securities	CCXR
17 China Merchants G2 (17招商G2)	143342	Everbright Securities	CCXR
17 China Merchants G3 (17招商G3)	143369	Everbright Securities	CCXR
18 China Merchants G1 (18招商G1)	143460	Everbright Securities	CCXR
18 China Merchants G2 (18招商G2)	143626	Everbright Securities	CCXR
18 China Merchants G3 (18招商G3)	143627	Everbright Securities	CCXR
18 China Merchants G5 (18招商G5)	143712	Everbright Securities	CCXR
18 China Merchants G6 (18招商G6)	143392	Everbright Securities	CCXR
18 China Merchants G8 (18招商G8)	143762	Everbright Securities	CCXR
19 China Merchants G1 (19招商G1)	155208	Everbright Securities	CCXR
17 China Merchants Y1 (17招商Y1)	145340	China Galaxy	CCXR
17 China Merchants Y2 (17招商Y2)	145371	China Galaxy	CCXR
17 China Merchants Y3 (17招商Y3)	145545	China Galaxy	CCXR
17 China Merchants Y4 (17招商Y4)	145579	China Galaxy	CCXR
17 China Merchants C1 (17招商C1)	145899	Galaxy Securities	CCXR
18 China Merchants C1 (18招商C1)	150078	Galaxy Securities	CCXR
18 China Merchants C2 (18招商C2)	150097	Galaxy Securities	CCXR
18 China Merchants F6 (18招商F6)	150302	Essence Securities	CCXR
18 China Merchants F7 (18招商F7)	150414	Essence Securities	CCXR
18 China Merchants F8 (18招商F8)	150456	Essence Securities	CCXR
18 China Merchants F9 (18招商F9)	150750	Essence Securities	CCXR
18 China Merchants F10 (18招商F10)	150930	Essence Securities	CCXR
19 China Merchants F1 (19招商F1)	151113	Essence Securities	CCXR
19 China Merchants F2 (19招商F2)	151114	Essence Securities	CCXR



## Chapter 9: Corporate Bonds

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

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

Trustee	Name	Huatai United Securities Co., Ltd.
	Office address	(01A, 02, 03, 04), 17A, 18A, 24A, 25A & 26A, 5/F, HKCTS Tower, Central Business District, Futian District, Shenzhen
	Contact person	YU Shouxiang (于首祥)
	Contact number	0755-82492010
Trustee	Name	Everbright Securities Co., Ltd.
	Office address	No. 1508, Xinzha Road, Jing'an District, Shanghai
	Contact person	XUE Jiang (薛江), SUN Bei (孫蓓), LI Qunyan (李群燕), XING Yiwei (邢一唯)
	Contact number	021-22169999, 021-52523222, 021-52523023
Trustee	Name	China Galaxy Securities Co., Ltd.
	Office address	Room 218, Tower C, Corporate Square, No. 35 France Street, Xicheng District, Beijing
	Contact person	XU Jinjun (許進軍)
	Contact number	010-66568061
Trustee	Name	Essence Securities Co., Ltd.
	Office address	35/F & 28/F (A02), Anlian Building, No. 4018 Jintian Road, Futian District, Shenzhen (深圳市福田區金田路4018號安聯大廈35層, 28層A02單元)
	Contact person	XU Yingjie (徐英杰)
	Contact number	0755-82558264
Credit rating agency	Name	Shanghai Brilliance Credit Rating & Investors Service Co., Ltd.
	Office address	14/F, Huasheng Building, No. 398 Hankou Road, Shanghai
Credit rating agency	Name	China Chengxin Securities Rating Co., Ltd.
	Office address	Room 968, Block 1, No. 599 Xinye Road, Qingpu District, Shanghai (上海市青浦區新業路599號1幢968室)

## Chapter 9: Corporate Bonds

### III. USE OF PROCEEDS FROM THE ISSUANCE OF CORPORATE BONDS

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

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

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

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

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

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

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

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

## Chapter 9: Corporate Bonds

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

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

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

As prescribed in the prospectuses for the bonds privately issued by the Company, namely, “18 China Merchants F1”, “18 China Merchants F2”, “18 China Merchants F3”, “18 China Merchants F6”, “18 China Merchants F7”, “18 China Merchants F8”, “18 China Merchants F9”, “18 China Merchants F10”, “19 China Merchants F1” and “19 China Merchants F2”, all proceeds from the issuance of said bonds shall be used for “replenishment of the Company’s working capital”. As at the date of approval for the publication of this report, all such proceeds, after deducting the issuance expenses (if any), had been used for replenishment of the Company’s working capital in accordance with the relevant provisions of the prospectuses. As prescribed in the prospectuses for the securities companies short-term corporate bonds privately issued by the Company, namely, “China Merchants 1401”, “China Merchants 1501”, “China Merchants 1502”, “15 China Merchants D3” and “15 China Merchants D4”, all proceeds from the issuance of said bonds shall be used for “replenishment of the Company’s working capital”. As at the date of approval for the publication of this report, all such proceeds, after deducting the issuance expenses (if any), had been used for replenishment of the Company’s working capital in accordance with the relevant provisions of the prospectuses.

## Chapter 9: Corporate Bonds

### IV. RATING OF CORPORATE BONDS

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

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

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

As at date of approval for the publication of this report, based on the credit enhancement mechanism the existing bonds were issued without any guarantees. According to the repayment plans, the existing ten tranches of corporate bonds, three tranches of subordinated bonds and one tranche of private bonds shall pay interest annually during the duration of the bonds and the last installment of interest payment shall be paid together with the principal. According to the repayment plans, the existing six tranches of private corporate bonds of securities companies shall pay principal together with all interests upon maturity.

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

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

## Chapter 9: Corporate Bonds

### VI. DUTY PERFORMANCE OF THE TRUSTEES OF CORPORATE BONDS

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

Huatai United Securities, the trustee of "12 China Merchants 03" of the Company, issued the 2017 Trust Reports on the said bonds on April 2018, and issued Temporary Trust Reports on August and December 2018, respectively.

Everbright Securities, the trustee of "14 China Merchants Bonds", "17 China Merchants G1", "17 China Merchants G2", "17 China Merchants G3", "18 China Merchants G1", "18 China Merchants G2", "18 China Merchants G3", "18 China Merchants G5", "18 China Merchants G6", "18 China Merchants G8" and "15 China Merchants 04" of the Company, issued the 2017 Trust Report on the relevant bonds on April and June 2018, respectively. It also issued Temporary Trust Reports on April, August and December 2018, respectively.

Galaxy Securities, the trustee of "China Merchants 1708", "17 China Merchants D9", "17 China Merchants D10", "17 China Merchants D11", "17 China Merchants D12", "17 China Merchants D13", "17 China Merchants C1", "18 China Merchants C1", "18 China Merchants C2", "17 China Merchants Y1", "17 China Merchants Y2", "17 China Merchants Y3" and "17 China Merchants Y4" of the Company, issued the 2017 Trust Report on the relevant bonds on June 2018, respectively. It also issued Temporary Trust Reports on August and December 2018, respectively.

Essence Securities, the trustee of "18 China Merchants F1", "18 China Merchants F2", "18 China Merchants F3", "18 China Merchants F6", "18 China Merchants F7", "18 China Merchants F8", "18 China Merchants F9", "18 China Merchants F10", "19 China Merchants F1" and "19 China Merchants F2", issued Temporary Trust Reports on August and December 2018, respectively.

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

## Chapter 9: Corporate Bonds

## VII. ACCOUNTING DATA AND FINANCIAL INDICATORS IN THE LAST TWO YEARS AS AT THE END OF THE REPORTING PERIOD

Unit: RMB100 million Currency: RMB

Key indicators	2018	2017	Change (%)	Reasons for the change
EBITDA	118.32	120.43	-1.75	—
Current ratio	1.70	1.66	2.35	—
Quick ratio	1.70	1.66	2.35	—
Gearing ratio (%)	68.44	66.18	3.43	—
EBITDA/debt ratio	7.09	8.35	-15.05	—
Interest coverage ratio	1.88	2.49	-24.51	—
Cash interest coverage ratio	7.41	-3.65	—	—
EBITDA/interest coverage ratio	1.92	2.53	-24.37	—
Loan repayment ratio (%)	100	100	0.00	—
Interest payment ratio (%)	100	100	0.00	—

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

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

## IX. BANK CREDITS OF THE COMPANY DURING THE REPORTING PERIOD

As at the end of 2018, the Company had available credit lines from its major lending banks amounting to RMB294.4 billion, of which RMB71.1 billion were utilized and RMB223.3 billion were unused.

On October 30, 2012, the Company entered into a facility contract with the Shenzhen Binhe Shidai sub-branch (previous Shenzhen Xinzhou sub-branch) of China Merchants Bank, pursuant to which the Company applied with China Merchants Bank for a credit line of RMB700 million regarding the CMS Tower (招商證券大廈). The contract has terminated on October 30, 2017, but given the construction progress of the tower, the Company entered into a supplemental agreement thereto with Shenzhen Binhe Shidai sub-branch of China Merchants Bank to extend the credit line granted for the construction of CMS Building by one year. (The act constituted a related party transaction, and for details of deliberation procedures relating thereto, please refer to the announcement released on 25 August 2017). The Company had repaid principal and interest thereon in full in July 2018.

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

## Chapter 9: Corporate Bonds

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

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

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

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

During the Reporting Period, for details of changes in the Directors, Senior Management of the Company, please refer to “Changes in Directors, Supervisors and Senior Management” under “Chapter 7: Directors, Supervisors, Senior Management and Employees” of this report and the relevant announcements of the Company issued on SSE website.

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

## Chapter 10: Financial Report

### INDEPENDENT AUDITOR'S REPORT

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

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

### Opinion

We have audited the consolidated financial statements of China Merchants Securities Co., Ltd. and its subsidiaries ("the Group") set out on pages 213 to 349, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("the IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### Basis for Opinion

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



## Chapter 10: Financial Report

### Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
<i>Determination of consolidation scope of structured entities</i>	
<p>We identified the determination of consolidation scope of structured entities as a key audit matter due to the significant judgement applied by the management in determining whether a structured entity is required to be consolidated by the Group and the significance of these balances to the Group's consolidated financial statements as a whole.</p> <p>The Group holds a number of interests in structured entities including investment funds, collective asset management schemes and limited partnerships where the Group is involved as investment manager. As disclosed in note 4 to the consolidated financial statements, the management applied judgement in determining whether these investments fell within the consolidation scope in accordance with International Financial Reporting Standard 10: Consolidated Financial Statements ("IFRS 10") by determining i) whether the Group has power over these investees, and ii) whether the combination of investments it holds, if any, together with its remuneration and credit enhancement creates exposure to variability of returns from the activities of the collective asset management schemes, investment funds and limited partnerships that is of such significance that it indicates that the Group has control.</p> <p>As disclosed in notes 20 and 22, as at 31 December 2018, the total assets of the consolidated structured entities amounted to RMB6,625.4 million and the total assets of the unconsolidated structured entities sponsored by the Group amounted to RMB729,590.7 million, respectively.</p>	<p>Our procedures in relation to the determination of consolidation scope of structured entities included:</p> <ul style="list-style-type: none"> <li>• Evaluating and testing the key controls of management in determining the consolidation scope as set out in IFRS 10 of interests in structured entities;</li> <li>• Examining, on a sample basis, the related investment contracts and other related service agreements of investments in structured entities to determine whether management's conclusion as to whether or not a structured entity is required to be consolidated by the Group is in accordance with IFRS 10;</li> <li>• Checking, on a sample basis, management's calculations of the Group's exposure or right to variable returns from its involvement with the structured entities for accuracy and examining the data used in these calculations by reference to the related contracts.</li> </ul>

## Chapter 10: Financial Report

## Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Measurement of expected credit losses ("ECL") for financial assets of credit business and investments in debt instruments</i></p> <p>We identified the measurement of ECL for the Group's financial assets of credit business (advances to customers and financial assets held under resale agreements) and investments in debt instruments measured at amortized cost or fair value through other comprehensive income as a key audit matter due to the significance of these assets to the Group's consolidated financial statements and the significant management estimates and judgement required in the measurement.</p> <p>The Group has adopted International Financial Reporting Standard 9: Financial instruments ("IFRS 9") for the first time in the current year, a new and complex standard that requires the Group to recognize ECL on certain financial instruments, in particular, advances to customers and financial assets held under resale agreements and debt instruments measured at amortized cost or fair value through other comprehensive income ("FVTOCI").</p> <p>As set out in note 63(2) to the consolidated financial statements, the measurement involved significant management estimates and judgement in the following key areas:</p> <ul style="list-style-type: none"> <li>• Determination of the criteria for significant increase in credit risk ("SICR");</li> <li>• Use of models and assumptions;</li> <li>• Determination of Probability of default ("PD") and Loss given default ("LGD").</li> </ul> <p>The high degree of estimation uncertainty of the ECL has a significant impact on the carrying values of these assets, which in aggregate amounted to RMB 119,507.8 million and constituted appropriately 39.2% of the total assets of the Group as at 31 December 2018.</p> <p>As set out in note 2 to the consolidated financial statements, the Group applied the transition provisions in IFRS 9 and recognized an additional credit loss allowance of RMB7,398 thousand (after tax) as at 1 January 2018. As at 31 December 2018, the Group recognized credit loss allowance of RMB143.5 million for advances to customers; RMB199.7 million for financial assets held under resale agreements; RMB6.1 million for debt instruments measured at amortized cost and RMB6.2 million for debt instruments measured at FVTOCI as disclosed in notes 29, 26, 25 and 31 to the consolidated financial statements, respectively.</p>	<p>Our procedures in relation to the measurement of ECL for financial assets of credit business and investments in debt instruments included:</p> <ul style="list-style-type: none"> <li>• Evaluating and testing the key controls relating to the measurement of ECL for advances to customers, financial assets held under resale agreements and debt instruments measured at amortized cost or FVTOCI;</li> <li>• Evaluating the appropriateness of the ECL adjustment made by the Group as at 1 January 2018 on initial adoption of IFRS 9;</li> <li>• Evaluating the appropriateness of the ECL model and the critical assumptions and parameters used in the model, in particular, PD and LGD, with the involvement of our experts;</li> <li>• Evaluating the SICR criteria determined by management for appropriateness and, on a sample basis, testing the application of the SICR criteria to individual advances to customers, financial assets held under resale agreements and debt instruments;</li> <li>• Examining major data inputs to the ECL model for selected samples, including exposure at default and loss rate;</li> <li>• For credit-impaired financial assets, on a sample basis, assessing the reasonableness of impairment allowances made by management based on the estimated future cash flows, by reference to financial information of borrowers and guarantors, and the latest collateral valuations, as appropriate.</li> </ul>

## Chapter 10: Financial Report

### Key Audit Matters (Continued)

Key audit matter	How our audit addressed the key audit matter
<i>Valuation of financial instruments classified under the fair value hierarchy as Level 3</i>	
<p>We identified the valuation of financial instruments classified under the fair value hierarchy as Level 3 (“Level 3 financial instruments”) as a key audit matter due to the significant management estimates and judgement arising from the involvement of significant unobservable inputs in their valuation.</p> <p>As disclosed in note 64 to the consolidated financial statements, the fair value of the Group’s Level 3 financial instruments amounted to RMB3,461.6 million as at 31 December 2018. Level 3 financial instruments are measured using valuation models that involved a considerable number of inputs; some of significant inputs were not based on observable market data, including volatility and discount for lack of marketability, etc.</p>	<p>Our procedures in relation to the valuation of Level 3 financial instruments included:</p> <ul style="list-style-type: none"> <li>• Evaluating and testing the key controls over the valuation process for Level 3 financial instruments;</li> <li>• Evaluating the appropriateness of the valuation models used by the management for Level 3 financial instruments, based on our knowledge of current industry practice;</li> <li>• Reading the investment agreements, on a sample basis, to understand the relevant investment terms and identifying any conditions that were relevant to the valuation of these financial instruments;</li> <li>• Evaluating, on a sample basis, the appropriateness of the unobservable and observable inputs, used for measuring the fair value of Level 3 financial instruments;</li> <li>• Performing independent valuation of level 3 financial instruments, on a sample basis, and comparing these valuations with the Group’s valuations, with the involvement of our valuation experts, as appropriate.</li> </ul>

### Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, other than the consolidated financial statements and our auditor’s report thereon.

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

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

## Chapter 10: Financial Report

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

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

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

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

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

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

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

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

## Chapter 10: Financial Report

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Man Kai Sze.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

March 28, 2019

**Consolidated Statement of Profit or Loss**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	Year ended December 31,	
		2018	2017
Fee and commission income	7	7,753,532	9,750,400
Interest income	8	8,186,595	6,718,349
Investment income and gains or losses (net)	9	2,120,062	2,876,948
Other income and gains or losses	10	9,359	(86,811)
<b>Total revenues, gains and other income</b>		<b>18,069,548</b>	<b>19,258,886</b>
Depreciation and amortization	11	(216,391)	(198,526)
Staff costs	12	(3,850,480)	(4,392,001)
Fee and commission expenses	13	(1,305,055)	(1,813,267)
Interest expenses	14	(6,340,505)	(4,921,863)
Tax and surcharges		(88,223)	(96,490)
Other operating expenses	15	(1,614,634)	(1,535,019)
Impairment losses, net			(40,653)
Expected credit losses, net	16	(121,037)	
Other impairment losses, net		(3,211)	
<b>Total expenses</b>		<b>(13,539,536)</b>	<b>(12,997,819)</b>
Share of profits of associates		917,473	845,489
<b>Profit before income tax</b>		<b>5,447,485</b>	<b>7,106,556</b>
Income tax expenses	17	(1,001,224)	(1,301,847)
<b>Profit for the year</b>		<b>4,446,261</b>	<b>5,804,709</b>
Attributable to:			
Shareholders of the Company and holders of other equity instruments		4,424,986	5,785,956
Non-controlling interests		21,275	18,753
		<b>4,446,261</b>	<b>5,804,709</b>
Earnings per share attributable to shareholders of the Company (Expressed in RMB per share)	18		
— Basic		<b>0.54</b>	<b>0.78</b>

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

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Year ended December 31,	
	2018	2017
<b>Profit for the year</b>	<b>4,446,261</b>	<b>5,804,709</b>
<b>Other comprehensive income (expense):</b>		
<b>Items that will not be reclassified subsequently to profit or loss:</b>		
Investments in equity instruments designated as at fair value through other comprehensive income		
Net fair value changes during the year	(913,992)	
Income tax impact	228,498	
Sub-total	(685,494)	
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Available-for-sale financial assets:		
Net fair value changes during the year		972,730
Reclassification adjustment to profit or loss		(96,636)
Financial assets at fair value through other comprehensive income:		
Net fair value changes during the year	758,923	
Reclassification adjustment to profit or loss	22,463	
Expected credit losses(reversal)	(1,032)	
Income tax impact	(195,089)	(228,096)
Sub-total	585,265	647,998
Share of other comprehensive income(expense) of associates	326	(4,899)
Exchange differences arising from foreign currency translation	286,813	(166,858)
<b>Other comprehensive income for the year, net of tax</b>	<b>186,910</b>	<b>476,241</b>
<b>Total comprehensive income for the year (net of tax)</b>	<b>4,633,171</b>	<b>6,280,950</b>
Total comprehensive income for the year attributable to:		
Shareholders of the Company and holders of other equity instruments	4,611,896	6,262,197
Non-controlling interests	21,275	18,753
	<b>4,633,171</b>	<b>6,280,950</b>

**Consolidated Statement of Financial Position**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	As at December 31,	
		2018	2017
<b>Non-current assets</b>			
Property and equipment	19	1,628,792	1,832,087
Prepaid lease payment		431,685	—
Goodwill		9,671	9,671
Other intangible assets		19,121	21,579
Interests in associates	21	8,287,924	7,489,497
Available-for-sale financial assets	23		7,793,163
Equity instruments at fair value through other comprehensive income	24	6,722,607	
Debt instruments at amortised cost	25	1,796,608	
Financial assets held under resale agreements	26	5,277,749	8,801,458
Financial assets at fair value through profit or loss	32	2,202,967	—
Deferred tax assets	27	868,510	903,214
Other non-current assets	28	221,103	197,917
<b>Total non-current assets</b>		<b>27,466,737</b>	<b>27,048,586</b>
<b>Current assets</b>			
Advances to customers	29	42,976,430	59,235,426
Accounts and other receivables	30	3,298,003	4,511,278
Available-for-sale financial assets			25,482,190
Debt instruments at fair value through other comprehensive income	31	41,642,341	
Debt instruments at amortised cost	25	47,587	84,621
Financial assets held under resale agreements	26	27,766,111	27,297,865
Financial assets at fair value through profit or loss	32	97,921,779	73,070,285
Derivative financial assets	33	1,150,232	1,021,640
Deposits with exchanges and non-bank financial institutions	34	1,431,420	1,224,478
Clearing settlement funds	35	13,796,281	14,010,491
Cash and bank balances	36	47,433,784	52,656,695
<b>Total current assets</b>		<b>277,463,968</b>	<b>258,594,969</b>
<b>Total assets</b>		<b>304,930,705</b>	<b>285,643,555</b>



**Consolidated Statement of Financial Position (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	As at December 31,	
		2018	2017
<b>Current liabilities</b>			
Short-term borrowings	38	1,581,861	6,611,444
Short-term debt instruments	39	34,850,476	47,045,670
Placements from banks and other financial institutions	40	3,519,000	1,470,000
Accounts payable to brokerage clients	41	48,911,748	51,095,335
Accrued staff costs	42	3,654,135	4,640,605
Other payables and accrued charges	43	3,524,201	5,022,544
Current tax liabilities		133,968	141,817
Financial liabilities at fair value through profit or loss	44	7,124,452	5,492,509
Derivative financial liabilities	33	1,305,685	1,584,910
Financial assets sold under repurchase agreements	45	61,267,557	33,382,970
Long-term borrowings due within one year	51	—	378,134
Bonds payable due within one year	53	17,855,355	19,499,911
<b>Total current liabilities</b>		<b>183,728,438</b>	<b>176,365,849</b>
<b>Net current assets</b>		<b>93,735,530</b>	<b>82,229,120</b>
<b>Total assets less current liabilities</b>		<b>121,202,267</b>	<b>109,277,706</b>
<b>Equity</b>			
Share capital	46	6,699,409	6,699,409
Other equity instruments	47	15,000,000	15,000,000
Capital reserve		27,533,939	27,533,939
Investment revaluation reserve of available-for-sale financial assets	48		327,404
Investment revaluation reserve of financial assets at fair value through other comprehensive income	49	299,070	
Foreign currency translation reserve		172,076	(114,737)
General reserves	50	13,864,963	12,790,340
Retained profits		17,153,389	16,993,794
<b>Equity attributable to shareholders of the Company</b>		<b>80,722,846</b>	<b>79,230,149</b>
Non-controlling interests		69,508	103,555
<b>Total equity</b>		<b>80,792,354</b>	<b>79,333,704</b>

**Consolidated Statement of Financial Position (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Notes	As at December 31,	
		2018	2017
<b>Non-current liabilities</b>			
Accrued staff costs		787,540	787,540
Deferred tax liabilities		148,764	235,002
Financial liabilities at fair value through profit or loss	44	2,404,123	—
Deferred income		125,734	126,000
Long-term borrowings	52	1,380,015	1,065,786
Bonds payable	54	35,563,737	27,729,674
<b>Total non-current liabilities</b>		<b>40,409,913</b>	<b>29,944,002</b>
<b>Total equity and non-current liabilities</b>		<b>121,202,267</b>	<b>109,277,706</b>

The consolidated financial statements on pages 213 to 349 were approved and authorised for issue by the board of directors on March 28, 2019 and are signed on its behalf by:

**Huo Da**  
Executive Director, Chairman

**Xiong Jian Tao**  
Executive Director, President

**Consolidated Statement of Changes in Equity**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Equity attributable to shareholders of the Company									Non-controlling interests	Total
	Share capital	Other equity instruments	Capital reserve	Investment revaluation reserve of available-for-sale financial assets	Investment revaluation reserve of financial assets at fair value through other comprehensive income	Translation reserve	General reserves	Retained profits	Sub-total		
	(Note 46)	(Note 47)		(Note 48)	(Note 49)		(Note 50)				
At January 1, 2017	6,699,409	—	27,533,939	(315,695)	—	52,121	11,498,783	14,357,780	59,826,337	88,702	59,915,039
Profit for the year	—	—	—	—	—	—	—	5,785,956	5,785,956	18,753	5,804,709
Other comprehensive income (expense) for the year	—	—	—	643,099	—	(166,858)	—	—	476,241	—	476,241
Total comprehensive income (expense) for the year	—	—	—	643,099	—	(166,858)	—	5,785,956	6,262,197	18,753	6,280,950
Issuance of perpetual subordinated bonds	—	15,000,000	—	—	—	—	—	—	15,000,000	—	15,000,000
Capital injected by non-controlling shareholders	—	—	—	—	—	—	—	—	—	4,500	4,500
Appropriation to general reserve	—	—	—	—	—	—	1,291,557	(1,291,557)	—	—	—
Distribution to holders of other equity instruments	—	—	—	—	—	—	—	(592,196)	(592,196)	—	(592,196)
Dividends recognised as distribution	—	—	—	—	—	—	—	(1,266,189)	(1,266,189)	(8,400)	(1,274,589)
At December 31, 2017	6,699,409	15,000,000	27,533,939	327,404	—	(114,737)	12,790,340	16,993,794	79,230,149	103,555	79,333,704
At December 31, 2017	6,699,409	15,000,000	27,533,939	327,404	—	(114,737)	12,790,340	16,993,794	79,230,149	103,555	79,333,704
Effect of adoption of IFRS 9	—	—	—	(327,404)	398,973	—	—	(70,682)	887	—	887
At January 1, 2018	6,699,409	15,000,000	27,533,939	—	398,973	(114,737)	12,790,340	16,923,112	79,231,036	103,555	79,334,591
Profit for the year	—	—	—	—	—	—	—	4,424,986	4,424,986	21,275	4,446,261
Other comprehensive income (expense) for the year	—	—	—	—	(99,903)	286,813	—	—	186,910	—	186,910
Total comprehensive income (expense) for the year	—	—	—	—	(99,903)	286,813	—	4,424,986	4,611,896	21,275	4,633,171
Capital redemption by non-controlling shareholders	—	—	—	—	—	—	—	—	—	(11,998)	(11,998)
Appropriation to general reserve	—	—	—	—	—	—	1,074,623	(1,074,623)	—	—	—
Distribution to holders of other equity instruments	—	—	—	—	—	—	—	(802,090)	(802,090)	—	(802,090)
Dividends recognised as distribution	—	—	—	—	—	—	—	(2,317,996)	(2,317,996)	(43,324)	(2,361,320)
At December 31, 2018	6,699,409	15,000,000	27,533,939	—	299,070	172,076	13,864,963	17,153,389	80,722,846	69,508	80,792,354

**Consolidated Statement of Cash Flows**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Year ended December 31	
	2018	2017
<b>OPERATING ACTIVITIES</b>		
Profit before income tax	5,447,485	7,106,556
Adjustments for:		
Interest expenses	6,340,505	4,921,863
Share of results of associates	(917,473)	(845,489)
Depreciation and amortization	216,391	198,526
Impairment losses, net	124,248	40,653
Losses on disposal of property and equipment, other intangible assets and other non-current assets, net	1,230	1,179
Foreign exchange losses, net	75,487	150,379
Net realised losses from disposal of available-for-sale financial assets		164,280
Net realized losses from disposal of financial assets at fair value through other comprehensive income	22,463	
Dividend income and interest income from available-for-sale financial assets		(837,856)
Dividend income and interest income from financial assets at fair value through other comprehensive income	(1,808,581)	
Unrealised fair value changes in financial instruments at fair value through profit or loss	680,300	(906,909)
Unrealised fair value change in derivatives financial instruments	(38,296)	(103,074)
<b>Operating cash flows before movements in working capital</b>	<b>10,143,759</b>	<b>9,890,108</b>
Decrease (increase) in advances to customers	17,239,589	(5,855,558)
(Increase) decrease in other current assets	(674,903)	1,699,430
Increase in interest receivables		(632,890)
Decrease (increase) in financial assets held under resale agreements	3,050,168	(17,199,147)
Increase in financial instruments at fair value through profit or loss, net	(20,577,688)	(22,834,706)
Increase in deposit in exchanges and non-bank financial institutions	(206,942)	(684,036)
Decrease in clearing settlement funds	143,640	7,441,876
Decrease in cash held on behalf of customers	2,381,578	7,800,924
Decrease in accounts payable to brokerage clients	(2,183,587)	(16,486,385)
Decrease in accrued staff costs	(986,470)	(67,057)
Increase (decrease) in other current liabilities	886,059	(1,533,764)
Increase in financial assets sold under repurchase agreements	27,817,631	13,983,982
Increase (decrease) in placement from banks and other financial institutions	2,030,000	(30,000)
<b>Cash from (used in) operation</b>	<b>39,062,834</b>	<b>(24,507,223)</b>
Income taxes paid	(632,865)	(1,023,728)
Interest paid	(1,739,044)	(1,780,344)
<b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>	<b>36,690,925</b>	<b>(27,311,295)</b>

**Consolidated Statement of Cash Flows (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

	Year ended December 31	
	2018	2017
<b>INVESTING ACTIVITIES</b>		
Dividends and interest received from investments	1,900,175	931,156
Purchase of property and equipment, other intangible assets and other non-current assets	(461,339)	(268,917)
Proceeds from disposal of property and equipment, other intangible assets and other non-current assets	1,297	1,513
Capital injection for acquisition of interest in an associate	—	(495,000)
Purchase or proceeds from disposal of debt instruments at fair value through other comprehensive income	(19,708,161)	
Purchase or proceeds from disposal of available-for-sale financial assets, net		(7,800,455)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(18,268,028)</b>	<b>(7,631,703)</b>
<b>FINANCING ACTIVITIES</b>		
Dividends paid to shareholders and other equity instrument holders	(3,163,410)	(1,274,589)
Repayment of bonds and short-term debt instruments interest	(4,157,576)	(3,760,877)
Repayment of borrowings interest	(133,595)	(113,630)
Repayment of bonds and short-term debt instruments	(87,200,340)	(70,826,240)
Proceeds from issuance of perpetual subordinated bonds	—	15,000,000
Capital injection from non-controlling shareholders, net	—	4,500
Proceeds from bonds and short-term debt instruments	78,935,720	92,849,580
Net proceeds from short-term borrowings	(5,230,149)	3,697,736
Net proceeds from long-term borrowings	(121,317)	1,112,681
Other financing activities payments	(11,998)	(29,430)
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b>(21,082,665)</b>	<b>36,659,731</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(2,659,768)</b>	<b>1,716,733</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b>13,371,687</b>	<b>12,325,818</b>
Effect of foreign exchange rate changes	431,200	(670,864)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>11,143,119</b>	<b>13,371,687</b>

## Notes to the Consolidated Financial Statements

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 1. CORPORATE INFORMATION

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

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

On November 2, 2009, with the approval by China Securities Regulatory Commission ([2009] No. 1132), the Company launched its initial public offering of 358,546,141 A shares. On November 17, 2009, the Company started to be listed on the Shanghai Stock Exchange. The Company’s ultimate holding company is China Merchants Group Limited (“CMG”). CMG is a PRC enterprise regulated and directly managed by the State-Owned Assets Supervision and Administration Commission of the State Council and CMG is owned and controlled by the PRC Government.

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

As at December 31, 2018, the Company’s registered capital was RMB6,699,409,329 and the Company has a total of 6,699,409,329 issued shares of RMB1 each.

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

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) for the first time in the current year.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the Related Amendments
IFRIC-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Share-based Payment
Amendments to IFRS 4	Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014-2016 Cycle
Amendments to IAS 40	Investment Properties

In addition, the Group has early applied Amendments to IFRS 9 Prepayment Features with Negative Compensation which will be mandatorily effective for the Group for the financial year beginning on January 1, 2019.

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

#### 2.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments

##### *Impacts of initial application of IFRS 9*

In the current year, the Group has applied IFRS 9 Financial Instruments and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for

- (1) the classification and measurement of financial assets and financial liabilities,
- (2) expected credit losses (“ECL”) for financial assets and loan commitments,
- (3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39 Financial Instruments: Recognition and Measurement.

Accounting policies resulting from application of IFRS 9 are disclosed in note 3.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

#### 2.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

##### *Impacts of initial application of IFRS 9 (Continued)*

##### **(a) Available-for-sale investments**

###### *From AFS equity investments to FVTOCI*

The Group elected to present in OCI for the fair value changes of its equity investments previously classified as available-for-sale, of which RMB7,636,599 thousand related to unquoted equity investments under IAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of IFRS 9, RMB7,636,599 thousand were reclassified from available-for-sale investments to equity instruments at FVTOCI. The fair value gains of RMB565,552 thousand (after tax) relating to those unquoted equity investments were adjusted to equity instruments at FVTOCI reserve as at January 1, 2018.

###### *From AFS investments to FVTPL*

At the date of initial application of IFRS 9, the Group’s equity investments, funds, bonds, asset management schemes and trust products under IAS 39 amounted to RMB2,639,611 thousand were reclassified from available-for-sale investments to financial assets at FVTPL. The fair value loss of RMB63,284 thousand (after tax) relating to those investments previously carried at fair value were transferred from investment revaluation reserve of available-for-sale financial assets to retained profits.

###### *From AFS debt investments to amortised cost*

At the date of initial application of IFRS 9, certain investments in corporate bonds of RMB1,823,886 thousand were reclassified from available-for-sale to amortised cost since the Group’s business model is to hold these investments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount outstanding. The carrying amounts were adjusted to amortised cost of RMB1,825,068 thousand (after tax), with corresponding reversal of fair value loss of RMB2,872 thousand (after tax) previously recognised in investment revaluation reserve and additional credit loss allowance of RMB2,646 thousand (before tax) recognised against retained profits.

###### *From AFS debt investments to FVTOCI*

Bonds with a fair value of RMB21,175,257 thousand were reclassified from available-for-sale investments to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding. Related fair value losses of RMB170,852 thousand were transferred to FVTOCI reserve as at January 1, 2018.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

#### 2.1 Impacts and changes in accounting policies of application on IFRS 9 Financial Instruments (Continued)

##### *Impacts of initial application of IFRS 9 (Continued)*

##### **(b) Financial assets at FVTPL and/or designated at FVTPL**

At the date of initial application, the Group no longer applied designation as measured at FVTPL for its unlisted equity investment which is managed and its performance is evaluated on a fair value basis, as these financial assets are required to be measured at FVTPL under IFRS 9. As a result, the fair value of these investments amounting to RMB1,930,226 thousand were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

Remaining investments are equity securities and derivative financial instruments held for trading which are required to be classified as FVTPL under IFRS 9. There was no impact on the amounts recognised in relation to these assets from the application of IFRS 9.

##### **(c) Impairment under ECL model**

The Group applies the IFRS 9 simplified approach to measure ECL and recognizes lifetime ECL for accounts receivables. To measure the ECL, accounts receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of pledged bank deposits, bank balances, deposits with exchanges and non-bank financial institutions, clearing settlement funds, financial assets held under resales agreements, loan receivables measured at amortised cost, advances to customer, and accounts and other receivables are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

All of the Group's debt instruments at FVTOCI are bonds that are assigned the top-notch credit ratings by rating agencies. Therefore, these investments are considered to be low credit risk investments and the loss allowance is measured on 12m ECL basis.

As at January 1, 2018, the additional credit loss allowance of RMB7,398 thousand (after tax) was recognised against retained profits and FVTOCI reserve. This additional loss allowance is charged against the respective assets, except for the debt instruments which are measured at FVTOCI and the loss allowance for which is recognised against the FVTOCI reserve.

#### 2.2 Impacts and changes in accounting policies of application on IFRS 15 Revenue from Contracts with Customers

##### *Impacts of initial application of IFRS 15*

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 Revenue and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised from the date of initial application, January 1, 2018. There is no difference at the date of initial application and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at January 1, 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 and the related interpretations.

There has no material impact on retained profits or consolidated financial statements of the Group on January 1, 2018 from initial application of IFRS 15.

Accounting policies resulting from application of IFRS 15 are disclosed in note 3.

Except as described above, the application of other amendments to IFRSs in the current year had no material effect on the amounts reported and/or disclosures set out in these consolidated financial statements.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

#### 2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group’s accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	December 31, 2017	IFRS 9	January 1, 2018
<b>Non-current assets</b>			
Property and equipment	1,832,087	—	1,832,087
Goodwill	9,671	—	9,671
Other intangible assets	21,579	—	21,579
Interests in associates	7,489,497	—	7,489,497
Available-for-sale financial assets	7,793,163	(7,793,163)	—
Equity instruments at fair value through other comprehensive income	—	7,636,599	7,636,599
Debt instruments at amortised cost	—	1,793,330	1,793,330
Financial assets held under resale agreements	8,801,458	—	8,801,458
Deferred tax assets	903,214	(1,117)	902,097
Other non-current assets	197,917	—	197,917
<b>Current assets</b>			
Advances to customers	59,235,426	—	59,235,426
Accounts and other receivables	4,511,278	31,738	4,543,016
Available-for-sale financial assets	25,482,190	(25,482,190)	—
Debt instruments at fair value through other comprehensive income	—	21,175,257	21,175,257
Debt instruments at amortised cost	84,621	—	84,621
Financial assets held under resale agreements	27,297,865	—	27,297,865
Financial assets at fair value through profit or loss	73,070,285	2,639,611	75,709,896
Derivative financial assets	1,021,640	—	1,021,640
Deposits with exchanges and non-bank financial institutions	1,224,478	—	1,224,478
Clearing settlement funds	14,010,491	—	14,010,491
Cash and bank balances	52,656,695	—	52,656,695

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)****2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards (Continued)**

	December 31, 2017	IFRS 9	January 1, 2018
<b>Current liabilities</b>			
Short-term borrowings	6,611,444	—	6,611,444
Short-term debt instruments	47,045,670	—	47,045,670
Placements from banks and other financial institutions	1,470,000	—	1,470,000
Accounts payable to brokerage clients	51,095,335	—	51,095,335
Accrued staff costs	4,640,605	—	4,640,605
Other payables and accrued charges	5,022,544	—	5,022,544
Current tax liabilities	141,817	—	141,817
Financial liabilities at fair value through profit or loss	5,492,509	—	5,492,509
Derivative financial liabilities	1,584,910	—	1,584,910
Financial assets sold under repurchase agreements	33,382,970	—	33,382,970
Long-term borrowings due within one year	378,134	—	378,134
Bonds payable due within one year	19,499,911	—	19,499,911
<b>Non-current liabilities</b>			
Accrued staff costs	787,540	—	787,540
Deferred tax liabilities	235,002	(821)	234,181
Deferred income	126,000	—	126,000
Long-term borrowings	1,065,786	—	1,065,786
Bonds payable	27,729,674	—	27,729,674
<b>Equity</b>			
Share capital	6,699,409	—	6,699,409
Other equity instruments	15,000,000	—	15,000,000
Capital reserve	27,533,939	—	27,533,939
Investment revaluation reserve of available-for-sale financial assets	327,404	(327,404)	—
Investment revaluation reserve of financial assets at fair value through other comprehensive income	—	398,973	398,973
Foreign currency translation reserve	(114,737)	—	(114,737)
General reserves	12,790,340	—	12,790,340
Retained profits	16,993,794	(70,682)	16,923,112
Non-controlling interests	103,555	—	103,555

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (Continued)

#### 2.4 New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs and amendments that have been issued but are not yet effective.

IFRS 16	Leases <sup>1</sup>
IFRS 17	Insurance Contracts <sup>3</sup>
IFRIC 23	Uncertainty over Income Tax Treatments <sup>1</sup>
Amendments to IFRS 3	Definition of a Business <sup>4</sup>
Amendments to IFRS 9	Prepayment Features with Negative Compensation <sup>1</sup>
Amendments IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>2</sup>
Amendments to IAS 1 and IAS 8	Definition of Material <sup>5</sup>
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement <sup>1</sup>
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures <sup>1</sup>
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015-2017 Cycle <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2019

<sup>2</sup> Effective for annual periods beginning on or after a date to be determined

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2021

<sup>4</sup> Effective for business combination or asset acquisition for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020

<sup>5</sup> Effective for annual periods beginning on or after January 1, 2020

The directors of the Company anticipate that the application of other new and revised IFRSs, except as described below, will have no material impact on the consolidated financial statement in the foreseeable future.

#### **IFRS 16 Leases**

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatment for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective. In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (Continued)

#### 2.4 New and revised IFRSs issued but not yet effective (Continued)

##### *IFRS 16 Leases (Continued)*

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date. Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of IAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As at December 31, 2018, the Group has non-cancellable operating lease commitments of approximately RMB955,091 thousand as disclosed in note 58. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these lease unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above.

In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the following accounting policies which conform with IFRSs. In addition, the consolidated financial statement includes applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The principal accounting policies are set out below.

#### Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved where the Company: (a) has power over the investee; (b) is exposed, or has rights, to variable returns from its involvement with the investee; and (c) has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Investments in subsidiaries are stated at cost less accumulated impairment loss, if any, in the Group's statement of financial position. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or losses from the date the Group gains control until the date when the Group ceases to control the subsidiary.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Basis of consolidation (Continued)

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the noncontrolling interests according to the Group's and the non-controlling interests' proportionate interests. Any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them) and (ii) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost. When assets and liabilities of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets and liabilities. The fair value of any investment retained in the former subsidiary at the date when control is lost which is regarded as the fair value on initial recognition for subsequent accounting under IFRS9 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Structured entities

The Group served as the manager of collective asset management schemes, funds and partnership. These collective asset management schemes, funds and partnership invest mainly in equities, debt securities, cash and cash equivalents and securities-backed lending under resale agreement. The Group's proportion of ownership in these structured entities can fluctuate from day to day according to the Group's and third-party participation in them. Where the Group is deemed to control such collective asset management schemes, funds and partnership, with control determined based on an analysis of the guidance in IFRS 10 Consolidated financial statements, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the relevant group entity as an issuer to repurchase or redeem units in such collective asset management schemes, funds and partnership for cash. These are presented as "Third-party interests in consolidated collective asset management schemes, funds and partnership" within other liabilities or "Financial liabilities at fair value through profit or loss" in the consolidated statement of financial position.

#### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income taxes and IAS 19 Employee benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current assets held for sale and discontinued operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Business combinations (Continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under IFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

#### Foreign currencies

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the dates of the transactions.

A spot exchange rate is an exchange rate quoted by the "People's Bank of China", the State Administrative of Foreign Exchange or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is a rate determined under a systematic and rational method, normally the average exchange rate of the current year.

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of the year. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate on the date the fair value is determined; the resulting exchange differences are recognised in profit or loss.

The assets and liabilities of foreign operation are translated to RMB at the spot exchange rate at the end of reporting period. The equity items, excluding "retained earnings", are translated to RMB at the spot exchange rates at the transaction dates. The income and expenses of foreign operation are translated to RMB at the rates that approximate the spot exchange rates. The resulting translation differences are recognised in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests in associates.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to insignificant risk of change in value.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Goodwill

Goodwill represents the excess of:

- (i) the aggregate of the fair value of the consideration transferred, the amount of any noncontrolling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; or
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of associates is described below.

#### Interests in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting, unless it is classified as held for sale. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Interests in associates (Continued)

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exist, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal or partial disposal of the Group's interest in an associate in which the Group lost significant influence and discontinued the use of equity method, any retained interest that is within the scope of IFRS 9 is measured at fair value on that date, the difference between the carrying amount of the associate at the date, and the proceeds from disposing of such interest (or partial interest) in the associate and the fair value of the retained interest is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in their comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related asset or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

When an investment in an associate is held by, or is held indirectly through, a group entity that is a venture capital organization and similar entities, the Group may elect to measure investments in those associates at fair value through profit or loss in accordance with IFRS 9.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Property and equipment and other non-current assets

Property and equipment including buildings and leasehold land (classified as finance leases) and other non-current assets including leasehold improvement and deferred expenses for use in the supply of services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation/amortization and subsequent accumulated impairment losses, if any.

Depreciation/amortization is recognised so as to write off their costs, other than construction in progress, less their residual values over their estimated useful lives, using straight-line method. The estimated useful lives, residual values and depreciation/amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress is carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories when completed and ready for intended use. Depreciation/amortization of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property and equipment and other non-current assets is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

If an item of property and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, the cost and accumulated depreciation of that item at the date of transfer are transferred to investment property for subsequent measurement and disclosure purposes.

The estimated residual value rates and useful lives of each class of property and equipment and other non-current assets are as follows:

Classes	Estimated residual value rates	Useful lives
Leasehold land and buildings	5%	30–50 years
Motor vehicles	5%	5 years
Electronic and communication equipment	5%	5 years
Office equipment	5%	5 years

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

The estimated residual value rates and useful lives of investment properties are as follows:

Classes	Estimated residual value rates	Useful lives
Buildings	5%	30–50 years
Leasehold land	—	Over the term of the lease

**Intangible assets****(i) Intangible assets acquired separately**

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment on non-financial assets other than goodwill below).

The estimated useful lives of each class of intangible assets are as follows:

Classes	Useful lives
Trading rights (with finite life)	10 years
Others	5 years

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Intangible assets (Continued)

##### *(ii) Intangible assets acquired in a business combination*

The intangible assets acquired in the business combination shall be separately recognised from the goodwill, and shall be initially recognised based on the fair value at the acquisition date (as the cost of the intangible assets).

After the initial recognition, the intangible assets with limited useful lives obtained in the business combination shall be presented on the same basis as the intangible assets obtained separately, and shall be presented according to the cost minus accumulated amortization and any accumulated impairment losses. Intangible assets with indefinite useful lives obtained in a business combination are stated at cost less any subsequent accumulated impairment losses. (Please refer to the accounting policy related to the impairment on non-financial assets other than goodwill below).

An intangible asset is derecognised when it is disposed of or it is expected that its use or disposal will no longer generate future economic benefits. The gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss on derecognition of the asset.

#### Impairment on non-financial assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its property and equipment, investment property, intangible assets with finite useful lives, and other non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or the cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or the cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### (i) The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

#### (ii) The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

#### Leasehold land and buildings

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property and equipment and investment properties.

#### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

If the construction of qualifying assets have been suspended under abnormal circumstances, the corresponding capitalization of the borrowing cost should be stopped accordingly.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

#### Employee benefits

##### (i) Salaries and allowances

Salaries and allowances are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

##### (ii) Contributions to retirement benefits scheme

The Group participates in Central Provident Fund ("CPF") Scheme for its employees in the PRC organised by the municipal governments of the relevant provinces. The Group also participates in the Mandatory Provident Fund Scheme (the "MPF Scheme") for its employees in Hong Kong under the Mandatory Provident Fund Scheme Ordinance. The Group also sets up annuity scheme for qualified employees. Annuity contributions are accrued based on a certain percentage of the participants' total salary when employees have rendered service entitling them to the contributions. The contribution is recognised in profit or loss.

##### (iii) Other social welfare

Social welfare expenditure refers to payments for employees' social welfare system established by the government of the PRC, including social pension insurance, health care insurance, housing funds and other social welfare contributions. The Group contributes on a regular basis to these funds based on certain percentage of the employees' salaries and the contributions are recognised in profit or loss for the period when employees have rendered service entitling them to the contribution. The Group's liabilities in respect of these funds are limited to the contribution payable in the reporting period.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Employee benefits (Continued)

##### *(iv) Other long-term employee benefits*

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in respect of their services in the current and prior periods.

#### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

##### *(i) Current tax*

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

##### *(ii) Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Taxation (Continued)

##### *(ii) Deferred tax (Continued)*

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### Financial instruments

A financial instrument is defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

##### *(i) Recognition and derecognition of financial instruments*

A financial asset or financial liability is recognised in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

The Group shall derecognise a financial asset when, and only when:

- the contractual rights to the cash flows from the financial asset expire, or
- the Group transfers the financial asset and the transfer qualifies for derecognition in accordance with IFRS 9.

The Group derecognises a financial liability (or a part of a financial liability when, only when, it is extinguished, ie when the obligation in the contract is discharged, cancelled or expired. The difference between the carrying amount and the consideration paid, including any non-cash assets transferred or any new liabilities assumed, shall be recognised in profit or loss.

When the Group repurchases a part of a financial liability, it shall allocate the previous carrying amount of the financial liability between the part that continues to be recognised and the part that is derecognised based on the relative fair values of those parts on the date of the repurchase. The difference between (a) the carrying amount allocated to the part derecognised and (b) the consideration paid, including any non-cash assets transferred or liabilities assumed, for the part derecognised shall be recognised in profit or loss.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *(ii) Classification of financial assets*

The Group classify financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income as stated above. However the Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income

At initial recognition, the Group may irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

##### *(iii) Classification of financial liabilities*

The Group classifies all financial liabilities as subsequently measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- financial guarantee contracts and commitments to provide a loan at a below-market interest rate.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *(iv) Embedded derivatives*

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host. An embedded derivative and its host contract form a hybrid contract.

If a hybrid contract contains a host that is an asset within the scope of IFRS 9, the Group shall not separate an embedded derivative from the host, but shall apply the requirements of IFRS 9 to the entire hybrid contract.

##### *(v) Reclassification of financial instruments*

When, and only when, the Group changes its business model for managing financial assets it shall reclassify all affected financial assets. The Group shall not reclassify any financial liability.

If the Group reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. The Group shall not restate any previously recognised gains, losses (including impairment gains or losses) or interest.

- If the Group reclassifies a financial asset out of the amortised cost measurement category and into the fair value through profit or loss measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in profit or loss.
- If the Group reclassifies a financial asset out of the amortised cost measurement category and into the fair value through other comprehensive income measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.
- If the Group reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortised cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognised in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.
- If the Group reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the fair value through profit or loss measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss at the reclassification date.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### (v) *Reclassification of financial instruments (Continued)*

- If the Group reclassifies a financial asset out of the fair value through profit or loss measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount.
- If the Group reclassifies a financial asset out of the fair value through profit or loss measurement category and into the fair value through other comprehensive income measurement category, the financial asset continues to be measured at fair value.

When reclassifying the financial assets, the Group determines effective interest rate based on the fair value of the financial assets at the reclassification date.

##### (vi) *Measurement of financial instruments*

The Group initially recognises a financial asset or financial liability at its fair value. Fair value is the transaction price of a financial asset or financial liability. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

After initial recognition, the Group subsequently measure a financial asset at amortised cost, fair value through other comprehensive income or fair value through profit or loss.

After initial recognition, the Group subsequently measure a financial liability at amortised cost or fair value through profit or loss.

Interest income is calculated by using the effective interest method except for:

- purchased or originated credit-impaired financial assets. For those financial assets, the Group shall apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.
- financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods. If in the future the situation reverses, so that it ceases to be credit-impaired and the improvement can be related objectively to an event occurring after it became credit-impaired (such as an improvement in the borrower's credit rating) the interest income is determined using the effective interest rate applied to the gross carrying amount in subsequent reporting periods.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *(vii) Impairment of financial instruments*

The Group recognise a loss allowance for expected credit losses for the following items:

- financial assets that are measured at amortised cost or debt instruments measured at fair value through other comprehensive;
- lease receivables;
- contract assets;
- loan commitment and a financial guarantee contracts that are not measured at fair value through profit or loss as stated in note Financial Instruments (iii).

Expected credit losses are defined as the weighted average of the credit losses of financial instruments with the respective risks of default occurring as the weights.

The Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition at the reporting date and recognises the loss allowance for expected credit loss and its movement.

- The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. An impairment loss (gain) is recognised in profit or loss for the amount of expected credit losses (or reversal) needed to adjust the loss allowance at the reporting date to the required amount.
- The Group measure the loss allowance for a financial instrument at an amount equal to the 12-month expected credit losses if the credit risk on that financial instrument has not increased significantly since initial recognition. An impairment loss (gain) is recognised in profit or loss for the amount of expected credit losses (or reversal) needed to adjust the loss allowance at the reporting date to the required amount.

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *(viii) Profit of loss*

A gain or loss on a financial asset or financial liability that is measured at fair value shall be recognised in profit or loss unless:

- it is part of a hedging relationship;
- it is a non-held for trading investment in an equity instrument that is designated as at fair value through other comprehensive income and the entity has elected to present gains and losses on that investment in other comprehensive income;
- it is a financial liability designated as at fair value through profit or loss and the entity is required to present the effects of changes in the liability's credit risk in other comprehensive income;
- it is a financial asset measured at fair value through other comprehensive income and the entity is required to recognise some changes in fair value in other comprehensive income.

A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging is recognised in profit or loss when the financial asset is derecognised, reclassified, through the amortisation process or in order to recognise impairment gains or losses. A gain or loss on a financial liability that is measured at amortised cost and is not part of a hedging is recognised in profit or loss when the financial liability is derecognised and through the amortisation process.

##### *(ix) Estimation of fair value*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either: in the principal market for the asset or liability; or in the absence of a principal market, in the most advantageous market for the asset or liability. In estimating the fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

If there is a principal market for the asset or liability, the fair value measurement represents the price in that market.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include market approach, income approach and cost approach. Unobservable inputs are acceptable in valuation technique only when observable inputs are not available.

The fair value of a liability reflects the effect of non-performance risk. Non-performance risk includes, but may not be limited to, an entity's own credit risk. Non-performance risk is assumed to be the same before and after the transfer of the liability.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Financial instruments (Continued)

##### *(x) Transfer and derecognise of financial assets*

The Group derecognise the financial asset when substantially all the risks and rewards of ownership of the financial asset are transferred out.

On derecognition of a financial asset in its entirety, the difference between:

- the carrying amount (measured at the date of derecognition); and
- the consideration received is recognised in profit or loss.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset shall be allocated between the part that continues to be recognised and the part that is derecognised, on the basis of the relative fair values of those parts on the date of the transfer. The difference between:

- the carrying amount (measured at the date of derecognition) allocated to the part derecognised; and
- the consideration received for the part derecognised is recognised in profit or loss.

If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the entity shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. In subsequent periods, the entity shall recognise any income on the transferred asset and any expense incurred on the financial liability.

##### *(xi) Derivative financial instruments*

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments other than those designed as hedge instrument are recognised in profit or loss. All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate.

##### *(xii) Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realizing the asset and settling the liability simultaneously.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue from contracts with customers

An entity shall account for a contract with a customer that is within the scope of this Standard only when all of the following criteria are met:

- the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
- the entity can identify each party's rights regarding the goods or services to be transferred;
- the entity can identify the payment terms for the goods or services to be transferred;
- the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
- it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

When a contract with a customer does not meet the criteria stated above and an entity receives consideration from the customer, the entity shall recognise the consideration received as revenue only when either of the following events has occurred the entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable, otherwise the consideration received from a customer should be considered as a contract liability.

Revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service. The Group shall consider indicators of the transfer of control, which include, but are not limited to, the following:

- The Group has a present right to payment for the asset and a customer is presently obliged to pay for an asset.
- The Group has transferred physical possession of the asset and the customer has obtained physical possession of an asset.
- The customer has accepted the good for service.
- Other indicators of the transfer of control of the good or service to the customer.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue from contracts with customers (Continued)

Details are as followed:

##### (i) *Fee and commission income*

- Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed.
- Handling and settlement fee income arising from brokerage business is recognised when the related services are rendered.
- Commission income of the agency custody of securities business is recognised when service has been completed.
- Underwriting and sponsors fees are recognised as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed;
- Asset and fund management fee income is recognised when the services are provided and the Group is entitled to receive the income under the asset management agreement.

##### (ii) *Interest income*

Interest income from a financial asset is accrued on a timely basis using the effective interest method.

##### (iii) *Other income*

Other income is recognised when the service are provided.

##### (iv) *Investment income from equity investments*

Investment income from equity investments under cost method is recognised when the shareholder's right to receive payment has been established; investment loss from equity investments under equity method is up to the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture).

##### (v) *Income from financial instruments*

Please refer to note 3 Financial instruments for the income from financial instruments.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Provision

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and the amount of the obligation can be reliably measured.

The amount recognised as provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organization, management requirements and internal reporting system. Each of the Group's operating segments represents a strategic business unit that offers services which are subject to risks and returns that are different from the other operating segments.

Two or more operating segments may be aggregated into a single operating segment if the segments have same or similar economic characteristics and are similar in respect of the nature of each products and service, the nature of production processes, the type or class of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Financial performance is regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance, and for which consolidated financial statements regarding financial position, financial performance and cash flows is available.

Intersegment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Group is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group include, but are not limited to:

- the Company's parent/actual controller;
- the Company's subsidiaries;
- enterprises that are controlled by the Company's parent;
- investors that have joint control or exercise significant influence over the Group;
- enterprises or individuals if a party has control or joint control over both the enterprises or individuals and the Group;
- joint ventures of the Group, including subsidiaries of joint ventures;
- associates of the Group, including subsidiaries of associates;
- principal individual investors of the Group and close family members of such individuals;
- key management personnel of the Group and close family members of such individuals;
- key management personnel of the Company's parent;
- close family members of key management personnel of the Company's parent;
- other enterprises that are controlled or jointly controlled by the principal individual investors, key management personnel of the Group, and close family members of such individuals; and
- a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### Critical judgments in applying accounting policies

The followings are the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

#### *Determination of consolidation scope*

All facts and circumstances must be taken into consideration in the assessment of whether the Group, as an investor and/or as an investment manager, controls the investee. The principle of control sets out the following three elements of control: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) the ability to use power over the investee to affect the amount of the investor's returns. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

For collective asset management schemes, investment funds and limited partnership where the Group involves as manager and also as investor, the Group assesses whether the combination of investments it holds together with its remuneration and credit enhancement creates exposure to variability of returns from the activities of the collective asset management schemes, investment funds and limited partnership that is of such significance that it indicates that the Group is a principal. The collective asset management schemes, investment funds and limited partnership are consolidated if the Group has control.

#### *Classification of financial assets*

The classification and measurement of financial assets depend on contractual cash flow test and business model test. The Group will consider all the relevant evidence in the business model test, including the way the performance of financial assets are evaluated and reported to the key management, the risk affected the performance of financial asset and how the risk are managed, as well as how the management are paid. The group also needs to judge whether the contractual cash flow generated by financial assets is only the payment of the principal and interest based on the principal outstanding.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

#### Key sources of estimation uncertainty

##### *Measurement of ECL*

##### **Significant increase in credit risk**

Under ECL model, impairment provision equal to 12-month ECL is recognised for stage 1 financial assets and impairment provision equal to lifetime ECL is recognised for stage 2 and stage 3 financial assets. The Group will consider quantitative and qualitative forward-looking information with reasonable basis to assess the credit risk increase.

##### **Establishment of assets group with similar risk characteristics**

When the expected credit loss is measured on group basis, the financial instruments are grouped by similar characteristics of risk. The Group continuously assesses whether these financial instruments continue to maintain similar credit risk characteristics, so as to ensure that once the characteristics of credit risk change, the financial instruments will be appropriately reclassified. This may result in new assets group or reclassification of assets to certain existing assets group, so as to better reflect the similar credit risk characteristics of which category of assets.

##### **Use of model and assumption**

The Group adopts different models and assumptions to assess the fair value and expected credit loss of financial assets. The Group determines the applicable model for each category of financial assets using judgement so as to determine the assumptions used by such models, including assumptions relating to the key drivers of credit risk.

##### **Forward-looking information**

In assessing the expected credit loss, the Group used reasonable forward-looking information with basis. Such information is based on the assumption of future trend of different economic driving factors, and the assumption of how these economic driving factors affect each other.

##### **Probability of default**

The probability is key input of expected credit risk. The probability of default is the estimates of possibility of default in certain period of time. The calculation involves historical information, assumption and expectation on future conditions.

## **Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### **4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)**

#### **Key sources of estimation uncertainty (Continued)**

##### ***Measurement of ECL (Continued)***

##### **Loss given default**

Loss given default is the estimate of loss arising from default. It is based on the difference between contractual cash flows and the cash flows expected to be received by the borrower, and also considered the cash flows from pledge assets and overall credit enhancement.

For details of above significant judgement and estimates on ECL, refer to note 63(2).

##### ***Fair value of financial instruments***

The Group uses valuation techniques to estimate the fair value of financial instruments which are not quoted in an active market. These valuation techniques use observable inputs and data of the market. When the market observable inputs are not available, the Group make estimate on the significant unobservable inputs and data.

Refer to note 64 for more details on fair value measurement.

##### **Income taxes and deferred tax assets**

There are certain transactions and activities for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

The realization of a deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future.

In cases where it becomes probable that sufficient profits or taxable temporary differences are expected to be generated, deferred tax assets would be recognised in profit or loss in that period. On the contrary, if sufficient profits or taxable temporary differences are not expected to be generated, deferred tax assets would be reversed in profit or loss in that period. Details of the tax losses and deductible temporary differences are disclosed in note 27 to consolidated financial statements. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 5 TAXATION

The Group's main applicable taxes and tax rates are as follows:

Tax type	Tax basis	Tax rates
Value added tax	Based on taxable revenue	6%
City maintenance and construction tax	Based on value added tax accrued	7%
Enterprise income tax	Based on taxable profits	15%, 25% (Note)
Education surcharge	Based on value added tax accrued	2%–3%

Under the Law of the PRC on EIT and implementation regulation of the EIT Law, the tax rate of the Company and its subsidiaries established in the PRC is 25% during the year, except for as mentioned below.

Upon the approval of the Regulation on the EIT Preferential Policies for the Development of Western China by Ganzhou City (Trial) (「贛州市執行西部大開發企業所得稅優惠政策管理辦法(試行)」), from January 1, 2012 to December 31, 2020, the Company is subject to a tax rate of 15%. The subsidiaries of the Group incorporated in Ganzhou namely, Ganzhou China Merchants Zhiyuan No. 1 Fund Management Co., Ltd. and Ganzhou Zhaoyuan Investment Management Co., Ltd. are subject to the above preferential tax rate of 15% from January 1, 2012 to December 31, 2020.

In accordance with the "Circular regarding the Value-added Taxes Policies for Financial, Real Estate Development and Education Ancillary and Other Services" (Cai Shui [2016] No.140), the "Supplementary Circular regarding Issues concerning Value-added Taxes Policies for Asset Management Products" (Cai Shui [2017] No.2) and the "Circular on the Relevant Issues concerning Value-added Tax Levied on Asset Management Products" (Cai Shui [2017] No.56), the Group shall pay VAT at rate of 3% for related asset management taxable activities undertaken after 1 January 2018.

Note: On March 21, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

### 6 SEGMENT INFORMATION

#### (1) Business segment

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

- (i) Brokerage and wealth management segment engages in the trading of stocks and futures contracts on behalf of clients. Moreover, the activities of providing margin financing, securities lending and selling financial products and other wealth management products are included in this segment.



**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**6 SEGMENT INFORMATION (Continued)****(1) Business segment (Continued)**

- (ii) Investment banking segment provides investment banking services to the Group's institutional clients, including financial advisory, equity underwriting, debt underwriting and sponsorship.
- (iii) Investment management segment primarily engages in assets management, investing advisory and deal execution services. Moreover, the investment income from private equity investment management and alternative investment are included in this segment.
- (iv) Investment and trading segment engages in trading equity securities, fixed-income securities, derivatives, other financial products and market maker service.
- (v) Others segment primarily includes head office operations, investment holding as well as interest income and interest expense incurred for generating working capital for general operation.

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

The operating and reportable segment information provided to the chief operating decision maker (hereinafter refer as "CODM") for the years ended December 31, 2018 and 2017 are as follows:

	Brokerage and wealth management	Investment banking	Investment management	Investment and trading	Others	Elimination	Total
<b>For the year ended December 31, 2018</b>							
Segment revenue and results							
Segment revenue	11,332,947	1,599,601	1,379,264	3,361,706	448,228	(61,557)	18,060,189
Segment other income and gains or losses	20,408	559	2,122	—	(13,730)	—	9,359
Segment revenue and other income	11,353,355	1,600,160	1,381,386	3,361,706	434,498	(61,557)	18,069,548
Segment expenses	(8,698,045)	(1,195,330)	(482,112)	(2,756,567)	(469,039)	61,557	(13,539,536)
Segment result	2,655,310	404,830	899,274	605,139	(34,541)	—	4,530,012
Share of results of associates	—	—	415	73,746	843,312	—	917,473
Profit before income tax	2,655,310	404,830	899,689	678,885	808,771	—	5,447,485
<b>As at December 31, 2018</b>							
Segment assets and liabilities							
Segment assets	121,418,925	434,552	10,258,167	161,933,307	16,817,015	(5,931,261)	304,930,705
Segment liabilities	(95,013,357)	(1,381,780)	(4,751,722)	(115,226,185)	(13,696,568)	5,931,261	(224,138,351)
Other segment information							
Amounts included in the measure of segment profit or loss or segment assets:							
Interest income	6,401,979	—	82,589	1,315,357	448,227	(61,557)	8,186,595

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 6 SEGMENT INFORMATION (Continued)

#### (1) Business segment (Continued)

	Brokerage and wealth management	Investment banking	Investment management	Investment and trading	Others	Elimination	Total
Interest expense	(3,761,016)	(22,861)	(73,227)	(2,544,958)	—	61,557	(6,340,505)
Capital expenditure	(328,150)	(13,599)	(398)	(15,008)	(97,708)	—	(454,863)
Depreciation and amortization	(179,155)	(2,853)	(2,274)	(3,988)	(28,121)	—	(216,391)
Impairment reversal (losses)	(125,280)	—	1,032	—	—	—	(124,248)
<b>For the year ended December 31, 2017</b>							
Segment revenue and results							
Segment revenue	12,280,672	2,576,365	1,740,228	2,454,347	947,837	(653,752)	19,345,697
Segment other income and gains or losses	10,136	244	9,884	293	(107,368)	—	(86,811)
Segment revenue and other income	12,290,808	2,576,609	1,750,112	2,454,640	840,469	(653,752)	19,258,886
Segment expenses	(8,893,220)	(1,505,031)	(461,140)	(1,957,618)	(834,562)	653,752	(12,997,819)
Segment result	3,397,588	1,071,578	1,288,972	497,022	5,907	—	6,261,067
Share of results of associates	—	—	6,641	17,386	821,462	—	845,489
Profit before income tax	3,397,588	1,071,578	1,295,613	514,408	827,369	—	7,106,556
<b>As at December 31, 2017</b>							
Segment assets and liabilities							
Segment assets	117,688,686	1,020,885	9,164,091	144,180,000	18,390,859	(4,800,966)	285,643,555
Segment liabilities	(110,412,559)	(1,626,307)	(4,197,663)	(80,310,418)	(14,563,870)	4,800,966	(206,309,851)
Other segment information							
Amounts included in the measure of segment profit or loss or segment assets:							
Interest income	6,297,157	—	67,962	59,145	947,837	(653,752)	6,718,349
Interest expense	(3,806,176)	(11,837)	(126,560)	(1,631,042)	—	653,752	(4,921,863)
Capital expenditure	(247,804)	(4,025)	(2,992)	(4,716)	(8,177)	—	(267,714)
Depreciation and amortization	(168,724)	(2,901)	(1,246)	(3,814)	(21,841)	—	(198,526)
Impairment reversal (losses)	(21,726)	—	—	(18,927)	—	—	(40,653)

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**6 SEGMENT INFORMATION (Continued)****(2) Geographical segments**

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

	Mainland China	Outside Mainland China	Total
<b>For the year ended December 31, 2018</b>			
Segment Revenue			
Revenue from external customers	17,339,582	720,607	18,060,189
Other income and gains or losses	18,091	(8,732)	9,359
	<b>17,357,673</b>	<b>711,875</b>	<b>18,069,548</b>
<b>For the year ended December 31, 2017</b>			
Segment Revenue			
Revenue from external customers	18,136,813	1,208,884	19,345,697
Other income and gains or losses	(97,889)	11,078	(86,811)
	<b>18,038,924</b>	<b>1,219,962</b>	<b>19,258,886</b>

**Specified non-current assets**

	Mainland China	Outside Mainland China	Total
<b>As at December 31, 2018</b>			
Specified non-current assets	10,059,423	107,187	10,166,610
<b>As at December 31, 2017</b>			
Specified non-current assets	9,468,173	82,578	9,550,751

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 6 SEGMENT INFORMATION (Continued)

#### (3) Information about major customers:

There were no customers (December 31, 2017: no customers) for the year ended December 31, 2018 contributing over 10% of the total revenue of the Group.

### 7 FEE AND COMMISSION INCOME

	Year ended December 31,	
	2018	2017
Securities and futures brokerage business	4,255,295	5,412,952
Underwriting and sponsorship business	1,293,606	2,105,474
Asset management and fund management business	1,212,667	1,172,106
Financial advisory business	338,933	489,306
Others <sup>(i)</sup>	653,031	570,562
	<b>7,753,532</b>	<b>9,750,400</b>

<sup>(i)</sup> Others mainly comprise of custodian fee income and consultancy fee income received or receivable by the Group.

### 8 INTEREST INCOME

	Year ended December 31,	
	2018	2017
Interest income from deposits with exchanges and financial institutions	1,491,624	1,440,688
Interest income from advances to customers and securities lending	3,693,823	3,977,022
Interest income from securities-backed lending and stock repurchase agreement	1,678,565	1,241,576
Interest income from other financial assets held under resale agreements	96,243	59,063
Interest income on debt instruments at amortised cost	100,545	
Interest income from debt instruments at fair value through other comprehensive income	1,120,066	
Others	5,729	—
	<b>8,186,595</b>	<b>6,718,349</b>

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**9 NET INVESTMENT GAINS**

	Year ended December 31,	
	2018	2017
Dividend from available-for-sale financial assets	—	837,856
Dividend from financial assets at fair value through profit or loss	3,020,205	2,328,083
Dividend from financial assets at fair value through other comprehensive income	587,970	—
Net realized losses from disposal of available-for-sale financial assets	—	(164,280)
Net realized losses from disposal of debt instruments measured at fair value through other comprehensive income	(22,463)	—
Net realized losses from disposal of financial assets at fair value through profit or loss	(1,365,191)	(855,618)
Net realized losses from disposal of financial liabilities at fair value through profit or loss	(171,549)	(17,417)
Net realized gains(losses) from derivatives financial instruments	713,094	(261,659)
Unrealised fair value change of financial instruments at fair value through profit or loss		
— Financial assets at fair value through profit or loss	(527,108)	876,046
— Financial liabilities at fair value through profit or loss	(153,192)	30,863
Unrealised fair value change of derivative financial instruments	38,296	103,074
	<b>2,120,062</b>	<b>2,876,948</b>

**10 OTHER INCOME AND GAINS OR LOSSES, NET**

	Year ended December 31,	
	2018	2017
Fee from tax withholding and remitting	40,843	26,074
Government grants <sup>(i)</sup>	18,130	18,899
Rental income	8,501	9,870
Foreign exchange losses, net	(75,487)	(150,379)
Others	17,372	8,725
	<b>9,359</b>	<b>(86,811)</b>

<sup>(i)</sup> Government grants represent the unconditional grants received by the Group from local government.

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**11 DEPRECIATION AND AMORTIZATION**

	Year ended December 31,	
	2018	2017
Depreciation of property and equipment	143,691	127,671
Amortization of other non-current assets	71,785	70,210
Amortization of other intangible assets	915	645
	<b>216,391</b>	<b>198,526</b>

**12 STAFF COSTS**

	Year ended December 31,	
	2018	2017
Salaries, bonus and allowances	2,974,992	3,557,753
Contributions to retirement benefits <sup>(1)</sup>	335,488	300,980
Other social welfare <sup>(2)</sup>	397,395	390,413
Others	142,605	142,855
	<b>3,850,480</b>	<b>4,392,001</b>

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

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

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

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**13 FEE AND COMMISSION EXPENSES**

	Year ended December 31,	
	2018	2017
Securities and futures brokerage business	1,101,053	1,376,949
Underwriting and sponsorship business	175,696	356,003
Asset management and fund management business	10,801	26,620
Financial advisory business	10,479	40,542
Others	7,026	13,153
	<b>1,305,055</b>	<b>1,813,267</b>

**14 INTEREST EXPENSES**

	Year ended December 31,	
	2018	2017
Long-term bonds payable	2,222,418	2,110,059
Financial assets sold under repurchase agreements	1,203,435	938,620
Structured notes	1,163,779	748,056
Short-term bond payables	978,333	500,671
Margin and securities refinancing	199,136	113,846
Accounts payable to brokerage clients	171,961	183,921
Placements from banks and other financial institutions	145,647	141,506
Borrowings	129,902	115,706
Short-term financing bills payables	97,843	—
Others	28,051	69,478
	<b>6,340,505</b>	<b>4,921,863</b>

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**15 OTHER OPERATING EXPENSES**

	Year ended December 31,	
	2018	2017
Operating lease rentals in respect of rented premises	418,765	396,472
Advertising and promotion expenses	259,651	235,183
Electronic equipment operation expenses	178,560	136,798
Business travel expenses	165,066	182,418
Post and communications expenses	150,837	171,031
General and administrative expenses	102,677	100,745
Stock exchange fees	85,716	87,005
Securities and futures investor protection funds	48,588	54,838
Auditors' remuneration	3,100	3,580
Sundry expenses	201,674	166,949
	<b>1,614,634</b>	<b>1,535,019</b>

**16 EXPECTED CREDIT LOSSES**

	Year ended December 31, 2018
Expected credit losses in respect of financial assets held under resale agreements (note 26)	58,935
Expected credit losses in respect of advances to customers (note 29)	59,038
Reversal of impairment in respect of accounts and other receivables (note 30)	(553)
Reversal of expected credit losses in respect of debt instrument at fair value through other comprehensive income (note 31)	(1,032)
Expected credit losses in respect of debt instruments at amortised cost (note 25)	4,649
	<b>121,037</b>



**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**17 INCOME TAX EXPENSES**

	Year ended December 31,	
	2018	2017
Current tax:		
— PRC Enterprise Income Tax (“EIT”)	1,005,895	1,046,702
— Hong Kong Profits Tax	17,948	32,081
	<b>1,023,843</b>	<b>1,078,783</b>
Under (over) provision in respect of prior years:		
— EIT	(4,091)	(361)
— Hong Kong Profits Tax	—	10,392
	<b>(4,091)</b>	<b>10,031</b>
Deferred taxation		
— Origination and reversal of temporary differences (note 27)	(18,528)	213,033
	<b>1,001,224</b>	<b>1,301,847</b>

The reconciliation between the income tax expense at the statutory tax rate of 25% and the effective tax rate is as follows:

	Year ended December 31,	
	2018	2017
<b>Profit before income tax</b>	<b>5,447,485</b>	<b>7,106,556</b>
Tax at the income tax rate of 25%	1,361,871	1,776,639
Tax effect of share of result of associates	(229,368)	(211,372)
Tax effect of expenses not deductible for tax purpose	36,647	26,778
Tax effect of income that are not taxable	(194,168)	(273,142)
Effect of different tax rates of subsidiaries	(11,518)	(26,670)
Tax effect of the losses not recognised	15,058	—
Utilization of tax losses previously not recognised	—	(417)
Adjustment in respect of prior years	(4,091)	10,031
Others	26,793	—
<b>Income tax expense for the year</b>	<b>1,001,224</b>	<b>1,301,847</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 17 INCOME TAX EXPENSES (Continued)

As at December 31, 2018, the estimated unused tax losses for the Group's subsidiaries were RMB77,301 thousand (December 31, 2017: RMB61,315 thousand), no deferred tax asset had been recognised in relation to such item in the consolidated statement of financial position due to the unpredictability of future profit streams of the subsidiaries. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax assets may arise, which would be recognised in the consolidated statement of profit or loss and other comprehensive income for the period in which such recognition takes place.

### 18 EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

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

	Year ended December 31,	
	2018	2017
Earnings for the purpose of basic earnings per share:		
Profit attributable to Shareholders of the Company and holders of other equity instruments	4,424,986	5,785,956
Less: Profit attributable to holders of perpetual subordinated bonds	(802,090)	(592,196)
Sub-total	3,622,896	5,193,760
Number of shares:		
Weighted average number of shares in issue (in thousand)	6,699,409	6,699,409
Earnings per share:		
Earnings per share (RMB)	0.54	0.78

For the years ended December 31, 2018 and 2017, there were no potential ordinary shares in issue, thus no diluted earnings per share is presented.

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**19 PROPERTY AND EQUIPMENT**

	Leasehold land and buildings	Motor vehicles	Electronic and communication equipment	Office equipment	Construction in progress	Total
<b>Cost</b>						
As at January 1, 2018	390,881	64,730	696,293	59,797	1,185,068	2,396,769
Additions	—	3,211	60,674	1,455	347,534	412,874
Disposals	—	(2,939)	(20,362)	(29,841)	—	(53,142)
Transfer	938,976	—	12,633	26,045	(1,410,254)	(432,600)
Transfer to other non-current assets (note 28)	—	—	—	—	(41,504)	(41,504)
Exchange differences	—	114	3,343	1,681	1,255	6,393
As at December 31, 2018	1,329,857	65,116	752,581	59,137	82,099	2,288,790
<b>Accumulated depreciation and impairment</b>						
As at January 1, 2018	197,550	42,973	279,152	45,007	—	564,682
Charge for the year	12,513	6,875	114,307	9,996	—	143,691
Disposals	—	(2,860)	(18,975)	(29,708)	—	(51,543)
Exchange differences	—	97	2,228	843	—	3,168
As at December 31, 2018	210,063	47,085	376,712	26,138	—	659,998
<b>Carrying values</b>						
<b>As at December 31, 2018</b>	<b>1,119,794</b>	<b>18,031</b>	<b>375,869</b>	<b>32,999</b>	<b>82,099</b>	<b>1,628,792</b>
<b>Cost</b>						
As at January 1, 2017	385,382	65,604	546,777	58,612	1,206,606	2,262,981
Additions	5,499	3,844	95,047	5,556	129,149	239,095
Disposals	—	(4,506)	(38,432)	(2,052)	—	(44,990)
Transfer	—	—	96,664	—	(96,664)	—
Transfer to other non-current assets (note 28)	—	—	—	—	(52,612)	(52,612)
Exchange differences	—	(212)	(3,763)	(2,319)	(1,411)	(7,705)
As at December 31, 2017	390,881	64,730	696,293	59,797	1,185,068	2,396,769
<b>Accumulated depreciation and impairment</b>						
As at January 1, 2017	185,095	40,330	220,455	37,931	—	483,811
Charge for the year	12,455	7,102	97,456	10,658	—	127,671
Disposals	—	(4,296)	(36,218)	(1,951)	—	(42,465)
Exchange differences	—	(163)	(2,541)	(1,631)	—	(4,335)
As at December 31, 2017	197,550	42,973	279,152	45,007	—	564,682
<b>Carrying values</b>						
<b>As at December 31, 2017</b>	<b>193,331</b>	<b>21,757</b>	<b>417,141</b>	<b>14,790</b>	<b>1,185,068</b>	<b>1,832,087</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 19 PROPERTY AND EQUIPMENT (Continued)

As at December 31, 2018, included in leasehold land and buildings, there are carrying values of RMB951,782 thousand (December 31, 2017: RMB13,601 thousand), for which the Group is in the progress to obtain the relevant land and building certificates. The directors of the Company consider that these will not have significant impact on the consolidated financial statements for the year ended December 31, 2018.

As the lease payments included in the Group's leasehold land and buildings cannot be allocated reliably between the land and buildings, the entire leases are classified as finance lease and accounted for as property and equipment.

The leasehold land and buildings of the Group are situated in the PRC and held under medium-term lease.

### 20 INTERESTS IN CONSOLIDATED STRUCTURED ENTITIES

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

The financial impact of these structured on the Group's financial position as at December 31, 2018 and 2017, and the results and cash flows for the years ended December 31, 2018 and 2017, though consolidated, are not significant and therefore not disclosed separately.

As at December 31, 2018, the Group consolidated 13 (December 31, 2017: 8) structured entities. The total assets of the consolidated structured entities are RMB6,625,393 thousand (December 31, 2017: RMB5,497,332 thousand) within which are RMB6,363,118 thousand of investments accounted for as financial assets at fair value through profit or loss (December 31, 2017: available-for-sale investments and financial assets at fair value through profit or loss in total: RMB3,789,261 thousand).

### 21 INTERESTS IN ASSOCIATES

	As at December 31,	
	2018	2017
Cost of unlisted investments in associates	5,545,940	5,545,940
Share of post-acquisition profits and other comprehensive income, net of dividends received	3,411,134	2,612,707
	<b>8,957,074</b>	<b>8,158,647</b>
Impairment loss	(669,150)	(669,150)
	<b>8,287,924</b>	<b>7,489,497</b>

**Notes to the Consolidated Financial Statements (Continued)**

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**21 INTERESTS IN ASSOCIATES (Continued)**

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

Name of associate	Place and date of incorporation/ establishment	Equity interest held by the Group		Principal activities
		December 31,		
		2018	2017	
Bosera Asset Management Co., Ltd.	PRC/July 13, 1998	49%	49%	Fund management
China Merchants Fund Management Limited	PRC/December 27, 2002	45%	45%	Fund management
Guangdong Equity Exchange Center Co., Ltd <sup>(i)</sup>	PRC/July 6, 2018	12%	—	Transaction settlement services
China Merchants Xiangjiang Industrial Investment Management Co., Ltd.	PRC/March 13, 2008	40%	40%	Investment management
Qingdao Asset Management Co., Ltd.	PRC/September 21, 2015	30%	30%	Investment management
Twenty-first Century Technology Investment Co., Ltd <sup>*(ii)</sup>	PRC/June 19, 2000	23%	23%	Investment holding

\* English name translated is for identification purpose only.

<sup>(i)</sup> The Company engaged in the combination of Guangdong Equity Exchange Co., Ltd. and Guangzhou Equity Exchange Co., Ltd with a contribution of the Company's share of net asset after evaluation in Guangdong Equity Exchange Co., Ltd. According to the capital verification report of Guangdong Equity Exchange Center Co., Ltd., as at December 31, 2018, the Company had completed the capital injection of the registered capital (paid-in capital) and held 37,374,805 shares of Guangdong Equity Exchange Center Co., Ltd, representing an approximately 12.01% of total share capital of the company.

<sup>(ii)</sup> This associate went into liquidation, and impairment losses have been fully recognised.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 21 INTERESTS IN ASSOCIATES (Continued)

Summarised financial information of the Group's material associates, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

#### Bosera Asset Management Co., Ltd.

	As at December 31,	
	2018	2017
Total assets	6,713,006	5,556,617
Total liabilities	(2,520,017)	(2,065,326)
Net assets	4,192,989	3,491,291
Revenue	3,165,355	3,102,162
Profit for the year	903,445	938,740
Other comprehensive expense	(1,747)	(7,987)
Total comprehensive income	901,698	930,753
Dividends declared by the associate attributable to the Group	98,000	147,000
Net assets of the associate attributable to the parent company	4,192,989	3,491,291
The Group's share of net assets of the associate	2,054,565	1,710,733
— Goodwill	3,425,523	3,425,523
— Impairment loss recognised <sup>(iii)</sup>	(669,150)	(669,150)
<b>Carrying amount in the consolidated financial statements</b>	<b>4,810,938</b>	<b>4,467,106</b>

<sup>(iii)</sup> As at December 31, 2014, the Company had recognised an impairment loss amounted to RMB669,150 thousand to the interests in Bosera Asset Management Co., Ltd. The recoverable amounts of RMB3,763,141 thousand had been determined by Vocational International (Beijing) Asset Appraisal Co., Ltd., a qualified valuer not related to the Group. The valuer determined the value-in-use by using cash flow projections which is based on financial budgets covering a five-year period approved by management. The pre-tax discount rates applied and growth rate used to extrapolate the cash flow projections is 10.78% and 9.2% respectively. The growth rates beyond the five-year period is nil for the forecast period.

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**21 INTERESTS IN ASSOCIATES (Continued)****China Merchants Fund Management Limited**

	As at December 31,	
	2018	2017
Total assets	6,611,837	6,647,796
Total liabilities	(1,739,623)	(2,672,134)
Net assets	4,872,214	3,975,662
Revenue	2,587,041	2,746,942
Profit for the year	893,913	803,068
Other comprehensive income (expense)	2,638	(2,191)
Total comprehensive income	896,551	800,877
Net assets of the associate attributable to the parent company	4,872,214	3,975,662
The Group's share of net assets of the associate	2,192,496	1,789,048
— Goodwill	199,545	199,545
<b>Carrying amount in the consolidated financial statements</b>	<b>2,392,041</b>	<b>1,988,593</b>

Aggregate information of associates that are not individually material:

	As at December 31,	
	2018	2017
The Group's share of profit for the year	72,524	24,126
The Group's share of other comprehensive income	(5)	—
The Group's share of total comprehensive income	72,519	24,126
Dividend declared by associate attributable to the Group	21,371	10,000
<b>Aggregate carrying amount of the Group's interests in these associates</b>	<b>1,084,944</b>	<b>1,033,798</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 22 INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

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

#### (1) Structured entities sponsored by the Group

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

As at December 31, 2018, the total assets of these unconsolidated structured entities managed by the Group amounted to RMB729,590,715 thousand (December 31, 2017: RMB784,148,000 thousand).

The amount of fee income derived from these unconsolidated structured entities managed by the Group are detailed in Note 7.

#### (2) Structured entities sponsored by third party institutions

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

The carrying amount of the related accounts in the consolidated statement of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by third party institutions as at December 31, 2018 and 2017, which are listed below:

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



**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**22 INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES (Continued)****(2) Structured entities sponsored by third party institutions (Continued)**

	As at December 31, 2017		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	—	20,683,969	20,683,969
Trust schemes	609,084	—	609,084
Wealth management products	51,280	754,966	806,246
Others	7,636,599	—	7,636,599
	<b>8,296,963</b>	<b>21,438,935</b>	<b>29,735,898</b>

**23 AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	As at December 31, 2017
<b>Non-current</b>	
Measure at fair value	
— Others	7,793,163
<b>Analyzed as:</b>	
Unlisted	7,793,163
<b>Current</b>	
Measure at fair value	
— Equity securities	1,227,110
— Debt securities	23,594,715
— Others	660,365
	<b>25,482,190</b>
<b>Analyzed as:</b>	
Listed outside Hong Kong	14,633,071
Unlisted	10,849,119
	<b>25,482,190</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 24 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at December 31, 2018
<b>Special accounts<sup>(i)</sup></b>	<b>6,722,607</b>

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

### 25 DEBT INSTRUMENTS AT AMORTISED COST

#### (1) Analyzed by nature

	As at December 31,	
	2018	2017
<b>Non-current</b>		
Bonds	1,796,608	—
<b>Current</b>		
Unsecured accounts receivable loan <sup>(i)</sup>	47,587	84,621
	<b>1,844,195</b>	<b>84,621</b>

- (i) As at December 31, 2018, customer loans receivable were charged at the annual interest rate 2.75% (December 31, 2017: 2.5%).

The movements of expected credit losses are as follows:

	As at December 31, 2018
At the end of prior year	—
Effects of initial application of IFRS 9	1,345
At the beginning of the year	1,345
Charge for the year	4,649
Exchange difference	110
<b>At the end of the year</b>	<b>6,104</b>

**Notes to the Consolidated Financial Statements (Continued)**

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**25 DEBT INSTRUMENTS AT AMORTISED COST (Continued)**

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

**26 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS****(1) Analyzed by collateral type and market of financial assets held under resale agreements:**

	As at December 31,	
	2018	2017
<b>Non-current</b>		
Analyzed by collateral type:		
Stock <sup>(i)</sup>	5,279,193	8,835,124
Analyzed by market:		
Stock exchanges	5,279,193	8,835,124
Less: Allowance for expected credit losses	(1,444)	(33,666)
	<b>5,277,749</b>	<b>8,801,458</b>
<b>Current</b>		
Analyzed by collateral type:		
Stock <sup>(i)</sup>	17,602,330	21,860,815
Bond	10,362,071	5,543,686
	<b>27,964,401</b>	<b>27,404,501</b>
Analyzed by market:		
Stock exchanges	19,787,735	23,122,759
Interbank bond market	8,176,666	4,281,742
	<b>27,964,401</b>	<b>27,404,501</b>
Less: Allowance for expected credit losses	(198,290)	(106,636)
	<b>27,766,111</b>	<b>27,297,865</b>

- (i) The financial assets (pledged by stock) held under resale agreements and securities back-lending are those resale agreements which the qualified investors entered into with the Group with a commitment to purchase the specified securities at a future date with an agreed price. As at December 31, 2018, the fair value of securities of the Group which have been received as collateral were RMB69,527,116 thousand (December 31, 2017: RMB78,137,257 thousand).

## Notes to the Consolidated Financial Statements (Continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

### 26 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

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

	2018	2017
At the end of prior year	140,302	87,335
Effects of initial application of IFRS 9	497	
At the beginning of the year	140,799	87,335
Expected credit losses recognised	58,935	52,967
<b>At the end of the year</b>	<b>199,734</b>	<b>140,302</b>

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

### 27 DEFERRED TAX ASSETS (LIABILITIES)

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

	As at December 31,	
	2018	2017
Deferred tax assets	868,510	903,214
Deferred tax liabilities	(148,764)	(235,002)
	<b>719,746</b>	<b>668,212</b>

**Notes to the Consolidated Financial Statements (Continued)**

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(Expressed in thousands of Renminbi, unless otherwise stated)

**27 DEFERRED TAX ASSETS (LIABILITIES) (Continued)**

The followings are the major deferred tax assets (liabilities) recognised and movements thereon during the year:

	Financial instruments at fair value through profit and loss/ derivatives	Accrued staff cost	Deferred income	Allowance for impairment losses	Fair value change of available-for-sale financial assets	Financial instruments at fair value through other comprehensive income	Property and equipment	Others	Total
At January 1, 2017	154,112	681,175	31,500	81,656	123,586	—	(545)	37,758	1,109,242
Credit to profit or loss	(212,440)	(13,285)	—	(5,581)	—	—	(1,794)	20,067	(213,033)
Credit to other comprehensive income	—	—	—	—	(228,096)	—	—	—	(228,096)
Exchange differences	—	2	—	—	—	—	97	—	99
At December 31, 2017	(58,328)	667,892	31,500	76,075	(104,510)	—	(2,242)	57,825	668,212
Effect of adoption of IFRS 9	42,784	—	—	(14,218)	104,510	(133,372)	—	—	(296)
At January 1, 2018	(15,544)	667,892	31,500	61,857	—	(133,372)	(2,242)	57,825	667,916
Credit (charge) to profit or loss	125,818	(103,734)	(67)	26,894	—	—	(1,126)	(29,252)	18,533
Credit to other comprehensive income	—	—	—	—	—	33,409	—	—	33,409
Exchange difference	—	—	—	—	—	—	(108)	(4)	(112)
At December 31, 2018	110,274	564,158	31,433	88,751	—	(99,963)	(3,476)	28,569	719,746

**28 OTHER NON-CURRENT ASSETS****(1) Analyzed by nature**

	As at December 31,	
	2018	2017
Leasehold improvements and deferred expenses	221,103	197,917

## Notes to the Consolidated Financial Statements (Continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

### 28 OTHER NON-CURRENT ASSETS (Continued)

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

	As at December 31,	
	2018	2017
At the beginning of year	197,917	195,050
Additions	53,467	20,465
Transfer from construction in progress (note 19)	41,504	52,612
Amortization	(71,785)	(70,210)
<b>At the end of year</b>	<b>221,103</b>	<b>197,917</b>

### 29 ADVANCES TO CUSTOMERS

(1) Analyzed by nature

	As at December 31,	
	2018	2017
Loans to margin clients	43,119,896	59,318,439
Less: impairment losses in respect of advances to customers	(143,466)	(83,013)
	<b>42,976,430</b>	<b>59,235,426</b>

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

The majority of the loans to margin clients which are secured by the underlying pledged securities and cash collateral as disclosed in note 41 are interest bearing. The Group maintains a list of approved stocks for margin lending at a specified loan-to-collateral ratio. Any excess in the lending ratio will trigger a margin call upon which the customers have to make up the difference.

**Notes to the Consolidated Financial Statements (Continued)**

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**29 ADVANCES TO CUSTOMERS (Continued)****(2) Analyzed by fair value of collateral of margin financing and securities lending business**

	As at December 31,	
	2018	2017
<b>Collateral measured at fair value:</b>		
Cash	5,123,777	5,009,363
Debt securities	7,718,425	3,111,363
Equity securities	109,524,319	167,987,579
Funds	1,412	369,368
	<b>122,367,933</b>	<b>176,477,673</b>

**(3) The movements of allowance of impairment losses are as below**

	As at December 31,	
	2018	2017
At the end of prior year	83,013	111,343
Effects of initial application of IFRS 9	803	
At the beginning of the year	83,816	111,343
Impairment losses recognised	59,038	3,154
Reversal of impairment losses	—	(31,071)
Exchange differences	612	(413)
<b>At the end of the year</b>	<b>143,466</b>	<b>83,013</b>

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

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

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

## Notes to the Consolidated Financial Statements (Continued)

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### 30 ACCOUNTS AND OTHER RECEIVABLES

#### (1) Analyzed by nature

	As at December 31,	
	2018	2017
<b>Accounts and other receivables from/related to:</b>		
Clearing houses, brokers and dealers	2,007,388	1,274,770
Commission and fee income	656,413	566,700
Other receivables	238,457	93,915
Interest receivables <sup>(i)</sup>		1,894,871
Prepayments	79,366	75,597
Other tax assets	34,668	429,403
Others	285,324	180,188
	<b>3,301,616</b>	<b>4,515,444</b>
Less: Expected credit losses of accounts and other receivables	(3,613)	(4,166)
	<b>3,298,003</b>	<b>4,511,278</b>

- (i) As at December 31, 2018, the interests accrued on debt instrument investments of the Group are included in the carrying amounts of the corresponding financial assets.

#### (2) Analyzed by aging

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

	As at December 31, 2018		As at December 31, 2017	
	Amount	Impairment allowance	Amount	Impairment allowance
Within 1 year	689,262	(115)	673,552	(152)
Between 1 and 2 years	16,075	(381)	26,293	(897)
Between 2 and 3 years	3,176	—	747	—
After 3 years	449	—	—	—
	<b>708,962</b>	<b>(496)</b>	<b>700,592</b>	<b>(1,049)</b>



**Notes to the Consolidated Financial Statements (Continued)**

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**31 DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME****(1) Analyzed by type**

	As at December 31, 2018
<b>Current</b>	
Bonds issued by policy banks	11,970,815
Government bonds	11,964,323
Bonds issued by commercial banks and other financial institutions	4,005,409
Other debt securities (Note)	13,701,794
	<b>41,642,341</b>

Note: Other debt securities mainly comprise of corporate bonds, enterprise bonds and medium term notes.

**(2) Movements of allowances for expected credit losses is as below:**

	As at December 31, 2018
At the end of prior year	—
Effects of initial application of IFRS 9	7,217
At the beginning of the year	7,217
Reversal of expected credit losses	(1,032)
<b>At the end of the year</b>	<b>6,185</b>

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

**Notes to the Consolidated Financial Statements (Continued)**

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**32 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS****(1) Analyzed by type**

	As at December 31,	
	2018	2017
<b>Current</b>		
Financial assets held-for-trading		71,140,059
Financial assets designated at fair value through profit or loss		1,930,226
Financial assets mandatorily measured at fair value through profit or loss	97,921,779	
	<b>97,921,779</b>	<b>73,070,285</b>
<b>Non-current</b>		
Financial assets mandatorily measured at fair value through profit or loss	2,202,967	

**(2) Financial assets held-for-trading**

	As at December 31, 2017
Debt securities	36,606,423
Equity securities	12,147,941
Funds	20,683,969
Others	1,701,726
	<b>71,140,059</b>
Analyzed as:	
Listed in Hong Kong	201,224
Listed outside Hong Kong	19,194,845
Unlisted	51,743,990
	<b>71,140,059</b>

**Notes to the Consolidated Financial Statements (Continued)**

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**32 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)****(3) Financial assets designated at fair value through profit or loss**

	As at December 31, 2017
Equity securities	415,378
Others <sup>(i)</sup>	1,514,848
	<b>1,930,226</b>
Analyzed as:	
Unlisted <sup>(ii)</sup>	<b>1,930,226</b>

(i) Others mainly represent investments in funds and partnerships invested by the Group.

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

**(4) Financial assets mandatorily measured at fair value through profit or loss**

	As at December 31, 2018
<b>Current</b>	
Debt securities	67,139,386
Equity investments	6,840,221
Funds	20,750,896
Others <sup>(i)</sup>	3,191,276
	<b>97,921,779</b>
<b>Non-current</b>	
Equity investments <sup>(ii)</sup>	<b>2,202,967</b>

(i) Others mainly represent investments in collective asset management schemes.

(ii) Equity investments comprise of unlisted equity investments and investments in limited partnerships.

Fair value of the Group's financial assets at fair value through profit or loss are determined as described in note 64.

As at December 31, 2018, the Group entered into securities lending arrangement with clients that resulted in the transfer of equity securities under held for trading with total fair values of RMB357,730 thousand (December 31, 2017: RMB304,291 thousand) to clients. These securities continued to be recognised as financial assets of the Group.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 33 DERIVATIVE FINANCIAL INSTRUMENTS

	As at December 31, 2018			As at December 31, 2017		
	Notional principal amounts	Fair Value		Notional principal amounts	Fair Value	
		Assets	Liabilities		Assets	Liabilities
<b>Interest derivative instrument</b>						
Interest rate swaps	93,585,000	394,434	392,849	27,460,000	112,806	112,576
Bond futures <sup>(i)</sup>	7,997,256	—	1,655	6,174,058	700	—
<b>Equity derivative instrument</b>						
Equity return swaps	1,152,517	210,192	19,477	378,703	38,633	3,665
Stock index futures <sup>(i)</sup>	3,403,365	—	18	2,585,324	—	1,241
Options <sup>(ii)</sup>	6,602,796	49,823	166,537	8,231,934	135,580	363,915
<b>Credit derivatives</b>						
Credit default swap	50,000	489	1,123	—	—	—
<b>Other derivative instrument</b>						
Commodity futures <sup>(i)</sup>	9,555,315	446,665	446,316	16,352,337	469,952	990,684
Commodity swaps	2,782,782	10,486	264,023	2,304,355	262,359	—
Commodity	1,160,802	38,143	12,205	—	—	—
Forward contracts	98,172	—	1,482	3,314,162	1,610	112,829
	<b>126,388,005</b>	<b>1,150,232</b>	<b>1,305,685</b>	<b>66,800,873</b>	<b>1,021,640</b>	<b>1,584,910</b>

<sup>(i)</sup> Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in the PRC stock index futures, treasury bond futures and commodity futures contracts were settled daily and the corresponding receipts and payments were included in "clearing settlement funds". Accordingly, the net onshore position of these contracts was nil at the year-end date.

<sup>(ii)</sup> Options: Included in options are over-the-counter options, exchanged-traded options and embedded derivatives of structure notes.

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**34 DEPOSITS IN EXCHANGES AND NON-BANK FINANCIAL INSTITUTIONS**

	As at December 31,	
	2018	2017
<b>Deposits in stock exchanges and clearing houses:</b>		
China Securities Depository and Clearing Corporation Limited	446,899	428,916
Shanghai Clearing House	70,109	27,380
Hong Kong Securities Clearing Company Limited	44,169	80,548
London Stock Exchange	409,310	265,051
Hong Kong Stock Exchange	1,507	1,330
China Beijing Equity Exchange	1,184	3,076
<b>Deposits in futures and commodity exchanges and financial institutions:</b>		
Pingan Futures Co., Ltd.	190,051	—
Yongan Futures Co., Ltd.	129,879	107,842
CITIC Futures Co., Ltd.	59,549	144,955
Jianxin Futures Co., Ltd.	22,889	126,553
Hong Kong Futures Exchange	15,913	—
Nanhua Futures Co., Ltd.	11,913	6,786
China Financial Futures Exchange	10,057	10,057
Shanghai Gold Exchange	7,972	11,769
Huatai Futures Co., Ltd.	5,887	—
Chicago Mercantile Exchange	3,432	3,267
Haitong Futures Co., Ltd.	—	6,279
Other	700	669
	<b>1,431,420</b>	<b>1,224,478</b>

**Notes to the Consolidated Financial Statements (Continued)**

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**35 CLEARING SETTLEMENT FUNDS**

	As at December 31,	
	2018	2017
Clearing settlement funds held with clearing houses for:		
House accounts	3,913,233	3,983,803
Clients	9,883,048	10,026,688
	<b>13,796,281</b>	<b>14,010,491</b>

These clearing settlement funds are held by the clearing houses for the Group and these balances carry interest at prevailing market interest rates.

**36 CASH AND BANK BALANCES**

	As at December 31,	
	2018	2017
House accounts	7,229,886	9,387,884
Pledge and restricted bank deposits		
— Restricted bank deposit for purchase of bond and stock	59,414	742,749
Bank balances — house account	7,289,300	10,130,633
Cash held on behalf of customers	40,144,484	42,526,062
	<b>47,433,784</b>	<b>52,656,695</b>

**37 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise the followings:

	As at December 31,	
	2018	2017
Bank balances — house accounts (note 36)	7,289,300	10,130,633
Clearing settlement funds — house accounts (note 35)	3,913,233	3,983,803
Less: Pledged and restricted bank deposit (note 36)	(59,414)	(742,749)
	<b>11,143,119</b>	<b>13,371,687</b>

**Notes to the Consolidated Financial Statements (Continued)**

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(Expressed in thousands of Renminbi, unless otherwise stated)

**38 SHORT TERM BORROWINGS**

	As at December 31,	
	2018	2017
<b>Current</b>		
Secured bank loans <sup>(i)</sup>	1,576,882	2,376,360
Unsecured bank loans	—	4,235,084
Interest accrued	4,979	
	<b>1,581,861</b>	<b>6,611,444</b>

- (i) As at December 31, 2018, the Group pledged securities with market value amounting to RMB3,618.36 million (December 31, 2017: RMB4,136.41 million) for these loans. The Group's short-term secured bank loans bore interest rates ranging from 1.25% to 4.90% (December 31, 2017: 1.3% to 2.7%) per annum.

**39 SHORT-TERM DEBT INSTRUMENTS**

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 39 SHORT-TERM DEBT INSTRUMENTS (Continued)

	Nominal interest rate	As at January 1, 2017	Issuance/ Other Transfer	Redemption	As at December 31, 2017
Short-term bond payables <sup>(i)</sup>	4.60%-5.10%	1,000,000	38,050,000	16,020,000	23,030,000
Principals of structured notes <sup>(iii)</sup>	4.30%-5.55%	20,782,330	38,039,580	34,806,240	24,015,670
		<b>21,782,330</b>	<b>76,089,580</b>	<b>50,826,240</b>	<b>47,045,670</b>

(i) Short-term bond payables

As at December 31, 2018, the short-term bond payables bore interest rates ranging from 3.78% to 5.30% (December 31, 2017: 4.60% to 5.10%) with a period of 206 days to 365 days.

(ii) Short-term financing bills payables

As at December 31, 2018, the short-term financing bill payables were debt securities issued in the PRC Inter-Bank market by the Group and bore interest rates ranging from 3.13% to 3.15% per annum. As at December 31, 2017, the group has no balance of short-term financing bill payable.

(iii) Principals of structured notes

As at December 31, 2018, the amount represents principals received from investors for subscription of structured notes issued by the Group. The structured notes bore interest rates ranging from 3.00% to 5.50% (December 31, 2017 : 4.30% to 5.55%), or variable rates linked to certain stock index. The principals and interests are repayable upon maturity within one year. The structured notes with variable rate contain non-closely related derivative as their returns are linked to the fluctuation of stock index. For those embedded derivatives, they are accounted for as derivatives in note 33 after being bifurcated from their respective host contracts.

### 40 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	As at December 31,	
	2018	2017
Placement from banks <sup>(i)</sup>	1,500,000	1,470,000
Placement from other financial institutions <sup>(ii)</sup>	2,000,000	—
Interest accrued	19,000	
	<b>3,519,000</b>	<b>1,470,000</b>

(i) As at December 31, 2018, the effective interest rate on due to banks was 3.00% (December 31, 2017: 4.82% to 8.50%) per annum. The amount is repayable within seven days from the end of the reporting period.

(ii) As at December 31, 2018, the effective interest rates on due to other financial institutions were ranging from 4.80% to 5.10%. The amounts are repayable within three months from the end of the reporting period.



**Notes to the Consolidated Financial Statements (Continued)**

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**41 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS**

	As at December 31,	
	2018	2017
Clients' deposits for margin financing and securities lending	5,123,777	5,009,363
Clients' deposits for other brokerage business	43,787,971	46,085,972
	<b>48,911,748</b>	<b>51,095,335</b>

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

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

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

**42 ACCRUED STAFF COSTS**

	As at December 31,	
	2018	2017
<b>Non-current</b>		
Salaries, bonus and allowances	787,540	787,540
<b>Current</b>		
Salaries, bonus and allowances	3,561,933	4,565,385
Short-term social welfare	52,054	45,000
Defined contribution plans <sup>(i)</sup>	729	819
Others	39,419	29,401
	<b>3,654,135</b>	<b>4,640,605</b>

<sup>(i)</sup> The defined contribution plans refer to social pension insurance plan and unemployment insurance plan required by the government, and annuity scheme launched by the Group. The Group participates in the social pension insurance plan and unemployment insurance plan pursuant to pertinent regulations and contributes to the funds set up by the Government on a monthly basis. Besides, the Group sets up annuity schemes and Mandatory Provident Fund Scheme for qualified employees in the PRC and Hong Kong and contributes to the schemes which are managed by third parties on an annual basis or on a monthly basis.

The total expense recognised in profit or loss of RMB340,465 thousand (2017: RMB306,115 thousand) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at December 31, 2018, contributions of RMB729 thousand due in respect of the year ended December 31, 2018 had not been paid over to the plans (December 31, 2017: RMB819 thousand). The amounts were paid subsequent to the end of the year.

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**43 OTHER PAYABLES AND ACCRUED CHARGES**

	As at December 31,	
	2018	2017
Settlement payables to brokers and clearing house	1,560,595	1,490,465
Interest payables on perpetual bond	592,196	592,196
Deposits of equity return swaps <sup>(i)</sup>	458,577	379,034
Other tax payable	424,507	213,359
Commission and handling fee payable	109,498	103,566
Futures risk reserve	73,510	65,841
Interest payables <sup>(ii)</sup>		2,044,607
Others <sup>(iii)</sup>	305,318	133,476
	<b>3,524,201</b>	<b>5,022,544</b>

- (i) As at December 31, 2018 and 2017, the balance represents deposits received from investors for equity return swaps which is refundable with the contract terms upon the expiry date. The deposit will be mature within one year from the end of the reporting period. These instruments contain non-closely related embedded derivatives as their returns are linked to the fluctuation of certain stock index or specific stock price. For those embedded derivatives with significant fair values, they are accounted for in these consolidated financial statements under note 33 after being bifurcated from their respective host contracts.
- (ii) As at December 31, 2018, the interests accrued on debt instruments of the Group are included in the carrying amounts of the corresponding financial liabilities.
- (iii) Others mainly represent payables of annual membership fees, investor protection fund, interest payables and other payables arising from normal course of business which are non-interest bearing and are repayable within one year.

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

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**44 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

	As at December 31,	
	2018	2017
<b>Non-current</b>		
<b>Financial liabilities designated at fair value through profit or loss</b>		
— Structured entities	2,404,123	—
<b>Current</b>		
<b>Financial liabilities held for trading</b>		
— Equity securities	105,660	144,290
— Debt securities	6,839,015	330,800
— Gold	—	2,919,784
— Others	152,363	62,998
<b>Financial liabilities designated at fair value through profit or loss</b>		
— Structured entities	27,414	2,034,637
	<b>7,124,452</b>	<b>5,492,509</b>

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

**45 FINANCIAL ASSETS SOLD UNDER REPRUCHASE AGREEMENTS**

	As at December 31,	
	2018	2017
<b>Current</b>		
Analyzed by collateral type:		
Bonds	61,267,557	33,382,970
Analyzed by market:		
Stock exchange	31,847,196	19,422,266
Interbank bond market	29,361,582	13,960,704
Over-the-counter	58,779	—
	<b>61,267,557</b>	<b>33,382,970</b>

## Notes to the Consolidated Financial Statements (Continued)

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### 45 FINANCIAL ASSETS SOLD UNDER REPRUCHASE AGREEMENTS (Continued)

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

### 46 SHARE CAPITAL

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

	As at December 31,	
	2018	2017
Registered, issued and fully paid ordinary shares of RMB1 each:		
— Domestic shares	5,719,009	5,719,009
— Foreign invested shares	980,400	980,400
	<b>6,699,409</b>	<b>6,699,409</b>

### 47 OTHER EQUITY INSTRUMENTS

	As at December 31,	
	2018	2017
Perpetual subordinated bonds	15,000,000	15,000,000

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

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

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

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

**Notes to the Consolidated Financial Statements (Continued)**

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**48 INVESTMENT REVALUATION RESERVE OF AVAILABLE-FOR-SALE FINANCIAL ASSETS**

	As at December 31, 2017
At the beginning of the year	(315,695)
Available-for-sale financial assets:	
Net fair value changes during the year	972,730
Reclassification adjustment to profit or loss	(96,636)
Income tax impact	(228,096)
Share of fair value gain on available-for-sale financial assets of associates	(4,899)
<b>At the end of the year</b>	<b>327,404</b>

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

The movement in the Group's investment revaluation reserve of available-for-sale financial asset is set out as below:

	As at December 31, 2018
At the end of prior year	—
Effects of initial application of IFRS 9	398,973
At the beginning of year	398,973
Debt instruments at fair value through other comprehensive income	
Net changes in fair value for the year	758,923
Reclassification to profit or loss	22,463
Income tax effects	(195,347)
Impairment of debt instruments at fair value through other comprehensive income	
Net changes in fair value for the year	(1,032)
Income tax effects	258
Equity instruments at fair value through other comprehensive income	
Net changes in fair value for the year	(913,992)
Income tax effects	228,498
Share of fair value gain on financial assets at fair value through other comprehensive income of associates	326
<b>At the end of year</b>	<b>299,070</b>

## Notes to the Consolidated Financial Statements (Continued)

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### 50 GENERAL RESERVES

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

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

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

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

The movements of the general reserves are set out below:

#### For the year ended December 31, 2018

	Opening	Addition	Closing
Statutory reserve	4,306,384	355,966	4,662,350
General risk reserve	4,306,384	362,691	4,669,075
Transaction risk reserve	4,177,572	355,966	4,533,538
	<b>12,790,340</b>	<b>1,074,623</b>	<b>13,864,963</b>

#### For the year ended December 31, 2017

	Opening	Addition	Closing
Statutory reserve	3,875,865	430,519	4,306,384
General risk reserve	3,875,865	430,519	4,306,384
Transaction risk reserve	3,747,053	430,519	4,177,572
	<b>11,498,783</b>	<b>1,291,557</b>	<b>12,790,340</b>

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**51 LONG-TERM BORROWINGS DUE WITHIN ONE YEAR**

	As at December 31,	
	2018	2017
Secured bank loans	—	378,134

As at December 31, 2017, the Group's secured long-term bank loans due within one year bore floating interest rate of 4.655%.

**52 LONG-TERM BORROWINGS**

	As at December 31,	
	2018	2017
Unsecured bank loan	1,380,015	1,065,786

As at December 31, 2018, the Group's unsecured long-term bank loans bore floating interest rates ranging from 3.445% to 3.876% (December 31, 2017: 2.674% to 2.866%). The above loan will be repaid upon maturity within three years.

**53 BONDS PAYABLE DUE WITHIN ONE YEAR**

	As at December 31,	
	2018	2017
Non-convertible bonds <sup>(1)</sup>	14,200,000	4,499,911
Subordinated bonds <sup>(2)</sup>	2,200,000	15,000,000
Interest accrued	1,455,355	
	<b>17,855,355</b>	<b>19,499,911</b>

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

Name	Issue amount	Value date	Maturity date	Coupon rate
17CMG1	4,500,000	13/10/2017	13/10/2019	4.78%
18CMF6	3,800,000	19/04/2018	04/05/2019	4.75%
18CMF7	5,900,000	21/05/2018	05/06/2019	4.84%

## Notes to the Consolidated Financial Statements (Continued)

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### 53 BONDS PAYABLE DUE WITHIN ONE YEAR (Continued)

#### (1) The following table presents an analysis of non-convertible bonds (Continued)

According to CSRC “Reply on Approval of China Merchants Securities Co., Ltd. to Publicly offer Corporate Bonds to Qualified Investors” (Zheng Jian Xu Ke [2017] No.1669), the Company is approved to publicly offer corporate bond to qualified investors with total principal amount not exceeding RMB8,500 million. In October 2017 and February 2018, the Company successively issued four batches corporate bonds including 17CMG1, 17CMG2, 17CMG3 and 18CMG1, with total amount of RMB8,500 million. The amounts of the four batches corporate bonds are RMB4,500 million, RMB1,060 million, RMB1,000 million and RMB1,940 million, with the interest rates of 4.78%, 4.78%, 4.85% and 5.35%, respectively. Therein, 17CMG2, 17CMG3 and 18CMG1 are disclosed in Note 54.

According to Shanghai Stock Exchange “Letter of Consent on China Merchants Securities Co., Ltd. Listing the Non-publicly Offered Corporate Bonds for Transfer” (Shang Zheng Han [2018] No.160), the Company was approved to non-publicly offering corporate bonds to qualified investors with total principal amount not exceeding RMB40,000 million, valid within 12 months since the date on which the letter of consent is issued. In the current year, the Company successively issued three batches non-public corporate bond with term of one and above years, including 18CMF6, 18CMF7 and 18CMF10, of which the issued amounts are RMB3,800 million, RMB5,900 million and RMB2,500 million, with the interest rates of 4.75%, 4.84% and 4.15%, respectively. Therein, 18CMF10 is disclosed in Note 54.

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

Name	Issue amount	Value date	Maturity date	Coupon rate
17CMC1	2,200,000	27/11/2017	27/11/2019	5.45%

According to Shanghai Stock Exchange “Letter of Consent on China Merchants Securities Co., Ltd. Listing the Non-publicly Offered Subordinated Bonds for Transfer” (Shang Zheng Han [2017] No.100), the Company was approved to non-publicly offering subordinated bonds to qualified investors with total principal amount not exceeding RMB10,000 million. On 27 November 2017, 12 January 2018, and 22 January 2018, the Company respectively issued three batches subordinated bonds with total issued amount of RMB8,990 million, including 17CMC1, 18CMC1 and 18CMC1, of which the issued amounts are RMB2,200 million, RMB1,640 million and RMB5,150 million with the interest rates of 5.45%, 5.56% and 5.70%, respectively. Therein, 18CMC1 and 18CMC2 are disclosed in Note 54.



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**54 BONDS PAYABLE**

	As at December 31,	
	2018	2017
Non-convertible corporate bonds <sup>(1)</sup>	28,773,737	17,529,674
Subordinated bonds <sup>(2)</sup>	6,790,000	2,200,000
Principal of structured notes	—	8,000,000
	<b>35,563,737</b>	<b>27,729,674</b>

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

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

According to CSRC “Reply on Approval of China Merchants Securities Co., Ltd. to Publicly offer Corporate Bonds” (Zheng Jian Xu Ke [2013] No.73), the Company was approved to publicly offer corporate bonds with total principal amount not exceeding RMB10,000 million. On 5 March 2013, the Company issued corporate bonds amounting to RMB10,000 million at Shanghai Stock Exchange, including 12CM01 amounting to RMB3,000 million with the interest rate of 4.45%, 12CM02 amounting to RMB1,500 million with the interest rate of 4.80%, and 12CM03 amounting to RMB5,500 million with the interest rate of 5.15%, respectively. In the current year, 12CM01 and 12CM02 was due on 5 March 2018.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 54 BONDS PAYABLE (Continued)

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

According to CSRC “Reply on Approval of China Merchants Securities Co., Ltd. to Publicly offer Corporate Bonds” (Zheng Jian Xu Ke [2015] No.512), the Company was approved to publicly offer corporate bonds with total principal amount not exceeding RMB5,500 million. On 26 May 2015, the Company completed the issuance of 14CM bonds at Shanghai Stock Exchange, with total issued amount of RMB5,500 million with the interest rate of 5.08% and a term of 10 years.

According to CSRC “Reply on Approval of China Merchants Securities Co., Ltd. to Publicly offer Corporate Bonds to Qualified Investors” (Zheng Jian Xu Ke [2018] No.612), the Company was approved to publicly offer corporate bond to qualified investors with total principal amount not exceeding RMB11,800 million. On 12 June 2018, 18 July 2018, 8 August 2018 and 7 September 2018, the Company respectively issued four batches corporate bonds at Shanghai Stock Exchange. Therein, phase I bonds include type I and type II, i.e. 18CMG2 and 18CMG3, of which the issued amounts are RMB2,000 million and RMB1,000 million with the interest rate of 4.78%; the rest three batches of corporate bonds are 18CMG5, 18CMG6 and 18CMG8, of which the issued amounts are RMB2,500 million, RMB3,000 million and RMB1,800 million with the interest rates of 4.38%, 3.94% and 4.23% respectively.

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

Name	Issue amount	Value date	Maturity date	Coupon rate
18CM C1	1,640,000	12/01/2018	12/01/2020	5.56%
18CM C2	5,150,000	22/01/2018	22/01/2020	5.70%

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

	As at December 31,	
	2018	2017
Dividends recognised as distribution	2,317,996	1,266,189
Distribution to holders of other equity instruments	802,090	592,196

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

Pursuant to the resolution of the shareholders meeting held on May 26, 2017, the Company distributed cash dividends of RMB1.89 for every 10 shares (tax included) based on 6,699,409,329 shares held amounting to RMB1,266,189 thousand in total for the year ended December 31, 2016.

During the current year, dividend of the Group on perpetual bond amounted to RMB802,090 thousand.

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**56 TRANSFERS OF FINANCIAL ASSETS****(1) Repurchase agreements**

The Group entered into repurchase agreements with certain counterparties to sell Group's securities and interests in margin loans and the proceeds are presented as financial assets sold under repurchase agreements. In accordance with the terms of the repurchase agreements, the legal title of those securities and interests in margin loans are not transferred to the counterparties during the year and both parties simultaneously agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group are still exposed to substantially all the credit risks, market risks and rewards of those securities and rights and interests in margin loans sold. These securities and margin loans are not derecognised from the financial statements but regarded as "collateral" for the liabilities because the Group retain substantially all the risks and rewards of these securities and rights and interest in margin loans.

The following tables provide a summary of carrying amounts and fair values related to transferred financial assets that are not derecognised in their entirety and the associated liabilities:

**As at December 31, 2018**

	Financial assets at fair value through profit or loss	Debt instruments at amortised cost	Debt instruments at fair value through other comprehensive income	Securities lending arrangements	Total
Carrying amount of transferred assets	32,208,680	459,271	22,850,421	6,870,858	62,389,230
Carrying amount of associated liabilities	31,629,612	451,014	22,439,602	6,747,329	61,267,557
<b>Net position</b>	<b>579,068</b>	<b>8,257</b>	<b>410,819</b>	<b>123,529</b>	<b>1,121,673</b>

**As at December 31, 2017**

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Rights and interests in margin loans	Securities lending arrangements	Total
Carrying amount of transferred assets	12,619,277	9,872,519	—	13,759,245	36,251,041
Carrying amount of associated liabilities	11,620,503	9,091,142	—	12,670,246	33,381,891
<b>Net position</b>	<b>998,774</b>	<b>781,377</b>	<b>—</b>	<b>1,088,999</b>	<b>2,869,150</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

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### 56 TRANSFERS OF FINANCIAL ASSETS (Continued)

#### (2) Securities lending arrangements

The Group entered into securities lending agreements with clients to lend out its financial assets classified as financial assets at fair value through profit or loss with carrying amount totaling RMB357,074 thousand (December 31, 2017: RMB304,291 thousand) as at December 31, 2018, which are secured by client's securities and deposits held as collateral. As stipulated in the securities lending agreements, the legal ownership of these securities is transferred to the clients. Although the clients are allowed to sell these securities during the covered period, they have obligations to return these securities to the Group at specified future dates. The Group have determined that it retains substantially all the risks and rewards of these securities and therefore have not derecognised these securities in the consolidated financial statements.

#### (3) Securities borrowing arrangements

The Group borrowed securities from interbank securities market platform used for the business of financial assets sold under repurchase agreements and securities short selling, and simultaneously offers debt securities classified as financial assets at fair value through profit and loss, debt instruments at fair value through other comprehensive income and debt instruments at amortised cost as collateral to the counterparties. As at December 31, 2018 and 2017, the type and fair values of financial assets at fair value through profit or loss to the Group borrowed from banks through interbank securities market trading platform for the purpose of financial assets sold under repurchase agreements are as follows:

	As at December 31,	
	2018	2017
Treasury bonds	4,988,382	5,840,960
Local government bonds	514,808	7,401,674
Policy bank debt	9,458,056	762,388
	<b>14,961,246</b>	<b>14,005,022</b>

As at December 31, 2018, the above securities borrowing transactions are due before May 16, 2019 (December 31, 2017: June 29, 2018).

As at December 31, 2018 and 2017, the type and fair values of securities pledged for the Group's securities borrowing arrangements are as follows:

	As at December 31,	
	2018	2017
Corporate bonds	12,252,789	12,029,852

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**57 CAPITAL COMMITMENTS**

	As at December 31,	
	2018	2017
Commitments contracted but not provided for in respect of		
— Construction in progress	—	219,854

**58 OPERATING LEASE COMMITMENTS****The Group as lessee**

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

	As at December 31,	
	2018	2017
Within one year (inclusive)	335,120	337,326
One to two years (inclusive)	242,751	234,062
Two to three years (inclusive)	186,378	171,162
Over three years	190,842	204,844
<b>Total</b>	<b>955,091</b>	<b>947,394</b>

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

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### 59 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments of directors and supervisors of the Company paid and/or payable by the Group for the years ended December 31, 2018 and 2017 are set out below:

#### Year ended December 31, 2018

Name	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Bonuses	Total emoluments
<b>Executive directors:</b>					
HUO Da <sup>(4)</sup>	—	4,248	219	—	4,467
WANG Yan <sup>(1)</sup>	—	1,601	149	—	1,750
XIONG Jiantao <sup>(5)</sup>	—	3,481	201	—	3,682
	—	<b>9,330</b>	<b>569</b>	—	<b>9,899</b>
<b>Non-executive directors:</b>					
SU Min	—	—	—	—	—
XIONG Xianliang	—	—	—	—	—
SU Jian <sup>(7)</sup>	—	—	—	—	—
PENG Lei	—	—	—	—	—
HUANG Jian	—	—	—	—	—
WANG Daxiong	—	—	—	—	—
CHEN Zhigang <sup>(8)</sup>	—	—	—	—	—
	—	—	—	—	—
<b>Independent non-executive directors:</b>					
XIANG Hua <sup>(12)</sup>	200	—	—	—	200
XIAO Houfa <sup>(13)</sup>	200	—	—	—	200
XIONG Wei <sup>(14)</sup>	200	—	—	—	200
HU Honggao <sup>(15)</sup>	200	—	—	—	200
WONG Ti <sup>(2)</sup>	200	—	—	—	200
YANG Jun <sup>(3)</sup>	—	—	—	—	—
	<b>1,000</b>	—	—	—	<b>1,000</b>

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**59 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)****Year ended December 31, 2018 (Continued)**

Name	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Bonuses	Total emoluments
<b>Supervisors:</b>					
ZHOU Linda Lei	—	3,487	180	—	3,667
FANG Xiaobing	—	—	—	—	—
ZHANG Zehong	—	—	—	—	—
HE Min	—	749	130	—	879
YIN Hongyan	—	896	148	—	1,044
XIONG Zhigang <sup>(23)</sup>	—	811	148	—	959
LI Xiaofei	—	—	—	—	—
WANG Zhangwei <sup>(24)</sup>	—	—	—	—	—
MA Yunchun <sup>(25)</sup>	—	—	—	—	—
	—	5,943	606	—	6,549
<b>Total</b>	<b>1,000</b>	<b>15,273</b>	<b>1,175</b>	<b>—</b>	<b>17,448</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

## 59 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

Year ended December 31, 2017

Name	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Bonuses	Total emoluments
<b>Executive directors:</b>					
HUO Da <sup>(4)</sup>	—	3,084	165	—	3,249
WANG Yan	—	4,865	245	—	5,110
XIONG Jiantao <sup>(5)</sup>	—	3,724	226	—	3,950
GONG Shaolin <sup>(6)</sup>	—	2,013	109	—	2,122
	—	<b>13,686</b>	<b>745</b>	—	<b>14,431</b>
<b>Non-executive directors:</b>					
SU Min	—	—	—	—	—
XIONG Xianliang	—	—	—	—	—
SU Jian <sup>(7)</sup>	—	—	—	—	—
PENG Lei	—	—	—	—	—
HUANG Jian	—	—	—	—	—
WANG Daxiong	—	—	—	—	—
CHEN Zhigang <sup>(8)</sup>	—	—	—	—	—
HUA Li <sup>(9)</sup>	—	—	—	—	—
GUO Jian <sup>(10)</sup>	—	—	—	—	—
CAO Dong <sup>(11)</sup>	—	—	—	—	—
	—	—	—	—	—
<b>Independent non-executive directors:</b>					
XIANG Hua <sup>(12)</sup>	100	—	—	—	100
XIAO Houfa <sup>(13)</sup>	100	—	—	—	100
XIONG Wei <sup>(14)</sup>	100	—	—	—	100
HU Honggao <sup>(15)</sup>	100	—	—	—	100
YANG Jun <sup>(3)</sup>	200	—	—	—	200
YI Xiqun <sup>(16)</sup>	—	—	—	—	—
LIU Jialing <sup>(17)</sup>	100	—	—	—	100
DING Huiping <sup>(18)</sup>	100	—	—	—	100
ZHU Haiwu <sup>(19)</sup>	100	—	—	—	100
	<b>900</b>	—	—	—	<b>900</b>



**Notes to the Consolidated Financial Statements (Continued)**

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(Expressed in thousands of Renminbi, unless otherwise stated)

**59 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)****Year ended December 31, 2017 (Continued)**

Name	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Bonuses	Total emoluments
<b>Supervisors:</b>					
ZHOU Linda Lei	—	3,905	211	—	4,116
LIU Chong <sup>(20)</sup>	—	—	—	—	—
FANG Xiaobing	—	—	—	—	—
ZHANG Zehong	—	—	—	—	—
ZHU Haibin <sup>(21)</sup>	—	—	—	—	—
HE Min	—	746	142	—	888
YIN Hongyan	—	891	163	—	1,054
ZHAN Guifeng <sup>(22)</sup>	—	400	67	—	467
XIONG Zhigang <sup>(23)</sup>	—	513	91	—	604
LI Xiaofei	—	—	—	—	—
WANG Zhangwei <sup>(24)</sup>	—	—	—	—	—
MA Yunchun <sup>(25)</sup>	—	—	—	—	—
	—	6,455	674	—	7,129
<b>Total</b>	<b>900</b>	<b>20,141</b>	<b>1,419</b>	<b>—</b>	<b>22,460</b>

(1) WANG Yan resigned in August 2018.

(2) WONG Ti was appointed as independent non-executive director in January 2018.

(3) YANG Jun resigned in January 2018.

(4) HUO Da was appointed as executive director in May 2017.

(5) XIONG Jiantao was appointed as executive director in May 2017.

(6) GONG Shaolin resigned in May 2017.

(7) SU Jian was appointed as non-executive director in June 2017.

(8) CHEN Zhigang was appointed as non-executive director in June 2017.

(9) HUA Li resigned on May 2017.

(10) GUO Jian resigned on May 2017.

(11) CAO Dong resigned in May 2017.

(12) XIANG Hua was appointed as independent non-executive director in July 2017.

(13) XIAO Houfa was appointed as independent non-executive director in July 2017.

(14) XIONG Wei was appointed as independent non-executive director in August 2017.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

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### 59 DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

#### Year ended December 31, 2017 (Continued)

- (15) HU Honggao was appointed as independent non-executive director in July 2017.
- (16) YI Xiqun was appointed as independent non-executive director in August 2013, applied for departure in November 2014, resigned in July 2017.
- (17) LIU Jialing resigned in July 2017.
- (18) DING Huiping resigned in August 2017.
- (19) ZHU Haiwu resigned in July 2017.
- (20) LIU Chong resigned in May 2017.
- (21) ZHU Haibin resigned in May 2017.
- (22) ZHAN Guifeng resigned in May 2017.
- (23) XIONG Zhigang was appointed as supervisor in May 2017.
- (24) WANG Zhangwei was appointed as supervisor in June 2017.
- (25) MA Yunchun was appointed as supervisor in June 2017.

As of the date of these issuance of consolidated financial statements, the above compensation packages including performance-based bonus for executive directors, non-executive directors and supervisors for the years ended December 31, 2018 have not been finalized. Management of the Group believes that the difference between the final emoluments and that disclosed above will not have significant impact on the consolidated financial statements of the Group.

No directors of the Company waived or agreed to waive any emolument paid by the Group during the year. No emoluments were paid by the Group to the directors of the Company as an incentive payment for joining the Group or as compensation for resignation during the year.

### 60 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2017: two) were directors of the Company. The emoluments of the remaining two individuals (2017: three) with the highest emoluments are as below:

	As at December 31,	
	2018	2017
Basic salaries and allowances	3,070	10,861
Bonuses	3,120	—
Contributions to retirement benefit scheme	403	693
	<b>6,593</b>	<b>11,554</b>

Bonus was determined with reference to results of the Group and performance of individuals. No emoluments were paid by the Group to these individuals as an incentive payment for joining the Group or as compensation for resignation during the year.

**Notes to the Consolidated Financial Statements (Continued)**

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**60 INDIVIDUALS WITH HIGHEST EMOLUMENTS (Continued)**

The emoluments of the individuals (non-director) with the highest emoluments are within the following bands:

	As at December 31,	
	2018	2017
Emolument bands		
Nil to HKD3,000,000	—	—
HKD3,000,001 to HKD5,000,000	2	3
HKD5,000,001 to HKD7,000,000	—	—
HKD7,000,001 to HKD9,000,000	—	—
HKD9,000,001 to HKD11,000,000	—	—
HKD11,000,001 to HKD13,000,000	—	—

During the year of 2018, the emoluments paid by the Group to these non-director individuals were based on the services provided to the Group by these individuals.

**61 SIGNIFICANT RELATED PARTY TRANSACTIONS****(1) Relationship of related parties****(a) Major shareholders**

Major shareholders include shareholders of the Company with 5% or above ownership. Share percentage in the Company:

	As at December 31,	
	2018	2017
China Merchants Finance Investment Holdings Co., Ltd.	23.51%	20.93%
Shenzhen Jisheng Investment Development Co., Ltd.	19.56%	19.56%
China Ocean Shipping (Group) Company	6.25%	6.25%

**(b) Associates of the Group**

The details information of the Group's associates is set out in Note 21.

**(c) Other related parties**

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

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**61 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)****(2) Related parties transaction and balances**

(a) *During the year ended December 31, 2018 and 2017, the Group's major transactions and balances with its associate are as below:*

Transactions between the Group and the associate:

	As at December 31,	
	2018	2017
Commission and fee income		
— Funds managed by Bosera Asset Management Co., Ltd. and China Merchants Fund Management Limited	88,972	74,634
Other Income		
— China Merchants Fund Management Co., Ltd.	1,114	—

Balances between the Group and the associate:

	As at December 31,	
	2018	2017
Commission receivables		
— Funds managed by Bosera Asset Management Co., Ltd. and China Merchants Fund Management Limited	198,867	169,810

**Notes to the Consolidated Financial Statements (Continued)**

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**61 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)****(2) Related parties transaction and balances (Continued)***(b) The Group's major transactions and balances with its other related parties are as below:*

Transactions between the Group and other related parties:

	As at December 31,	
	2018	2017
Commission and fee income		
— China Merchants Bank Co., Ltd.	170,206	136,291
— China Merchants Group Limited	392	2,562
— China Merchants Finance Investment Holdings Co., Ltd.	—	708
— China Merchants Shekou Industrial Zone Holdings Co., Ltd.	24,321	676
— China Merchants Finance Holdings Co., Ltd.	—	1,976
— China Merchants Life Insurance Company Limited	144	170
— China Merchants Expressway Network Technology Holdings Co., Ltd.	234	23,585
— China Merchants Energy Shipping Co., Ltd.	9,434	—
— China COSCO Shipping Corporation Limited	79	—
— China COSCO SHIPPING Development Co., Ltd.	20	—
— China Merchants Port Group Co., Ltd.	22,642	—
Interest income		
— China Merchants Bank Co., Ltd.	375,770	393,363
Investment Income		
— Qingdao Asset Management Co., Ltd.	—	40,430
Fee and commission expenses		
— China Merchants Bank Co., Ltd.	(259,182)	(282,878)
Interest expenses		
— China Merchants Bank Co., Ltd.	(27,726)	(41,381)
Other operating expenses		
— China Merchants Chongqing Communications Technology Research & Design Institute Co., Ltd.	(196)	(186)
— China Merchants (Shanghai) Investment Co., Ltd.*	(8,460)	(8,235)
— China Merchants Bank Co., Ltd.	(52,083)	(26,041)
— China Merchants (Tianjin) Property Co., Ltd.	(3,318)	—

\* English name translated is for identification purpose only.

**Notes to the Consolidated Financial Statements (Continued)**

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**61 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)****(2) Related parties transaction and balances (Continued)**

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

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

	As at December 31,	
	2018	2017
Accounts and other receivables		
— China Merchants Land Limited	—	167
— China Merchants Chongqing Communications Technology Research & Design Institute Co., Ltd	16	16
— China Merchants (Shanghai) Investment Co., Ltd*	2,508	2,508
— China Merchants Port Group Co., Ltd.	24,000	—
— China Merchants Bank Co., Ltd.	12,386	9,114
Bank balances		
— China Merchants Bank Co., Ltd.	14,591,303	20,066,132
Interest receivable		
— China Merchants Bank Co., Ltd.	—	4,335
Borrowings		
— China Merchants Bank Co., Ltd.	—	796,089
Placements from banks		
— China Merchants Bank Co., Ltd.	1,500,625	—
Other payables and accrued charges		
— China Merchants Bank Co., Ltd.	7,164	143

\* English name translated is for identification purpose only.

**Notes to the Consolidated Financial Statements (Continued)**

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**61 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)****(2) Related parties transaction and balances (Continued)****(c) Key management personnel**

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

	As at December 31,	
	2018	2017
Short-term benefits:		
— Salaries, allowance and bonuses	27,327	35,126
Post-employment benefits:		
— Contribution to retirement schemes	1,760	2,171
	<b>29,087</b>	<b>37,297</b>

**(d) Other related parties transaction**

In December 2015, China Merchants Shekou Industrial Zone Holdings Co., Ltd. issued A Shares for the purpose to acquire China Merchants Property Development Co., Ltd. and issued A Shares to certain specific targets for fund raising purpose. The Company subscribed 84,746 thousand of the non-public offering of China Merchants Shekou Industrial Zone Holdings Co., Ltd. through the structured entity controlled by China Merchants Zhiyuan Capital Investment Co., Ltd., a subsidiary of the Group. As at December 31, 2018, the fair value of the above shares was amounting to RMB1,388,588 thousand (December 31, 2017: 1,657,627 thousand).

**Notes to the Consolidated Financial Statements (Continued)**

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(Expressed in thousands of Renminbi, unless otherwise stated)

**62 FINANCIAL INSTRUMENTS****Categories of financial instruments**

	As at December 31,	
	2018	2017
<b>Financial assets</b>		
Loans and receivables		167,284,125
Available-for-sale financial assets		33,275,354
Equity instruments at fair value through other comprehensive income	6,722,607	
Debt instruments at fair value through other comprehensive income	41,642,341	
Financial assets measured at amortised cost	143,790,198	
Derivative financial assets	1,150,232	1,021,640
Financial assets at fair value through profit or loss	100,124,746	73,070,285
	<b>293,430,124</b>	<b>274,651,404</b>
<b>Financial liabilities</b>		
Derivative financial liabilities	1,305,685	1,584,910
Financial liabilities at fair value through profit or loss	9,528,575	5,492,509
Financial liabilities at amortised cost	208,713,652	193,088,107
	<b>219,547,912</b>	<b>200,165,526</b>



## Notes to the Consolidated Financial Statements (Continued)

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### 63 FINANCIAL RISK MANAGEMENT

#### (1) Risk management structure

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

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

The overall risk management duties of departments or posts under the risk management organization structure are as follows:

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 63 FINANCIAL RISK MANAGEMENT (Continued)

#### (2) Credit risk

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

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

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

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

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

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

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 63 FINANCIAL RISK MANAGEMENT (Continued)

#### (2) Credit risk (Continued)

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

The loss given default is estimated based on historical data and subject to a prospective adjustment.

The Group uses the following criteria to determine significant increase in credit risks:

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

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

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

## Notes to the Consolidated Financial Statements (Continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

### 63 FINANCIAL RISK MANAGEMENT (Continued)

#### (2) Credit risk (Continued)

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

##### a. Maximum credit risk exposure

	As at December 31,	
	2018	2017
Available-for-sale financial assets <sup>(i)</sup>	—	24,203,799
Financial assets at fair value through profit or loss <sup>(ii)</sup>	67,497,116	36,910,713
Derivative financial assets	1,150,232	1,021,640
Advances to customers	42,976,430	59,235,426
Financial assets held under resale agreements	33,043,860	36,099,323
Accounts and other receivables	3,264,229	4,006,277
Deposit with exchanges and non-bank financial institutions	1,431,420	1,224,478
Clearing settlement funds	13,796,281	14,010,491
Cash and bank balances	47,433,784	52,656,695
Debt instruments at amortised cost <sup>(iii)</sup>	1,844,195	84,621
Debt instruments at fair value through other comprehensive income	41,642,341	—
	<b>254,079,888</b>	<b>229,453,463</b>

- (i) Available-for-sale financial assets represent the investment in debt securities, trust products and equity securities lent to customers.
- (ii) Financial assets at fair value through profit or loss subjected to credit risk represent the investment in debt securities, trust products, equity securities lent to customers and asset-backed securities.
- (iii) Debt instruments at amortised cost subjected to credit risk represent the investment in debt securities and customer loans receivable.

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**63 FINANCIAL RISK MANAGEMENT (Continued)****(2) Credit risk (Continued)****b. Risk concentration**

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

**As at December 31, 2018**

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

**As at December 31, 2017**

	Mainland China	Outside Mainland China	Total
Available-for-sale financial assets	24,203,799	—	24,203,799
Financial assets at fair value through profit or loss	34,653,334	2,257,379	36,910,713
Derivative financial assets	284,158	737,482	1,021,640
Advances to customers	54,374,651	4,860,775	59,235,426
Financial assets held under resale agreements	36,099,323	—	36,099,323
Loan receivables	—	84,621	84,621
Accounts and other receivables	2,719,621	1,286,656	4,006,277
Deposits with exchanges and non-bank financial Institutions	872,013	352,465	1,224,478
Clearing settlement funds	13,053,589	956,902	14,010,491
Cash and bank balances	45,523,861	7,132,834	52,656,695
	<b>211,784,349</b>	<b>17,669,114</b>	<b>229,453,463</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 63 FINANCIAL RISK MANAGEMENT (Continued)

#### (2) Credit risk (Continued)

##### c. Credit rating analysis of financial assets

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

	As at December 31,	
	2018	2017
Rating		
Issuers in Mainland China		
— PRC sovereign bonds	50,939,463	16,745,926
— AAA	36,480,181	13,298,519
— AA+	7,255,461	6,417,574
— AA	1,222,258	1,691,688
— AA-	—	—
— AA- below	15,539	—
— A-1	553,357	547,835
Non-rated	23,207,093	19,242,217
Sub-total	119,673,352	57,943,759
Issuers in Hong Kong and other regions		
PRC sovereign credit	9,740	—
— A	102,910	179,278
— B	956,562	1,754,647
— C	—	—
— D	—	—
Non-rated	197,842	323,454
Sub-total	1,267,054	2,257,379
<b>Total</b>	<b>120,940,406</b>	<b>60,201,138</b>

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

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 63 FINANCIAL RISK MANAGEMENT (Continued)

#### (3) Liquidity risk

##### a. *Origin and management of liquidity risk*

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

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 63 FINANCIAL RISK MANAGEMENT (Continued)

#### (3) Liquidity risk (Continued)

##### b. Undiscounted cash flow by contractual maturities

	As at December 31, 2018							
	Carrying amount	On demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Total
<b>Non-derivative financial liabilities</b>								
Borrowings	2,956,897	—	1,579,232	10,818	38,809	1,435,607	—	3,064,466
Short-term debt instruments	34,051,050	—	8,228,279	17,285,090	9,642,401	—	—	35,155,770
Placements from banks and other financial institutions	3,500,000	—	2,502,492	1,025,783	—	—	—	3,528,275
Bonds payable	51,963,737	—	384,734	387,040	18,187,296	34,048,914	6,040,848	59,048,832
Financial assets sold under repurchase agreements	61,208,778	—	60,827,370	463,127	111	—	—	61,290,608
Financial liabilities at fair value through profit or loss	9,528,575	2,888,048	6,640,527	—	—	—	—	9,528,575
Accounts payable to brokerage clients	48,911,748	48,911,748	—	—	—	—	—	48,911,748
Other payables and accrued charges	2,240,195	2,211,935	28,260	—	—	—	—	2,240,195
<b>Total</b>	<b>214,360,980</b>	<b>54,011,731</b>	<b>80,190,894</b>	<b>19,171,858</b>	<b>27,868,617</b>	<b>35,484,521</b>	<b>6,040,848</b>	<b>222,768,469</b>
Derivative financial liabilities — net settlement	1,305,685	1,120,668	40,500	58,653	85,864	—	—	1,305,685



**Notes to the Consolidated Financial Statements (Continued)**

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(Expressed in thousands of Renminbi, unless otherwise stated)

**63 FINANCIAL RISK MANAGEMENT (Continued)****(3) Liquidity risk (Continued)****b. Undiscounted cash flow by contractual maturities (Continued)**

	As at December 31, 2017							Total
	Carrying amount	On demand	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	
<b>Non-derivative financial liabilities</b>								
Borrowings	8,055,364	5,410,964	1,203,839	11,854	410,667	1,125,356	—	8,162,680
Short-term debt instruments	47,045,670	—	1,834,953	7,602,178	39,385,671	—	—	48,822,802
Placements from banks and other financial institutions	1,470,000	—	1,471,653	—	—	—	—	1,471,653
Bonds payable	47,229,585	—	—	15,559,625	6,039,693	20,103,277	12,121,450	53,824,045
Financial assets sold under repurchase agreements	33,382,970	—	33,388,256	19,719	—	—	—	33,407,975
Financial liabilities at fair value through profit or loss	5,492,509	2,584,436	—	277,996	2,831,603	—	—	5,694,035
Accounts payable to brokerage clients	51,095,335	51,095,335	—	—	—	—	—	51,095,335
Other payables and accrued charges	2,083,466	2,083,466	—	—	—	—	—	2,083,466
<b>Total</b>	<b>195,854,899</b>	<b>61,174,201</b>	<b>37,898,701</b>	<b>23,471,372</b>	<b>48,667,634</b>	<b>21,228,633</b>	<b>12,121,450</b>	<b>204,561,991</b>
Derivative financial liabilities — net settlement	1,584,910	1,584,910	—	—	—	—	—	1,584,910

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 63 FINANCIAL RISK MANAGEMENT (Continued)

#### (4) Market risk

##### a. *Origin and management of market risk*

Market risks of the Group refer to the risks of loss resulting from adverse changes in the market. Securities held by the Group are derived from the proprietary investment, market-making business and other investment activities. Movements in securities holding primarily arise from the relevant strategies of proprietary investments and needs of market-making. The securities of the Group are measured at fair values which fluctuates daily according to the market factors and change in the portfolios of the securities. Market risks of the Group primarily include:

- ① equity price risk, which represents the exposures arise from fluctuation in the spot price, future price and volatility of indices such as stocks, equity portfolio, commodities and stock index futures;
- ② interest rate risk, which primarily represents the exposures arise from movements in the yield curve of fixed income investment, fluctuation in interest rates and credit spreads; and
- ③ commodity risk, which represents exposures arise from changes in the spot price, future price and the relevant volatility; and
- ④ exchange rate risk, which represents the exposures arise from changes in the spot rate, future rate and volatility of foreign currency exchange rates.

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

##### b. *Price risk*

#### **Value at Risk ("VaR")**

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

**Notes to the Consolidated Financial Statements (Continued)**

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(Expressed in thousands of Renminbi, unless otherwise stated)

**63 FINANCIAL RISK MANAGEMENT (Continued)****(4) Market risk (Continued)****b. Price risk (Continued)****Value at Risk ("VaR") (Continued)**

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

Final

	At December 31,	
	2018	2017
Market risk of equity price	191,994	140,829
Market risk of interest rate	51,405	60,320
Market risk of commodity price	6,491	8,260
Market risk of foreign exchange	157	592
Diversification effect	(58,517)	(56,575)
<b>Total portfolio VaR</b>	<b>191,530</b>	<b>153,426</b>

Highest

	At December 31,	
	2018	2017
Market risk of equity price	255,080	359,699
Market risk of interest rate	52,076	28,675
Market risk of commodity price	5,707	2,061
Market risk of foreign exchange	792	926
Diversification effect	(73,445)	(21,461)
<b>Total portfolio VaR</b>	<b>240,210</b>	<b>369,900</b>

## Notes to the Consolidated Financial Statements (Continued)

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(Expressed in thousands of Renminbi, unless otherwise stated)

### 63 FINANCIAL RISK MANAGEMENT (Continued)

#### (4) Market risk (Continued)

##### b. Price risk (Continued)

#### Value at Risk ("VaR") (Continued)

Lowest

	At December 31,	
	2018	2017
Market risk of equity price	162,207	140,829
Market risk of interest rate	48,540	60,320
Market risk of commodity price	6,045	8,260
Market risk of foreign exchange	—	592
Diversification effect	(41,369)	(56,575)
<b>Total portfolio VaR</b>	<b>175,423</b>	<b>153,426</b>

Average

	At December 31,	
	2018	2017
Market risk of equity price	221,450	195,878
Market risk of interest rate	51,221	61,684
Market risk of commodity price	7,108	5,601
Market risk of foreign exchange	537	518
Diversification effect	(61,484)	(52,378)
<b>Total portfolio VaR</b>	<b>218,832</b>	<b>211,303</b>

Note: The VaR of the market risk of equities includes the specific directional investment for 2015 market stabilization measures and specific accounts in China Securities Finance Corporations. VaR value of these investments calculated based on CSI 300.

**Notes to the Consolidated Financial Statements (Continued)**

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**63 FINANCIAL RISK MANAGEMENT (Continued)****(4) Market risk (Continued)****c. Interest rate risk**

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

	At December 31, 2018						
	Less than 1 month	More than 1 month but less than 3 months	More than 3 month but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
<b>Financial assets</b>							
Equity instruments at fair value through other comprehensive income	—	—	—	—	—	6,722,607	6,722,607
Debt instruments at fair value through other comprehensive income	493,917	59,354	2,426,175	32,136,852	6,526,043	—	41,642,341
Financial assets at fair value through profit or loss	1,846,797	3,665,559	20,210,762	25,820,503	14,142,660	33,057,185	98,743,466
Derivative financial assets	—	—	—	—	—	1,150,232	1,150,232
Advances to customers	6,219,030	6,755,567	29,171,675	—	—	—	42,146,272
Financial assets held under resale agreements	13,923,282	3,343,567	10,445,357	5,277,749	—	—	32,989,955
Debt instruments at amortised cost	—	—	148,249	1,695,946	—	—	1,844,195
Accounts and other receivables	—	—	—	—	—	708,466	708,466
Deposit in exchanges and non-bank financial institutions	1,431,420	—	—	—	—	—	1,431,420
Clearing settlement funds	13,796,281	—	—	—	—	—	13,796,281
Cash and bank balances	47,433,784	—	—	—	—	—	47,433,784
<b>Sub-total</b>	<b>85,144,511</b>	<b>13,824,047</b>	<b>62,402,218</b>	<b>64,931,050</b>	<b>20,668,703</b>	<b>41,638,490</b>	<b>288,609,019</b>
<b>Financial liabilities</b>							
Borrowings	1,576,882	700,960	679,055	—	—	—	2,956,897
Short-term debt instruments	8,149,620	16,619,870	9,160,170	—	—	121,390	34,051,050
Borrowings from banks and other financial institutions	2,500,000	1,000,000	—	—	—	—	3,500,000
Bonds payable	—	—	16,400,000	30,081,689	5,482,048	—	51,963,737
Financial assets sold under repurchase agreements	60,749,277	459,391	110	—	—	—	61,208,778
Derivative financial liabilities	—	—	—	—	—	1,305,685	1,305,685
Financial liabilities at fair value through profit or loss	6,640,527	—	—	—	—	2,888,048	9,528,575
Accounts payable to brokerage clients	48,911,748	—	—	—	—	—	48,911,748
Other payables and accrued charges	287	—	—	—	—	2,239,908	2,240,195
<b>Sub-total</b>	<b>128,528,341</b>	<b>18,780,221</b>	<b>26,239,335</b>	<b>30,081,689</b>	<b>5,482,048</b>	<b>6,555,031</b>	<b>215,666,665</b>
<b>Net position</b>	<b>(43,383,830)</b>	<b>(4,956,174)</b>	<b>36,162,883</b>	<b>34,849,361</b>	<b>15,186,655</b>	<b>35,083,459</b>	<b>72,942,354</b>

## Notes to the Consolidated Financial Statements (Continued)

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### 63 FINANCIAL RISK MANAGEMENT (Continued)

#### (4) Market risk (Continued)

##### c. Interest rate risk (Continued)

	At December 31, 2017						
	Less than 1 month	More than 1 month but less than 3 months	More than 3 months but less than 1 year	More than 1 year but less than 5 years	More than 5 years	Non-interest bearing	Total
<b>Financial assets</b>							
Available-for-sale financial assets	539,512	317,166	2,594,202	19,526,776	617,060	9,680,638	33,275,354
Financial assets at fair value through profit or loss	664,283	5,734,869	13,575,819	12,048,327	4,428,900	36,618,087	73,070,285
Derivative financial assets	—	—	—	—	—	1,021,640	1,021,640
Advances to customers	7,017,679	9,641,220	42,576,527	—	—	—	59,235,426
Financial assets held under resale agreements	7,021,527	3,126,742	17,149,596	8,801,458	—	—	36,099,323
Loan receivables	—	—	84,621	—	—	—	84,621
Accounts and other receivables	—	—	—	—	—	699,544	699,544
Deposit in exchanges and non-bank financial institutions	1,224,478	—	—	—	—	—	1,224,478
Clearing settlement funds	14,010,491	—	—	—	—	—	14,010,491
Cash and bank balances	52,656,695	—	—	—	—	—	52,656,695
Sub-total	83,134,665	18,819,997	75,980,765	40,376,561	5,045,960	48,019,909	271,377,857
<b>Financial liabilities</b>							
Borrowings	6,611,444	—	378,134	1,065,786	—	—	8,055,364
Short-term debt instruments	1,826,190	7,484,140	37,735,340	—	—	—	47,045,670
Placements from banks and other financial institutions	1,470,000	—	—	—	—	—	1,470,000
Bonds payable	—	14,499,911	5,000,000	16,760,000	10,969,674	—	47,229,585
Financial assets sold under repurchase agreements	33,363,470	19,500	—	—	—	—	33,382,970
Derivative financial liabilities	—	—	—	—	—	1,584,910	1,584,910
Financial liabilities at fair value through profit or loss	127,212	273,000	2,646,784	—	—	2,445,513	5,492,509
Accounts payable to brokerage clients	51,095,335	—	—	—	—	—	51,095,335
Other payables and accrued charges	374	—	—	—	—	2,083,092	2,083,466
Sub-total	94,494,025	22,276,551	45,760,258	17,825,786	10,969,674	6,113,515	197,439,809
<b>Net position</b>	<b>(11,359,360)</b>	<b>(3,456,554)</b>	<b>30,220,507</b>	<b>22,550,775</b>	<b>(5,923,714)</b>	<b>41,906,394</b>	<b>73,938,048</b>

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**63 FINANCIAL RISK MANAGEMENT (Continued)****(4) Market risk (Continued)****c. Interest rate risk (Continued)****Sensitivity analysis**

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

**Sensitivity to profit**

	2018	2017
<b>Change in basis points</b>		
Increase by 100bps	(1,446,493)	(541,070)
Decrease by 100bps	1,491,687	555,879

**Sensitivity to equity**

	2018	2017
<b>Change in basis points</b>		
Increase by 100bps	(2,659,049)	(1,160,980)
Decrease by 100bps	2,771,028	1,204,506

**d. Foreign currency rate risk**

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 63 FINANCIAL RISK MANAGEMENT (Continued)

#### (4) Market risk (Continued)

##### d. Foreign currency rate risk (Continued)

##### Sensitivity analysis of exchange rate

	2018	2017
<b>Change in exchange rate</b>		
Depreciation of USD by 3%	(85,780)	(73,923)
Depreciation of HKD by 3%	(65,878)	(68,007)

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

#### (5) Operational risk

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

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



## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 63 FINANCIAL RISK MANAGEMENT (Continued)

#### (6) Capital management

The Group's objectives of capital management are:

- To ensure the Group maintain sufficient capital strengthen and market competitiveness, oriented by the corporate strategy;
- Adequately manage its capital resource allocation to maximise the profit and capital return;
- To actively explore the Group's source of funding, optimise the Group's assets and liabilities structure to enhance the use of balance sheet financing;
- To comply with the relevant capital requirements under the PRC, Hong Kong and overseas regulations.

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

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

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

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 63 FINANCIAL RISK MANAGEMENT (Continued)

#### (6) Capital management (Continued)

As at December 31, 2018 and 2017, the Company maintained the above ratios as follows:

	2018	2017
Net capital	52,815,746	54,180,987
Net asset value	75,518,016	75,177,450
Sum of all venture capital provisions	17,090,060	18,059,640
Total On-Balance-Sheet and Off-Balance-Sheet Assets	251,421,719	225,840,602
Ratio 1	309.04%	300.01%
Ratio 2	15.52%	18.57%
Ratio 3	277.30%	392.17%
Ratio 4	159.64%	132.69%
Ratio 5	69.94%	72.07%
Ratio 6	31.77%	38.10%
Ratio 7	45.42%	52.87%
Ratio 8	22.27%	30.77%
Ratio 9	246.47%	148.89%

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

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 64 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

The directors of the Company consider that the carrying amounts of the financial assets and financial liabilities not measured at fair value on a recurring basis (including financial liabilities included in the statement of financial position of the Group at amortised cost or at cost less impairment) approximate their fair values as at December 31, 2018 and 2017.

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

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

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 64 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

Financial assets/ financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2018	2017				
<b>1) Financial assets at fair value through profit or loss</b>						
<b>Debt securities</b>						
— Traded on stock exchanges	231,419	4,721,302	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded on stock exchanges	22,086,234	—	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
— Traded on interbank market	44,770,677	31,885,121	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
— Unlisted	51,056	—	Level 3	Discounted cash flows with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	Credit risk spread	The higher the credit risk spread, the lower the fair value.
<b>Equity investment</b>						
— Traded on stock exchanges	4,526,005	9,830,939	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded National Securities Exchange and Quotation System	—	659,375	Level 1	Based on recent trading prices in an active market.	N/A	N/A
— Traded on stock exchanges (inactive)	112,661	—	Level 2	Adjusted quoted closing prices for stocks suspended for trading.	N/A	N/A
— Traded National Securities Exchange and Quotation System	402,179	—	Level 2	Bid prices made by market dealers.	N/A	N/A
— Traded on stock exchanges (Restricted share)	1,388,589	1,657,627	Level 2	Adjusted quoted prices.	N/A	N/A
— Traded on National Securities Exchange and Quotation System (Restricted share)	—	44,525	Level 2	Adjusted quoted prices.	N/A	N/A
— Traded National Securities Exchange and Quotation System	82,561	—	Level 3	Adjusted quoted prices.	Discount for lack of marketability	The higher the discount, the lower the fair value.
— Unlisted Equity	1,628,033	177,756	Level 3	Adjusted recent transaction prices.	Discount for lack of marketability	The higher the discount, the lower the fair value.
	145,473	237,622	Level 3	Based on the net asset values of the underlying investment portfolio and adjustments of related expenses.	Third party valuation.	The higher the third party valuation, the higher the fair value.
<b>Funds</b>						
— Listed	543,101	2,363,564	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Unlisted	20,207,795	18,320,405	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A

**Notes to the Consolidated Financial Statements (Continued)**

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**64 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

Financial assets/ financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2018	2017				
<b>1) Financial assets at fair value through profit or loss (Continued)</b>						
<b>Other investment</b>						
— Wealth management and trust products and others	111,188	163,262	Level 1	Quoted closing prices in an active market.	N/A	N/A
	2,283,265	1,498,696	Level 2	Based on the net asset values of the investment, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
	27,147	1,554,616	Level 3	Based on the net asset values of the investment, determined with reference to third party valuation of underlying investment portfolio and adjustments of related expenses.	Third party valuation of underlying investment portfolio.	The higher the third party valuation, the higher the fair value
	1,527,363	—	Level 3	Comparable companies analysis valuation	Discount for lack of marketability	The higher the discount, the lower the fair value.
<b>2) Available-for-sale financial assets</b>						
<b>Debt securities</b>						
— Traded on stock exchanges		14,165,961	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded on interbank market		9,428,754	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
<b>Equity investment</b>						
— Traded on stock exchanges		132,705	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Traded on National Securities Exchange and Quotation System		289,880	Level 1	Based on recent trading prices in an active market	N/A	N/A
— Traded on National Securities Exchange and Quotation System (Restricted share)		44,525	Level 2	Based on quoted market prices with an adjustment of discount for lack of marketability.	N/A	N/A
— Unlisted equity investment		760,000	Level 3	Adjusted recent transaction prices.	Recent transaction prices	The higher the recent transaction price, the higher the fair value.
<b>Other investment</b>						
— Wealth management and trust products and others		8,453,528	Level 2	Based on the net asset values of the investment, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
<b>3) Debt instruments at fair value through other comprehensive income</b>						
<b>Debt securities</b>						
— Traded on stock exchanges	20,790,141		Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
— Traded on interbank market	20,852,200		Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A

## Notes to the Consolidated Financial Statements (Continued)

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## 64 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Financial assets/ financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2018	2017				
<b>4) Equity instruments at fair value through other comprehensive income</b>						
— Special accounts	6,722,607		Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
<b>5) Derivative financial instruments</b>						
— Interest rate swap — assets	394,434	112,806	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
— Interest rate swap — liabilities	392,849	112,576	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
— Equity return swap — assets	210,192	38,633	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
— Equity return swap — liabilities	19,477	3,665	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
— Stock index future — assets (note)	—	—	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Stock index future — liabilities (note)	18	1,241	Level 1	Quoted closing prices in an active market.	N/A	N/A
— Treasury bond futures — assets (note)	—	700	Level 1	Quoted prices in an active market.	N/A	N/A
— Treasury bond futures — liabilities (note)	1,655	—	Level 1	Quoted prices in an active market.	N/A	N/A
— Commodity swap — assets	10,486	262,359	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty.	N/A	N/A

Note: Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in the PRC stock index futures, treasury bond futures and commodity futures contracts were settled daily and the corresponding receipts and payments were included in "clearing settlement funds". Accordingly, the net onshore position of these contracts was nil at the year-end date.

**Notes to the Consolidated Financial Statements (Continued)**

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**64 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

Financial assets/ financial liabilities	Fair value as at December 31,		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
	2018	2017				
<b>5) Derivative financial instruments (Continued)</b>						
— Commodity swap — liabilities	264,023	—	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty	N/A	N/A
— Commodity futures — assets (note)	446,665	469,952	Level 1	Quoted prices in an active market.	N/A	N/A
— Commodity futures — liabilities (note)	446,316	990,684	Level 1	Quoted prices in an active market.	N/A	N/A
— Options — assets	42,101	32,758	Level 1	Quoted prices in an active market.	N/A	N/A
— Options — liabilities	116,966	60,358	Level 1	Quoted prices in an active market.	N/A	N/A
— Over-the-counter options — assets	7,722	102,822	Level 2	Option pricing model	N/A	N/A
— Over-the-counter options — liabilities	49,571	303,557	Level 2	Option pricing model	N/A	N/A
— Forward contracts — assets	—	1,610	Level 2	Discounted cash flows with future cash flows that are estimated based on future rates and contractual rates, discounted at a rate that reflects the credit risk of counterparty	N/A	N/A
— Forward contracts — liabilities	1,482	112,829	Level 2	Discounted cash flows with future cash flows that are estimated based on future rates and contractual rates, discounted at a rate that reflects the credit risk of counterparty	N/A	N/A
— Commodity — assets	38,143	—	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty	N/A	N/A
— Commodity — liabilities	12,205	—	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty	N/A	N/A
— Credit default swap — asset	489	—	Level 2	Calculated based on the difference between discounted cash flows with future cash flows that are estimated based on unsecured rates and secured rates	N/A	N/A
— Credit default swap — liabilities	1,123	—	Level 2	Calculated based on the difference between discounted cash flows with future cash flows that are estimated based on unsecured rates and secured rates	N/A	N/A
<b>6) Financial liabilities at fair value through profit or loss</b>						
— Designated at fair value through profit or loss	2,431,537	2,034,637	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
— Financial liabilities held for trading	258,023	3,127,072	Level 1	Quoted closing prices in an active market.	N/A	N/A
	6,839,015	330,800	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A

**Notes to the Consolidated Financial Statements (Continued)**

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**64 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

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

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



**Notes to the Consolidated Financial Statements (Continued)**

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**64 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)**

	At December 31, 2017			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Financial assets at fair value through profit or loss	17,738,442	53,361,849	1,969,994	73,070,285
— Debt securities	4,721,302	31,885,121	—	36,606,423
— Equity investments	10,490,314	1,657,627	415,378	12,563,319
— Funds	2,363,564	18,320,405	—	20,683,969
— Others	163,262	1,498,696	1,554,616	3,216,574
Derivative financial assets	503,410	518,230	—	1,021,640
Available-for-sale financial assets	14,588,546	17,926,807	760,000	33,275,353
— Debt securities	14,165,961	9,428,754	—	23,594,715
— Equity investments	422,585	44,525	760,000	1,227,110
— Others	—	8,453,528	—	8,453,528
<b>Total</b>	<b>32,830,398</b>	<b>71,806,886</b>	<b>2,729,994</b>	<b>107,367,278</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit or loss	3,127,072	2,365,437	—	5,492,509
Derivative financial liabilities	1,052,283	532,627	—	1,584,910
<b>Total</b>	<b>4,179,355</b>	<b>2,898,064</b>	<b>—</b>	<b>7,077,419</b>

During the financial reporting period, the valuation method of exchange bonds held by the Group at fair value is changed from the quoted closing prices in an active market to the valuation of China Bond, and the level is changed from level 1 to level 2.

## Notes to the Consolidated Financial Statements (Continued)

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### 64 FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

#### Reconciliation of Level 3 fair value measurements

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

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
As at January 1, 2017	1,273,798	—	1,273,798
Gain or losses for the year	7,461	—	7,461
Purchases	4,987,534	760,000	5,747,534
Sales and settlements	(4,298,798)	—	(4,298,798)
As at December 31, 2017	1,969,994	760,000	2,729,994
<b>Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period</b>	<b>7,461</b>	<b>—</b>	<b>7,461</b>

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**65 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

The Group offsets the following financial assets and financial liabilities since the Group currently has a legally enforceable right to set off the balances, and intends either to settle on a net basis, or to realise the balances simultaneously.

Type of financial assets	December 31, 2018					
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
Advances to customers	42,976,430	—	42,976,430	(37,852,653)	(5,123,777)	—
Accounts receivable from clearing houses, brokers and dealers	5,063,182	(314,638)	4,748,544	(320,193)	(4,141,261)	287,090
Derivatives instruments	1,329,371	(179,139)	1,150,232	—	—	1,150,232
	<b>49,368,983</b>	<b>(493,777)</b>	<b>48,875,206</b>	<b>(38,172,846)</b>	<b>(9,265,038)</b>	<b>1,437,322</b>

Type of financial liabilities	December 31, 2018					
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
Accounts payable to brokerage client	(6,331,318)	(314,638)	(6,645,956)	(320,193)	—	(6,966,149)
Derivatives instruments	1,392,576	(86,891)	1,305,685	—	—	1,305,685
	<b>(4,938,742)</b>	<b>(401,529)</b>	<b>(5,340,271)</b>	<b>(320,193)</b>	<b>—</b>	<b>(5,660,464)</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 65 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

Type of financial assets	December 31, 2017					
	Gross amounts of recognise financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
Advances to customers	59,235,426	—	59,235,426	(54,226,063)	(5,009,363)	—
Accounts receivable from clearing houses, brokers and dealers	183,632	(58,180)	125,452	—	—	125,452
	<b>59,419,058</b>	<b>(58,180)</b>	<b>59,360,878</b>	<b>(54,226,063)</b>	<b>(5,009,363)</b>	<b>125,452</b>

Type of financial liabilities	December 31, 2017					
	Gross amounts of recognise financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral	
Accounts payable to brokerage client	(125,452)	58,180	(67,272)	—	—	(67,272)
Derivatives instruments	1,662,802	(77,892)	1,584,910	—	—	1,584,910
	<b>1,537,350</b>	<b>(19,712)</b>	<b>1,517,638</b>	<b>—</b>	<b>—</b>	<b>1,517,638</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 65 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES (Continued)

The Group has entered into master netting arrangements with counterparties for the derivative instruments, account receivable from dealer and broker and also with clearing house for un-settled trades.

The Group has entered into master netting arrangements with Hong Kong Securities Clearing Company Limited for un-settled trades, net receivables and payables are settled on the same settlement date as the company.

Except for the enforceable master netting arrangements and the offset-right of the financial assets under the similar agreements disclosed above, the collateral of which, such as financial assets held under resale agreement, financial assets sold under repurchase agreement, secured loan receivables and margin accounts receivable, are disclosed in the corresponding notes, which are generally not on the net basis in financial position. However, assuming the fair value of the collateral is presented on net basis, the risk exposure of the corresponding accounts will be lowered accordingly. As at December 31, 2018 and 2017, due to the fair value of the collateral is higher than the book value of the financial instruments, collateral net exposure after offsetting and net amount is considered non-significant.

### 66 CONTINGENCIES

As at December 31, 2018 and 2017, the Group were not involved in any material legal, arbitration or administrative proceedings that, if adversely determined, the Group expect would materially adversely affect their financial position or results of operations.

### 67 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The following table only contains details of subsidiaries that have significant influence on the Group's performance, assets or liabilities. Unless otherwise stated, the type of shares held is ordinary share.

	As at December 31,	
	2018	2017
Unlisted shares, at cost	14,009,747	6,208,019

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 67 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

Name of subsidiary	Place of incorporation/ establishment/ date of establishment	Proportion ownership interest held by the Company (As at December 31,)		Issued and fully paid share capital	Principal Activities
		2018	2017		
China Merchants Securities International Company Limited <sup>(i)</sup>	HK July 14, 1999	100%	100%	HK\$1,803,627,390	Investment holding
China Merchants Securities (HK) Co., Limited	HK October 4, 1986	100%	100%	HK\$5,500,000,000	Securities brokerage
China Merchants Futures (HK) Co., Limited	HK January 19, 2001	100%	100%	HK\$200,000,000	Futures brokerage
China Merchants Securities Investment Management (HK) Co., Limited	HK September 18, 2006	100%	100%	HK\$400,000,000	Investment holding
CMS Capital (HK) Co., Limited	HK August 1, 2003	100%	100%	HK\$5,000,000	Assets management
CMS Asset Management (HK) Co., Limited	HK August 13, 2008	100%	100%	HK\$10,000,000	Assets management
China Merchants Futures Co., Ltd. <sup>(i)</sup>	PRC April 4, 1993	100%	100%	RMB630,000,000	Futures brokerage
China Merchants Zhiyuan Capital Investment Co., Ltd. <sup>(i)</sup>	PRC August 28, 2009	100%	100%	RMB1,800,000,000	Investment advisory
Shenzhen China Merchants Zhiyuan Consultancy Services Co., Ltd.	PRC July 25, 2011	100%	100%	RMB3,000,000	Consulting services
Beijing Zhiyuan Lixin Investment Management Co., Ltd.	PRC April 23, 2013	100%	100%	RMB10,000,000	Investment management
Shenzhen China Merchants Zhiyuan Equity Investment and Funds Management Co., Ltd.	PRC May 29, 2013	70%	70%	RMB15,000,000	Investment management
Ganzhou China Merchants Zhiyuan No. 1 Fund Management Co., Ltd.	PRC June 7, 2013	100%	100%	RMB10,000,000	Investment management
Ganzhou Zhaoyuan Investment Management Co., Ltd.	PRC October 14, 2013	100%	100%	RMB10,000,000	Investment management
Anhui China Merchants Innovative Investment Management Co., Ltd.	PRC March 4, 2015	100%	100%	RMB25,000,000	Investment management
Qingdao Guoxin China Merchants and Business Development Investment Management Co., Ltd.	PRC February 6, 2015	65%	65%	RMB10,000,000	Investment management
Shenyang China Merchants Business and Development Investment Management Co., Ltd.	PRC July 10, 2015	70%	70%	RMB4,000,000	Investment management

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**67 PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)**

Name of subsidiary	Place of incorporation/ establishment/ date of establishment	Proportion ownership interest held by the Company (As at December 31,)		Issued and fully paid share capital	Principal Activities
		2018	2017		
China Merchants Securities Investment Co., Ltd. <sup>(i)</sup>	PRC December 2, 2013	100%	100%	RMB1,200,000,000	Investment holding
China Merchants Securities Asset Management Co., Ltd. <sup>(i)</sup>	PRC April 3, 2015	100%	100%	RMB1,000,000,000	Assets management
China Merchants Securities (UK) Limited	UK October 25, 2013	100%	100%	US\$22,000,000	Futures brokerage
Qingdao China Merchants Zhiyuan Investment Management Co., Ltd.	PRC January 12, 2016	100%	100%	RMB10,000,000	Investment management
Anhui Zhiyuan Smart City Fund Management Co., Ltd.	PRC March 15, 2016	100%	100%	RMB4,500,000	Equity fund management, investment advisory service, investment management, financial consultancy service
China Merchants Securities (HK) Finance Co., Limited	HK May 14, 2016	100%	100%	HK\$500,000	Investment and financing Management
China Merchants Securities Capital Investment Co., Ltd*	PRC August 8, 2016	100%	100%	RMB200,000,000	Financial services
Shenzhen China Merchants Zhiyuan Culture Investment Management Co., Ltd*	PRC November 16, 2016	92%	72%	RMB10,000,000	Investment management and financial consultancy
Anhui Traffic Control China Merchants Fund Management Co., Ltd.	PRC April 6, 2017	70%	70%	RMB15,000,000	Investment management
China Merchants Securities (Korea) Co., Ltd.	Korea January 9, 2017	100%	100%	KRW8,523,900,000	Securities brokerage, futures brokerage
Chizhou zhongan China Merchants equity investment Management Co., Ltd.	PRC November 4, 2015	72%	72%	RMB10,000,000	Investment management

\* English name translated is for identification purpose only.

<sup>(i)</sup> These subsidiaries are directly held by the Company.<sup>(ii)</sup> The directors of the Company considered that none of the non-wholly owned subsidiaries is having material non-controlling interests at the end of the year, therefore there are no further information presented.<sup>(iii)</sup> None of the subsidiaries had issued any debt securities during the current and prior year.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 68 STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	As at December 31,	
	2018	2017
<b>Non-current assets</b>		
Property and equipment	1,533,317	1,765,280
Prepaid lease payment	431,685	—
Other intangible assets	3,000	3,000
Investments in subsidiaries, at cost	8,062,647	6,208,019
Interests in associates	7,238,551	6,492,907
Available-for-sale financial assets	—	7,636,599
Equity instruments at fair value through other comprehensive income	6,722,607	—
Debt instruments at amortised cost	1,796,608	—
Financial assets held under resale agreements	5,277,749	8,801,458
Financial assets at fair value through profit or loss	50,000	—
Deferred tax assets	686,505	769,979
Other non-current assets	208,463	185,238
<b>Total non-current assets</b>	<b>32,011,132</b>	<b>31,862,480</b>
<b>Current assets</b>		
Advances to customers	39,032,744	54,374,650
Accounts and other receivables	1,117,785	3,038,345
Amount due from a subsidiary	1,502,860	1,502,860
Available-for-sale financial assets	—	24,387,785
Debt instruments at fair value through other comprehensive income	41,642,341	—
Financial assets held under resale agreements	27,536,183	26,797,465
Financial assets at fair value through profit or loss	88,964,260	64,165,215
Derivative financial assets	654,938	284,158
Deposits in exchanges and non-bank financial institutions	1,089,030	1,032,937
Clearing settlement funds	11,849,317	10,885,489
Cash and bank balances	34,707,670	40,534,612
<b>Total current assets</b>	<b>248,097,128</b>	<b>227,003,516</b>
<b>Total assets</b>	<b>280,108,260</b>	<b>258,865,996</b>



**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**68 STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)**

	As at December 31,	
	2018	2017
<b>Current liabilities</b>		
Short-term debt instruments	34,850,476	47,065,670
Placements from banks and other financial institutions	3,519,000	1,470,000
Accounts payable to brokerage clients	38,339,464	41,493,367
Accrued staff costs	3,282,057	4,255,789
Other payables and accrued charges	2,029,084	3,672,731
Current tax liabilities	7,776	—
Financial liabilities at fair value through profit or loss	6,640,527	3,046,996
Derivative financial liabilities	577,866	589,265
Financial assets sold under repurchase agreements	60,911,667	33,382,970
Long-term borrowings due within one year	—	378,134
Bonds payable due within one year	17,855,355	19,499,911
<b>Total current liabilities</b>	<b>168,013,272</b>	<b>154,854,833</b>
<b>Net current assets</b>	<b>80,083,856</b>	<b>72,148,683</b>
<b>Total assets less current liabilities</b>	<b>112,094,988</b>	<b>104,011,163</b>
<b>Equity</b>		
Share capital	6,699,409	6,699,409
Other equity instruments	15,000,000	15,000,000
Capital reserve	27,460,042	27,460,042
Investment revaluation reserve of available-for-sale financial assets	—	328,843
Investment revaluation reserve of financial assets at fair value through other comprehensive income	302,864	—
General reserves	13,858,238	12,790,340
Retained profits	12,197,463	12,898,816
<b>Total equity</b>	<b>75,518,016</b>	<b>75,177,450</b>
<b>Non-current liabilities</b>		
Accrued staff costs	787,540	787,540
Deferred tax liabilities	99,961	190,499
Deferred income	125,734	126,000
Bonds payable	35,563,737	27,729,674
<b>Total non-current liabilities</b>	<b>36,576,972</b>	<b>28,833,713</b>
<b>Total equity and non-current liabilities</b>	<b>112,094,988</b>	<b>104,011,163</b>

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**68 STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)**

The movements in the Company's reserves are set out as below

*Capital reserve***For the year ended December 31, 2018**

	Opening	Addition	Closing
Capital reserve	27,460,042	—	27,460,042

**For the year ended December 31, 2017**

	Opening	Addition	Closing
Capital reserve	27,460,042	—	27,460,042

*Investment revaluation reserve of financial assets at fair value through other comprehensive income:*

	As at December 31, 2018
At the end of prior year	—
Effects of initial application of IFRS 9	402,761
At the beginning of the year	402,761
Debt instruments at fair value through other comprehensive income	
Net changes in fair value for the year	758,923
Reclassification to profit or loss	22,463
Income tax effects	(195,347)
Impairment of debt instruments at fair value through other comprehensive income	
Net changes in fair value for the year	(1,032)
Income tax effects	258
Equity instruments at fair value through other comprehensive income	
Net changes in fair value for the year	(913,992)
Income tax effects	228,498
Share of fair value gain on financial assets at fair value through other comprehensive income of associates	332
<b>At the end of the year</b>	<b>302,864</b>

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**68 STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)**

The movements in the Company's reserves are set out as below (Continued)

*Investment revaluation reserve of available-for-sale financial assets:*

	As at December 31, 2017
At the beginning of the year	(517,487)
Available-for-sale financial assets	
Net fair value changes during the year	1,009,815
Reclassification adjustment to profit or loss	125,157
Income tax impact	(283,743)
Share of fair value gain on available-for-sale financial assets held by associates	(4,899)
<b>At the end of the year</b>	<b>328,843</b>

*General reserves***For the year ended December 31, 2018**

	Opening	Addition	Closing
Statutory reserve	4,306,384	355,966	4,662,350
General risk reserve	4,306,384	355,966	4,662,350
Transaction risk reserve	4,177,572	355,966	4,533,538
	<b>12,790,340</b>	<b>1,067,898</b>	<b>13,858,238</b>

**For the year ended December 31, 2017**

	Opening	Addition	Closing
Statutory reserve	3,875,865	430,519	4,306,384
General risk reserve	3,875,865	430,519	4,306,384
Transaction risk reserve	3,747,053	430,519	4,177,572
	<b>11,498,783</b>	<b>1,291,557</b>	<b>12,790,340</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

### 68 STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

The movements in the Company's reserves are set out as below (Continued)

#### Retained profits

The movements of retained profits of the Company are set out below:

	As at December 31,	
	2018	2017
At the end of prior year	12,898,816	11,743,572
Effects of initial application of IFRS 9	(73,031)	—
At the beginning of the year	12,825,785	11,743,572
Profit for the year	3,559,663	4,305,186
Appropriation to general reserves	(1,067,899)	(1,291,557)
Distribution to the holders of other equity instruments	(802,090)	(592,196)
Dividends recognised as distribution	(2,317,996)	(1,266,189)
<b>At the end of the year</b>	<b>12,197,463</b>	<b>12,898,816</b>

### 69 LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Borrowings	Payable for short-term financing	Bonds Payable	Other payables and accrued charges	Total
As at January 1, 2018 <sup>(i)</sup>	8,061,342	47,709,653	48,518,488	592,196	104,881,679
Cash flow from financing activities <sup>(ii)</sup>	(5,486,061)	(15,099,132)	2,677,936	(3,163,410)	(21,070,667)
Financing cost incurred	133,595	2,239,955	2,222,668	3,163,410	7,759,628
Exchange differences	253,000	—	—	—	253,000
<b>As at December 31, 2018</b>	<b>2,961,876</b>	<b>34,850,476</b>	<b>53,419,092</b>	<b>592,196</b>	<b>91,823,640</b>

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**69 LIABILITIES ARISING FROM FINANCING ACTIVITIES (Continued)**

	Borrowings	Payable for short-term financing	Bonds Payable	Other payables and accrued charges	Total
As at January 1, 2017	3,620,566	21,782,330	50,465,206	—	75,868,102
Cash flow from financing activities	4,696,786	24,588,775	(6,326,312)	(1,274,589)	21,684,660
Financing cost incurred	115,706	748,056	2,610,730	1,866,785	5,341,277
Change in interest payable	(2,075)	(73,491)	479,961	—	404,395
Exchange differences	(375,619)	—	—	—	(375,619)
<b>As at December 31, 2017</b>	<b>8,055,364</b>	<b>47,045,670</b>	<b>47,229,585</b>	<b>592,196</b>	<b>102,922,815</b>

- (i) As at January 1, 2018, the interests accrued on debt instrument investments of the Group are included in the carrying amounts of the corresponding financial liabilities.
- (ii) The cash flows represent the proceeds from and repayment of borrowings, payable for short-term financing, bond payable and interest paid in the consolidated statements of cash flows.

**70 EVENTS AFTER THE REPORTING PERIOD****(1) Issuance of corporate bonds**

On January 17, 2019, the Company issued the first tranche of non-public corporate bonds in 2019, including type I named as "19CMF1" and type II named as "19CMF2". The total principal amounts of 19CMF1 and 19CMF2 are RMB1.5 billion with durations of 183 days and RMB3.5 billion with durations of 270 days, respectively. The interest rates of 19 CM F1 and 19 CM F2 are 3.38% and 3.48%, respectively.

On March 8, 2019, the Company issued the first tranche of corporate bonds in 2019, named as "19CM G1", with a principal amount of RMB1.5 billion, an interest rate of 3.59% and a maturity of 3 years.

**(2) Profit distribution**

In accordance with the 2018 profit distribution plan approved by the board of directors on March 28, 2019, the Company proposed cash dividends of RMB2.64 per 10 shares (inclusive of tax) to shareholders based on 6,699,409,329 shares of total capital. The proposed profit distribution plan is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

**Notes to the Consolidated Financial Statements (Continued)**

For the year ended December 31, 2018

(Expressed in thousands of Renminbi, unless otherwise stated)

**70 EVENTS AFTER THE REPORTING PERIOD (Continued)****(3) Repurchase and placement of shares**

Pursuant to the resolution in the 17th meeting by the 6th board of directors on March 12, 2019, the Company proposed to repurchase the Company's A shares at the price not exceeding RMB26.35 per share through the centralized bidding transaction. The total amount of share repurchase will be no less than RMB650 million and not exceeding RMB1.3 billion. The shares to be repurchased will be used to stock incentive scheme (restricted shares) or employee stock scheme of the Company. The proposed share repurchase plan is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Pursuant to the resolution in the 17th meeting by the 6th board of directors on March 12, 2019, the Company proposed an A shares placement of no more than 3 shares per 10 shares based on the total number of shares held as at the record date, and a H shares placement of no more than 3 shares per 10 shares based on the total number of qualified shares held as at the record date. The proposed share placement plan is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

**(4) Continuous Connected Transaction**

The validity of the 2016 Framework Agreement expired on December 31, 2018. As the Group and China Merchants Group and/or its associates agreed to conduct securities and financial transactions with each other, and provide securities and financial products as well as financial services to each other, in their respective ordinary course of business based on normal commercial terms and market practices at prevailing market prices or rates, the Company entered into the Securities and Financial Products, Transactions and Services Framework Agreement with China Merchants Group on February 15, 2019, pursuant to which the Company and China Merchants Group shall mutually offer to each other securities and financial products and transactions, and the Group shall provide financial services to China Merchants Group and/or its associates. The term of the Agreement shall be from January 1, 2019 to June 30, 2019. For details, please refer to the announcement in respect of continuous connected transaction dated February 15, 2019 of the Company.

## Chapter 11: Documents Available for Inspection

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

Chairman of the Board: HUO Da

Submission date approved by the Board: March 28, 2019

Revised information

Applicable  Not applicable

## Chapter 12: Information Disclosure of a Securities Company

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

✓Applicable    □Not applicable

No	Issuing authority	Title	Document No	Date of announcement
1	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of WONG ti (汪棣) as an Independent director of a Securities Firm	Shen Zheng Ju Xu Ke Zi [2018] No.12	January 29, 2018
2	CSRC	Reply letter regarding the Advices on Increase of Share Capital in China Merchants Securities International Company Limited from China Merchants Securities Co., Ltd,	Ji Gou Bu Han [2018] No. 194	January 24, 2018
3	Shanghai Stock Exchange	No Objection Letter for the Offer for Sales of Corporate Bonds Privately Issued by China Merchants Securities Co., Ltd.	Shang Zheng Han [2018] No. 160	February 6, 2018
4	CSRC	Reply Letter regarding trial development of cross-border businesses by China Merchants Securities Co., Ltd.	Ji Gou Bu Han [2018] No. 943	April 24, 2018
5	PBOC	Notice of the PBOC on Approval of the Maximum Outstanding Balance of Commercial Papers of China Merchants Securities Co., Ltd.	Yin Fa [2018] No. 137	May 28, 2018
6	CSRC Shenzhen Office	Approval of CSRC Shenzhen Office on the Opening of 16 Branches by China Merchants Securities Co., Ltd.	Shen Zheng Ju Xu Ke Zi [2018] No.43	June 6, 2018
7	CSRC Shenzhen Office	Approval of CSRC Shenzhen Office on the Amendments to the Important Provisions in the Articles Association of China Merchants Securities Co., Ltd.	Shen Zheng Ju Xu Ke Zi [2018] No.53	June 14, 2018
8	CSRC Shenzhen Office	Approval of CSRC Shenzhen Office on the Changes of Important Articles in the Articles Association of China Merchants Securities Co., Ltd.	Shen Zheng Ju Xu Ke Zi[2018]No. 90	November 16, 2018
9	the Securities and Fund Institution Supervision Department of the CSRC	Regulatory Advices on Application of License for Credit Derivatives Business by China Merchants Securities Co., Ltd.	Ji Gou Bu Han [2018] No.2926	December 13, 2018
10	CSRC Shenzhen Office	CSRC Shenzhen Office's Approval of HU Yu (胡宇) as a Senior Management of a Securities Firm	Shen Zheng Ju Xu Ke Zi [2018] No.97	December 18, 2018
11	CSRC Shenzhen Office	Unqualified Advices from CSRC Shenzhen Office's on the Appointment of Compliance Officer of China Merchants Securities Co., Ltd.	Shen Zheng Ju Xu Ke Zi [2018] No. 204	December 24, 2018



## Chapter 12: Information Disclosure of a Securities Company

### II. Classification of the Company by the Regulatory Department

Applicable Not applicable

Year	Results
2018	AA (Class A)
2017	AA (Class A)
2016	AA (Class A)

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A N N U A L  
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