中信建投証券股份有限公司
CSC FINANCIAL CO., LTD.

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

(Stock Code: 6066)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED DECEMBER 31, 2018

The board of directors of CSC Financial Co., Ltd. (the "**Company**") hereby announces the consolidated results of the Group for the year ended December 31, 2018. This announcement, containing the full text of the 2018 annual report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcements of annual results. The printed version of the Company's 2018 annual report will be dispatched to the shareholders of the Company and available for viewing on the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and the website of the Company at www.csc108.com by the end of April 2019.

By order of the Board
CSC Financial Co., Ltd.
Wang Changqing
Chairman

Beijing, the PRC, March 18, 2019

As at the date of this announcement, the executive Directors of the Company are Mr. WANG Changqing and Mr. LI Geping; the non-executive Directors of the Company are Mr. YU Zhongfu, Mr. DONG Shi, Ms. ZHANG Qin, Ms. ZHU Jia, Mr. WANG Hao, Mr. WANG Bo and Mr. XU Gang; and the independent non-executive Directors of the Company are Mr. FENG Genfu, Ms. ZHU Shengqin, Mr. DAI Deming, Mr. BAI Jianjun and Mr. LIU Qiao.

CONTENTS

DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this annual report:

"A Share(s)"	listed domestic shares in the share capital of our Company with a nominal value of RMB1.00 each, listed on the Shanghai Stock Exchange and traded in RMB
"Articles of Association" or "Articles"	the articles of association of CSC Financial Co., Ltd.
"Board" or "Board of Directors"	the Board of Directors of our Company
"BSCOMC"	Beijing State-owned Capital Operation and Management Center (北京國有資本經營管理中心)
"Central Huijin"	Central Huijin Investment Limited (中央匯金投資有限責任公司)
"Century Jinyuan"	Century Jinyuan Investment Group Limited (世紀金源投資集團有限公司)
"China Jianyin"	China Jianyin Investment Limited (中國建銀投資有限責任公司)
"China Securities Capital"	China Capital Management Limited (中信建投資本管理有限公司)
"China Securities Funds"	China Securities Funds Management Limited (中信建投基金管理有限公司)
"China Securities Futures"	China Futures Co., Ltd. (中信建投期貨有限公司)
"China Securities International"	China Securities (International) Finance Holding Company Limited (中信建投(國際)金融控股有限公司)
"China Securities Investment"	China Securities Investment Limited (中信建投投資有限公司)
"CIC"	China Investment Corporation (中國投資有限責任公司)
"CITIC Group"	CITIC Group Corporation Ltd. (中國中信集團有限公司)

"CITIC Limited"	CITIC Limited (中國中信股份有限公司)
"CITIC Securities"	CITIC Securities Co., Ltd. (中信證券股份有限公司)
"Company Law"	Company Law of the People's Republic of China
"CSC" or "Company", "our Company", "parent company"	CSC Financial Co., Ltd.
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"CSRF"	China Structural Reform Fund Co., Ltd. (中國國有企業結構調整基金股份有限公司)
"Director(s)"	the director(s) of our Company
"E-Capital"	E-Capital Transfer Co., Ltd. (證通股份有限公司)
"FICC"	Fixed income securities, currencies and commodities
"Glasslake Holdings"	Glasslake Holdings Limited (鏡湖控股有限公司)
"Group"	CSC Financial Co., Ltd. and its subsidiaries
"H Share(s)"	listed overseas foreign shares in the share capital of our Company with a nominal value of RMB1.00 each, listed on the Hong Kong Stock Exchange and traded in HK dollars
"HK$" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
"Hong Kong Stock Exchange" or "HKEX"	The Stock Exchange of Hong Kong Limited

"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"IPO"	initial public offering
"Latest Practicable Date"	March 18, 2019, being the latest practicable date prior to the printing of this annual report for the purposes of ascertaining the information contained herein
"Listing Rules of the SSE"	the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (as amended from time to time)
"Ministry of Finance"	Ministry of Finance of the People's Republic of China
"NEEQ"	the National Equities Exchange and Quotations
"NEEQ Company"	National Equities Exchange and Quotations Co., Ltd. (全國中小企業股份轉讓系統有限責任公司)
"PRC" or "China"	the People's Republic of China
"PwC"	PricewaterhouseCoopers
"PwC Zhong Tian"	PricewaterhouseCoopers Zhong Tian LLP
"QDII"	Qualified Domestic Institutional Investor
"QFII"	Qualified Foreign Institutional Investor
"Reporting Period"	from January 1, 2018 to December 31, 2018
"RMB" or "Renminbi"	the lawful currency of the PRC
"RQFII"	Renminbi Qualified Foreign Institutional Investor
"Securities Law"	Securities Law of the People's Republic of China
"Shanghai and Shenzhen Stock Exchanges"	Shanghai Stock Exchange and Shenzhen Stock Exchange

"Shanghai Shangyan"	Shanghai Shangyan Investment Center (Limited Partnership) (上海商言投資中心(有限合夥))
"Share(s)"	ordinary shares in the share capital of our Company with a nominal value of RMB1.00 each, comprising A Shares and H Shares
"Shareholder(s)"	holder(s) of the Share(s)
"SSE"	Shanghai Stock Exchange
"Supervisor(s)"	the supervisor(s) of the Company
"Supervisory Committee"	the supervisory committee of the Company
"Tengyun Investment"	Xizang Tengyun Investment Management Limited (西藏騰雲投資管理有限公司) (formerly known as Xizang Shannan Century Jinyuan Investment Management Limited (西藏山南世紀金源投資管理有限公司))
"the end of the Reporting Period"	December 31, 2018
"US$"	United States dollars, the lawful currency of the United States
"Wind Info"	Wind Information Co., Ltd. (上海萬得信息技術股份有限公司), a joint-stock company with limited liability incorporated in the PRC and a service provider of financial data, information and software

CHAIRMAN' S STATEMENT

Dear Shareholders,

Year 2018 has been an extraordinary year. It is the first year for the full implementation of the spirit of the 19th National Congress of the Communist Party of China ("NCCPC") by the Company and the first year for the Company to list on the A-share capital market. At present, the national economy undergoes changes with stability, in spite of a complicated and tough external environment, and after four decades of reform and opening-up, the PRC economy is in the process of transforming from old kinetic energy into new ones. The Communist Party of China ("CPC") and the State Council attach great importance to the development of the capital market that the General Secretary Xi Jinping, during his important speech at the China's Central Economic Work Conference in 2018, stated that "the capital market initiates a small change in one place and thus ripples and affects the whole in the process of financial operation." A series of key systems has been successively implemented in the capital market, gradually generating dividends in the market.

Faced with the complex and ever-changing market environment, the Company regarded the Xi Jinping's Thought on Socialism with Chinese Characteristics for a New Era and the spirit of the 19th NCCPC as guidance, earnestly adhered to the spirit of the 19th NCCPC, the China's Central Economic Work Conference and the National Financial Work Conference, strengthened its function of serving the real economy, persistently built the core competitiveness of the Company to achieve high quality development. In 2018, the Company offered help to private enterprises to alleviate and tackle their difficulties in a market-oriented approach; adjustments were initially made to the organizational structure of the Company's main business lines; the investment banking business continued to expand its client base; the wealth management business examined its internal mechanism to respond to the industrial cycle; the service capabilities of trading and serving institutional clients continued to improve; the investment management business further underwent transformation and upgrade; the risk and compliance management initiatives were pushed forward in general; the work efficiency in operation management and information technology was further enhanced; various efforts in party establishment, discipline inspection, labour unions, poverty alleviation and other related work were reinforced. The Company has been rated by CSRC as one of the "Class A Grade AA" among three securities companies for nine consecutive years.

After 13 years of dedicated work, the Company was listed on the Shanghai Stock Exchange in 2018 to become the 11th A+H listed securities company in the PRC, opening a new era for corporate development and creating better conditions for the long-term sound development of the Company.

Looking forward to 2019, we welcome the upcoming 70th anniversary of the establishment of China. Acceleration of the pace in opening up the PRC financial industry to the world, coupled with increasing deepening penetration of the Internet technologies into the financial industry, diversification and specification of customer demand also put forward higher requirements on the integrated service abilities of securities companies. To this end, the Company will endeavor to foster the general upgrade of customer service system and drive the Company's transformation toward digital new kinetic energy, enhance the core competitiveness in several areas such as talent, capital, technology, compliance risk control, organizational structure and corporate culture, firmly grasp the policies and opportunities arising from the formation of a science and technological innovation board and pilot registration system, and improve its ability in serving the real economy in a comprehensive manner. Adhered to the core value of "recognition for achievement, ability and status", the Company kept the mission of "bringing together talents, serving customers, creating value and contributing to society" firmly in mind, the Company has always strived and been dedicated to develop the Company to become a respectable, top-grade domestic securities company with comprehensive strengths, advanced management, excellent reputation and sound development.

Chairman
WANG Changqing
March 18, 2019

SECTION 1 IMPORTANT NOTICE

I. The Board of Directors, the Supervisory Committee of the Company, the Directors, the Supervisors and the senior management warrant the truthfulness, accuracy and completeness of this annual report and that there is no misrepresentation on, misleading statement in, or material omission from, this annual report, and will assume joint and several liabilities.

II. This report was considered and approved at the eleventh meeting of the second session of the Board of Directors of the Company. All Directors of the Company attended the board meeting. No Director raised any objection to this annual report.

III. PwC Zhong Tian and PwC issued the auditor's reports with standard unqualified audit opinion, respectively, which were based on the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards

IV. Mr. Wang Changqing, Chairman of the Company, Mr. Li Geping, the General Manager and the Chief Financial Officer, and Mr. Zhao Ming, head of the Company's accounting department, warrant that the financial statements set out in this annual report are true, accurate and complete.

V. The plans for profit distribution or capital reserve capitalization for the reporting period were considered by the board of directors

The 2018 profit distribution plan formulated by the Company is as follows: the Company proposes to distribute in the form of cash dividends, on the basis of 7,646,385,238 shares in the total issued share capital as at December 31, 2018, RMB1.80 (tax inclusive) for every 10 shares to all Shareholders. The proposal has yet to be submitted at the general meeting of the Company for approval.

VI. Risk statement for forward-looking statements

Forward looking statements, including future plans and development strategies, contained in this report do not constitute a substantive commitment to investors by the Company. Investors should be aware of investment risks.

VII. Whether there was any appropriation of funds by controlling shareholder(s) or its/their related parties for non-operating purposes

No

VIII. Whether any guarantee was made to external parties against the stipulated decision-making process

No

IX. Material risk factors

During the reporting period, no material risk matter existed in the Company. The Company has described the relevant potential risks in this report in detail. Please refer to "Section 4 Management Discussion and Analysis – III. Discussion and Analysis on Future Development of the Company – (V) Potential Risks" of this annual report.

The Company prepared this annual report in both English and Chinese. In the event of any discrepancies in interpretation between the English version and Chinese version of this annual report, the Chinese version shall prevail. In this annual report, the discrepancies in the decimal place between the sum of the amount of each sub-item and the grand total are due to rounding to the nearest integer.

SECTION 2 COMPANY INFORMATION

I. PROFILE

Name in Chinese	中信建投証券股份有限公司
Abbreviation in Chinese	中信建投証券
Name in English	China Securities Co., Ltd. CSC Financial Co., Ltd.(在香港以該註冊英文名稱開展業務) (carrying on business in Hong Kong with such registered English name)
Abbreviation in English	CSC
Legal Representative	Mr. Wang Changqing
General Manager	Mr. Li Geping
Authorized Representatives	Mr. Wang Changqing, Mr. Li Geping
Joint Company Secretaries	Mr. Wang Guangxue, Ms. Huang Huiling

Registered Capital and Net Capital

Unit: RMB Yuan

	As at the end of the Reporting Period (December 31, 2018)	As at the end of the previous year (December 31, 2017)
Registered Capital	7,646,385,238.00	7,246,385,238.00
Net Capital	41,030,077,201.74	37,025,325,451.93

Notes: As of the date of this report, the total number of issued Shares of the Company was 7,646,385,238, of which 6,385,361,476 Shares were A Shares and 1,261,023,762 Shares were H Shares.

Scope of Business and Business Qualifications for Each Individual Business of the Company

The business scope of the Company mainly includes: securities brokerage; securities investment consulting; financial advisory relating to securities trading and securities investment activities; securities underwriting and sponsoring; proprietary securities trading; securities asset management; agency sale of securities investment funds; provision of intermediary business to futures companies; margin financing and securities lending; agency sale of financial products; sideline insurance agency business; stock options market making; custodian for securities investment fund; sale of precious metal products.

In addition, the Company also possesses the following major individual business qualifications (items 45–47 were business qualifications newly obtained in 2018):

1. Bond business
2. Interbank lending
3. Direct investment
4. Fixed income securities dealer
5. Providing trading units for insurance agency investors
6. Repurchase business with collateralized quotes
7. Securities and foreign exchange operation business
8. Interest rate swap trading
9. Refinancing business
10. Contractual repurchase securities transaction business on Shanghai Stock Exchange
11. Contractual repurchase business of securities transaction on Shenzhen Stock Exchange
12. OTC market business of securities companies
13. Securities refinancing business
14. Entrusted management of insurance funds
15. Collateralized stock repurchase business on Shenzhen Stock Exchange
16. Collateralized stock repurchase business on Shanghai Stock Exchange
17. Swapping financial derivatives and counter trading business of OTC option
18. Agency business for precious metal spot contracts and proprietary business
19. Counter trading of swapping financial derivatives and counter trading business of OTC option

20. Conducting capital consumption payment services for client securities
21. Repurchase transaction business with collateralized quotes
22. Internet securities business
23. Market making business of National Equities Exchange and Quotations System
24. Gold trading membership of Shanghai Gold Exchange
25. Shanghai-Hong Kong Stock Connect business
26. CRMW instruments selling business
27. Business of financing of exercising share incentive scheme of listed companies
28. Options settlement business
29. Participants for stock options trading
30. Conducting overseas securities investment and management business by Qualified Domestic Institutional Investor
31. Foreign currency lending business
32. Gold inquiry business
33. Telecommunications and information service
34. Work units of consultation services for military confidential business
35. Private fund outsourcing business
36. Chief agency broker for National Equities Exchange and Quotations System
37. Class A international membership for gold trading of Shanghai International Gold Exchange Co., Ltd.
38. Shenzhen-Hong Kong Stock Connect business
39. Dealing of CRMW business
40. Issuing business of CRMW
41. Issuing business of credit-linked notes
42. Operation for market information enhancement service business (online version)
43. Market maker of quotation and service system for private equity products
44. Market maker of white sugar option on Zhengzhou Commodity Exchange
45. Institution qualified to quote in the "Bond Connect"
46. Primary trader for OTC option
47. Pilot of cross-border business

Subsequent Events

As of the date of this report, the company obtained the following business qualifications in January 2019:

1. Market maker of cotton option on Zhengzhou Commodity Exchange
2. Market maker of corn option on Dalian Commodity Exchange
3. Market maker of listed fund owner option on SSE

II. CONTACT PERSONS AND DETAILS

	Secretary to the Board	Securities representative
Contact Person	Wang Guangxue	Du Ningning
Contact Address	No. 188 Chaonei Avenue, Dongcheng District, Beijing	No. 188 Chaonei Avenue, Dongcheng District, Beijing
Telephone	86–10–65608107	86–10–65608107
Facsimile	86–10–65186399	86–10–65186399
Email	investorrelations@csc.com.cn	investorrelations@csc.com.cn

III. BASIC INFORMATION

Registered Address	Unit 4, No. 66 Anli Road, Chaoyang District, Beijing
Postal Code of Registered Address	100101
Office Address	No. 188 Chaonei Avenue, Dongcheng District, Beijing
Postal Code of Office Address	100010
Place of Business in Hong Kong	18/F, Two Exchange Square, Central, Hong Kong
Website	www.csc108.com
Email	investorrelations@csc.com.cn
Telephone	86-10-85130588
Facsimile	86-10-65186399
National Customer Service Hotline	95587/4008888108
Investor Relations Hotline	86-10-65608107
United Social Credibility Code	91110000781703453H

IV. INFORMATION DISCLOSURE AND AVAILABILITY PLACES

Media designated for information disclosure by the Company	China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily
Website designated by CSRC and the HKEX for publication of the Annual Reports	Website designated by CSRC: http://www.sse.com.cn (website of SSE) Website designated by the Hong Kong Stock Exchange: http://www.hkexnews.hk (HKExnews website of the HKEX)
Places where annual reports of the Company are available	No. 188 Chaonei Avenue, Dongcheng District, Beijing Unit 4, No. 66 Anli Road, Chaoyang District, Beijing 18/F, Two Exchange Square, Central, Hong Kong

V. BRIEF INFORMATION OF THE SHARES OF THE COMPANY

Brief information of the shares of the Company				
Class of Shares	Stock Exchange of Listing	Stock Name	Stock Code	Stock name before change
A Shares	SSE	CSC	601066	Not applicable
H Shares	HKEX	CSC	6066	Not applicable

VI. OTHER INFORMATION OF THE COMPANY

(I) History of the Company, mainly including reform and restructuring, increasing in share capital and other matters in prior years

1. Establishment of Company

China Securities Finance Limited (中信建投証券有限責任公司) (the "CSF Limited"), the Company's predecessor, was jointly invested and established by CITIC Securities and China Jianyin in 2005 pursuant to the Approval for Commencing Operation of China Securities Finance Limited (Zheng Jian Ji Gou Zi [2005] No. 112) (《關於同意中信建投証券有限責任公司開業的批覆》(證監機構字[2005]112號)) issued by the CSRC. On November 2, 2005, CSF Limited obtained the business license of corporate legal representative from the Administration for Industry and Commerce. The registered address is Unit 4, No. 66 Anli Road, Chaoyang District, Beijing, with registered capital of RMB2,700,000,000, of which CITIC Securities and China Jianyin made cash contribution of RMB1,620,000,000 and RMB1,080,000,000, in proportion of 60% and 40%, respectively. CSF Limited was established to acquire the securities business and related assets originally owned by Huaxia Securities Co., Ltd. and then operated as a comprehensive securities firm.

2. Change of Shareholding in 2010

(1) BSCOMC Becomes a Shareholder

On November 9, 2010, the CSRC issued the Approval for the Change of Shareholders Holding More Than 5% Equity Interests by China Securities Finance Limited (Zheng Jian Xu Ke [2010] No. 1588) (《關於核准中信建投証券有限責任公司變更持有5%以上股權的股東的批覆》(證監許可[2010]1588號)) to approve the eligibility of BSCOMC as a Shareholder of the CSF Limited holding more than 5% equity interests, with no objection to the lawful transfer of RMB1,215,000,000 equity interests of the CSF Limited (representing 45% of the total capital contribution) originally held by CITIC Securities to BSCOMC. On November 15, 2010, CSF Limited completed the change of registration in relation to the change in shareholding with the Administration for Industry and Commerce.

(2) *Central Huijin Becomes a Shareholder*

Pursuant to the Approval of the Ministry of Finance for Asset Transfer by China Jianyin to Central Huijin (Cai Jin Han [2009] No. 77) (《財政部關於中國建銀投資有限責任公司向中央匯金投資有限責任公司劃轉資產的批覆》(財金函[2009]77號)), China Jianyin, a Shareholder of CSF Limited originally holding 40% equity interests, transferred its equity interests in CSF Limited to Central Huijin at nil consideration. On November 18, 2010, the CSRC issued the Approval for the Change of Shareholders Holding More Than 5% Equity Interests by China Securities Finance Limited (Zheng Jian Xu Ke [2010] No. 1659) (《關於核准中信建投証券有限責任公司變更持有5%以上股權的股東的批覆》(證監許可[2010]1659號)) to approve the eligibility of Central Huijin as a Shareholder of the CSF Limited holding more than 5% equity interests, with no objection to the lawful transfer of RMB1,080,000,000 equity interests of the CSF Limited (representing 40% of the total capital contribution) originally held by China Jianyin to Central Huijin. On December 16, 2010, CSF Limited completed the change of registration in relation to the change in shareholding with the Administration for Industry and Commerce.

(3) *Central Jinyuan Becomes a Shareholder*

On November 23, 2010, the CSRC issued the Approval for the Change of Shareholders Holding More Than 5% Equity Interests by China Securities Finance Limited (Zheng Jian Xu Ke [2010] No. 1693) (《關於核准中信建投証券有限責任公司變更持有5%以上股權的股東的批覆》(證監許可[2010]1693號)) to approve the eligibility of Century Jinyuan as a Shareholder of the CSF Limited holding more than 5% equity interests, with no objection to the lawful transfer of RMB216,000,000 equity interests of the CSF Limited (representing 8% of the total capital contribution) originally held by CITIC Securities to Century Jinyuan. On December 16, 2010, CSF Limited completed the change of registration in relation to the change in shareholding with the Administration for Industry and Commerce.

3. *Conversion to a Joint Stock Limited Company as a Whole in 2011*

On June 30, 2011, the CSRC issued the Approval for the Conversion of China Securities Finance Limited into a Joint Stock Limited Company (Zheng Jian Xu Ke [2011] No. 1037) (《關於核准中信建投証券有限責任公司變更為股份有限公司的批覆》(證監許可[2011]1037號)) to approve the conversion of CSF Limited into a joint stock limited company as a whole. Upon completion of the conversion, the Company was renamed CSC Financial Co., Ltd. with registered capital of RMB6,100,000,000. On September 28, 2011, the Company completed the change of registration in relation to the conversion into a joint stock limited company as a whole with the Administration for Industry and Commerce.

4. *Change of Shareholding in 2016*

(1) Xizang Shannan Century Jinyuan Investment Management Limited Becomes a Shareholder

On March 8, 2016, Century Jinyuan entered into a Share Transfer Agreement with Xizang Shannan Century Jinyuan Investment Management Limited (the "Shannan Jinyuan", currently known as Xizang Tengyun Investment Management Limited), which stipulated that Century Jinyuan shall transfer those 300,000,000 shares of the Company held by it to Shannan Jinyuan, representing 4.92% of the total share capital of the Company. The above transfer was completed in July 2016.

(2) Shanghai Shangyan Becomes a Shareholder

On August 22, 2016, Century Jinyuan entered into a Share Transfer Agreement with Shanghai Shangyan, which stipulated that Century Jinyuan shall transfer those 150,624,815 shares of the company held by it to Shanghai Shangyan, representing 2.47% of the total share capital of the Company. The above transfer was completed in September 2016.

5. *IPO of H Shares in 2016*

On November 3, 2016, the CSRC issued the Approval for Issuance of Overseas Listed Foreign Shares by CSC Financial Co., Ltd. (Zheng Jian Xu Ke [2016] No. 2529) (《關於核准中信建投証券股份有限公司發行境外上市外資股的批覆》(證監許可[2016]2529號)), which approved the overseas IPO of the Company no more than 1,237,940,000 overseas listed foreign shares, with a par value of RMB1 per share, all of which were ordinary shares.

On December 9, 2016, the Company was listed and traded on the main board of the Hong Kong Stock Exchange, with an IPO of 1,130,293,500 H Shares (including 1,076,470,000 new shares) (stock code: 6066.HK). On December 30, 2016, the Company exercised the over-allotment option partially and issued 73,411,000 additional H Shares (including 69,915,238 new shares) resulting in issuance a total of 1,203,704,500 H Shares (including 1,146,385,238 new shares) at an issue price of HKD 6.81 per share.

According to the Approval for the Issues Concerning the Transfer of State-owned Shares Held by CSC Financial Co., Ltd. (Guo Zi Chan Quan [2016] No. 967) (《關於中信建投証券股份有限公司國有股轉持有關問題的批覆》(國資產權[2016]967號)) issued by the State-owned Assets Supervision and Administration Commission of the State Council, and the Letter on the Issues Concerning the Reduction and Transfer of Hong Kong-listed, State-owned Shares Held by CSC Financial Co., Ltd. (She Bao Ji Jin Fa [2016] No. 152) (《關於中信建投証券股份有限公司香港上市國有股減轉持問題的函》(社保基金發[2016]152號)) issued by the National Council for Social Security Fund of the PRC (the "NSSF"), certain existing Shareholders of the state-owned shares of the Company carried out their obligations of state-owned share reduction and have transferred an aggregate of 114,638,524 Shares of the Company to the NSSF based on 10% of the actual number of Shares issued, and such Shares were then converted into overseas listed foreign invested shares (H shares) on a one-for-one basis. According to the entrustment of the NSSF, the Company would transfer 57,319,262 Shares out of the Shares for public offering, and the proceeds would be transferred to the NSSF.

After the IPO and listing of H Shares by the Company, the total share capital was changed from 6,100,000,000 Shares to 7,246,385,238 Shares, including 5,985,361,476 domestic Shares and 1,261,023,762 H Shares.

6. *IPO of A Shares in 2018*

On May 18, 2018, the CSRC issued the Approval for Approving the Initial Public Offering of CSC Financial Co., Ltd. (Zheng Jian Xu Ke [2018] No. 828) (《關於核准中信建投証券股份有限公司首次公開發行股票的批覆》(證監許可[2018]828號)) to approve the public offering of no more than 400 million A Shares by the Company.

On June 20, 2018, the Company was listed on the main board of the SSE, with an IPO of 400,000,000 A Shares (stock code: 601066.SH) at an issue price of RMB5.42 per share.

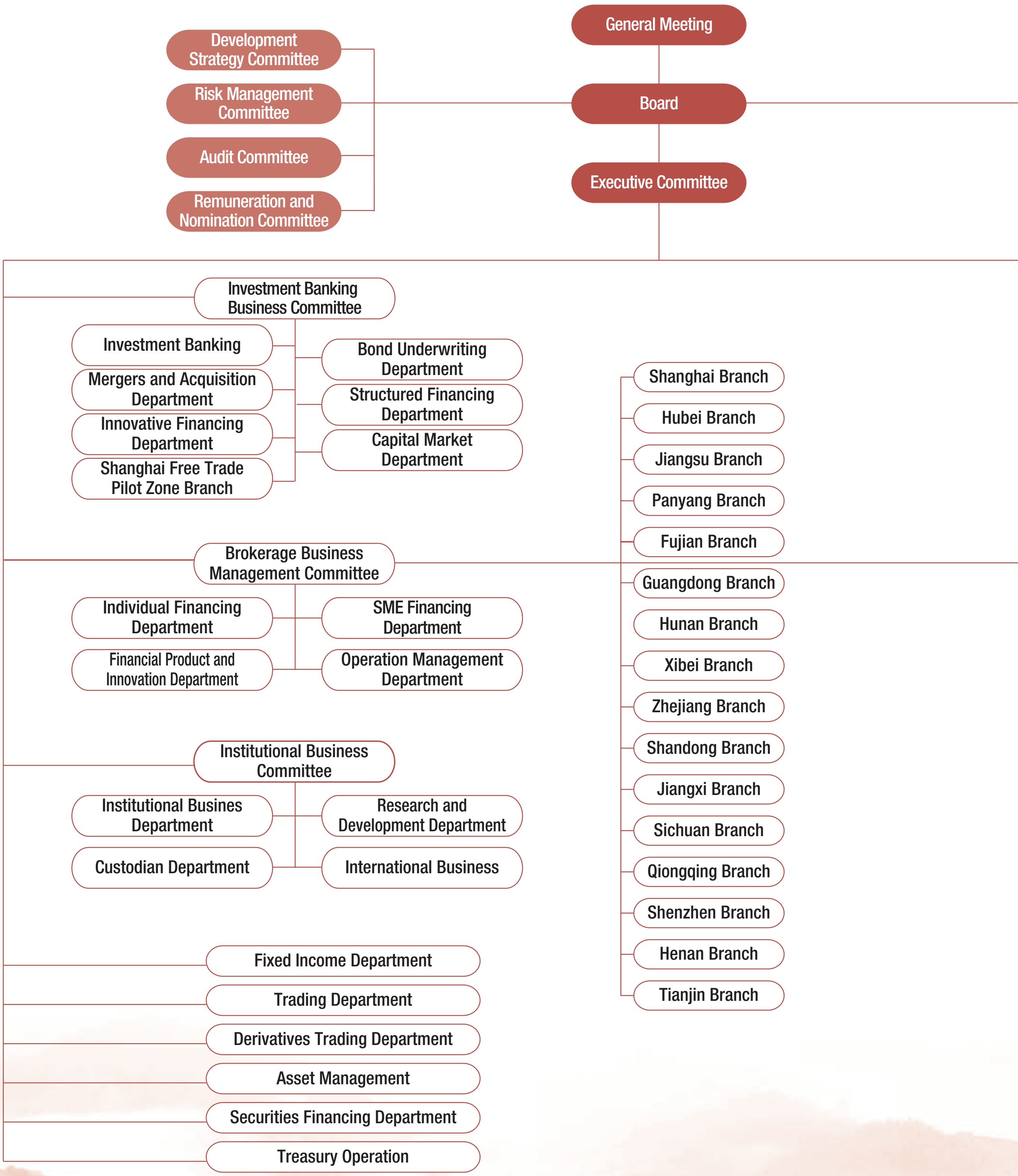
After the IPO and listing of A Shares, the total share capital of the Company was changed from 7,246,385,238 Shares to 7,646,385,238 Shares, including 6,385,361,476 A Shares and 1,261,023,762 H Shares.

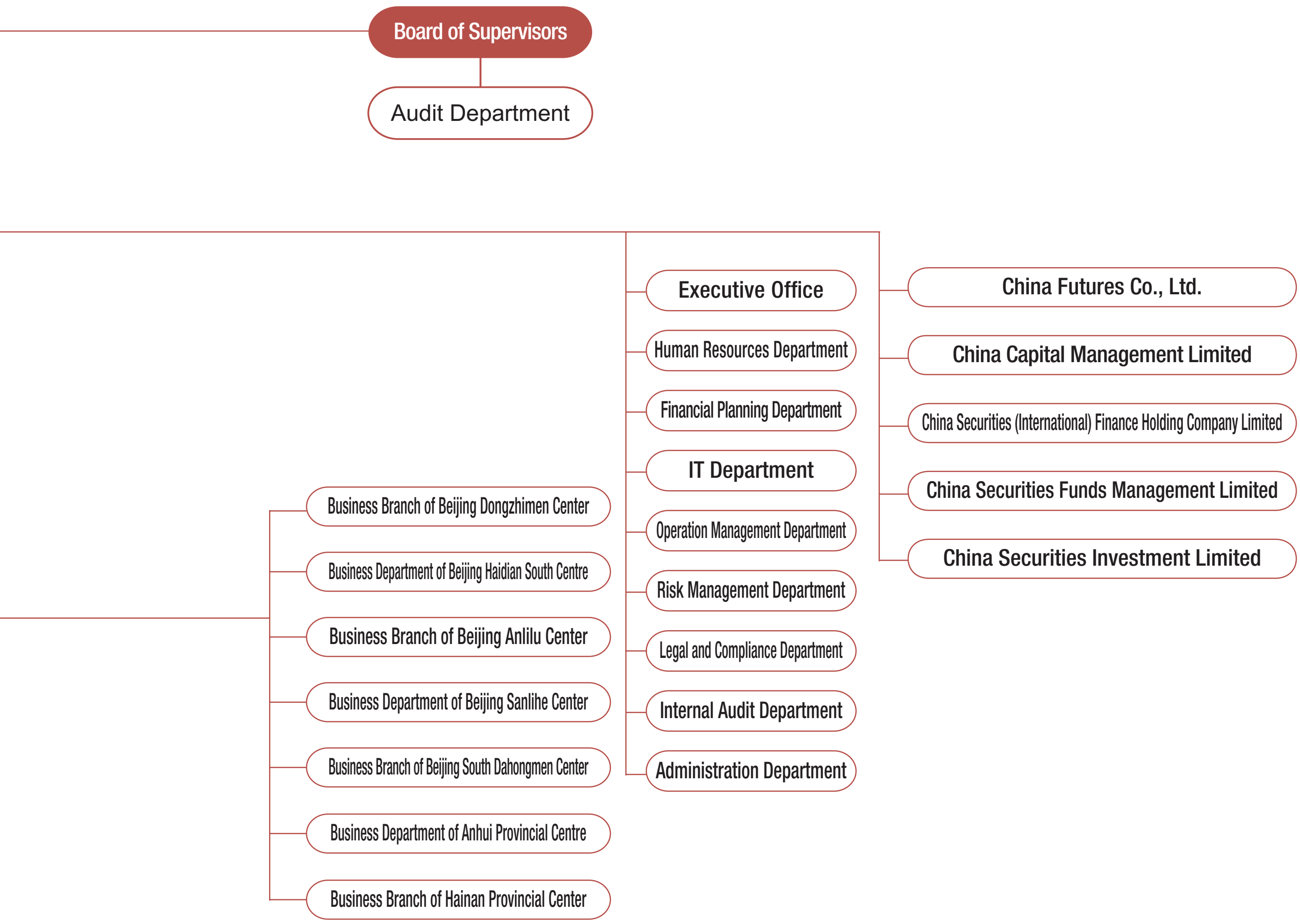
(II) Change of Substantial Shareholders

Please refer to the "Section 2 Company Information – VI. Other Information of the Company – (I) History of the Company, mainly including reform and restructuring, increasing in share capital and other matters in prior years" of this annual report for details.

(III) Organizational Structure of Company

In accordance with the requirements of the Company Law, the Securities Law, the Guidances for the Internal Control of Securities Companies (《證券公司內部控制指引》), the relevant rules and regulations of CSRC, the Hong Kong Listing Rules and the Articles of Association, the Company regulates its standard operation, constantly improves the operation mechanism and system establishment for its general meeting, the Board of Directors, the board of supervisors and the executive management. The Company has established standardized and scientific corporate governance structure, set up an organizational structure that meets its development needs. The organizational structure chart of the Company is as follows:


General Meeting
Board
Executive Committee
Development Strategy Committee
Risk Management Committee
Audit Committee
Remuneration and Nomination Committee
Investment Banking Business Committee
Investment Banking
Mergers and Acquisition Department
Innovative Financing Department
Shanghai Free Trade Pilot Zone Branch
Bond Underwriting Department
Structured Financing Department
Capital Market Department
Brokerage Business Management Committee
Individual Financing Department
Financial Product and Innovation Department
SME Financing Department
Operation Management Department
Institutional Business Committee
Institutional Busines Department
Custodian Department
Research and Development Department
International Business
Fixed Income Department
Trading Department
Derivatives Trading Department
Asset Management
Securities Financing Department
Treasury Operation
Shanghai Branch
Hubei Branch
Jiangsu Branch
Panyang Branch
Fujian Branch
Guangdong Branch
Hunan Branch
Xibei Branch
Zhejiang Branch
Shandong Branch
Jiangxi Branch
Sichuan Branch
Qiongqing Branch
Shenzhen Branch
Henan Branch
Tianjin Branch


Board of Supervisors
Audit Department
Executive Office
Human Resources Department
Financial Planning Department
IT Department
Operation Management Department
Risk Management Department
Legal and Compliance Department
Internal Audit Department
Administration Department
China Futures Co., Ltd.
China Capital Management Limited
China Securities (International) Finance Holding Company Limited
China Securities Funds Management Limited
China Securities Investment Limited
Business Branch of Beijing Dongzhimen Center
Business Department of Beijing Haidian South Centre
Business Branch of Beijing Anlilu Center
Business Department of Beijing Sanlihe Center
Business Branch of Beijing South Dahongmen Center
Business Department of Anhui Provincial Centre
Business Branch of Hainan Provincial Center

As of the end of the Reporting Period, the Company has four wholly-owned subsidiaries, namely China Securities Futures, China Securities Capital, China Securities International and China Securities Investment, and one controlled subsidiary, namely China Securities Funds. Please refer to "Section 4 Management Discussion and Analysis – VII. Analysis of Principal Subsidiaries and Non-controlling Companies" of this annual report for details.

(IV) Number and Network of Securities Branches of the Company

As of December 31, 2018, the Company had established a network of 302 securities branches in total as follows:

Province/autonomous regions/municipalities	Number of branches
Beijing	57
Shanghai	18
Tianjin	6
Chongqing	11
Heilongjiang	3
Jilin	2
Liaoning	6
Hebei	7
Shandong	13
Shanxi	2
Henan	8
Anhui	4
Jiangsu	21
Hubei	16
Hunan	14
Jiangxi	16
Zhejiang	16
Fujian	15
Guangdong	30
Hainan	4
Shaanxi	10
Sichuan	9
Yunnan	1
Guizhou	2
Gansu	3
Inner Mongolia	1
Guangxi	2
Xinjiang	3
Qinghai	1
Ningxia	1
Total	302

(V) Number and Network of Other Branches of the Company

As of December 31, 2018, China Securities Futures had set up a total of 24 branches futures business, including three branches in Shanghai, two branches in Beijing, two branches in Guangzhou, and one branch in each of the provinces including Jinan, Changsha, Dalian, Nanchang, Zhengzhou, Langfang, Zhangzhou, Chongqing, Hefei, Xi'an, Chengdu, Shenzhen, Hangzhou, Ningbo, Wuhan, Nanjing, Taiyuan.

VII. OTHER RELEVANT INFORMATION

Accounting firm engaged by the Company (domestic)	Name	PricewaterhouseCoopers Zhong Tian LLP
	Office Address	11/F, PricewaterhouseCoopers Center, Link Square 2, 202 Hu Bin Road, Huangpu District, Shanghai
	Name of signing accountant	Jiang Kun, Gao Qing
Accounting firm engaged by the Company (overseas)	Name	PricewaterhouseCoopers
	Office Address	22/F, Prince's Building, Central, Hong Kong
	Name of signing accountant	Yip Siu Foon, Linda
Sponsor institution that perform the duties of continuous supervision during the Reporting Period	Name	UBS Securities Co. Limited
	Office Address	12th & 15th Floors, Winland International Financial Center, No. 7 Financial Street, Xicheng District, Beijing
	Name of signing sponsor representative	Liu Wencheng, Yang Jiping
	Period of continuous supervision	June 20, 2018 to December 31, 2020
Sponsor institution that perform the duties of continuous supervision during the Reporting Period	Name	China Galaxy Securities Co., Ltd.
	Office Address	2nd to 6th Floors, No. 35 Financial Street, Xicheng District, Beijing
	Name of signing sponsor representative	Li Ning, Ma Feng
	Period of continuous supervision	June 20, 2018 to December 31, 2020
Registrar Office Address	Office Address of A Share Registrar	China Securities Depositary and Clearing Corporation Limited
	Office Address of H Share Registrar	Computershare Hong Kong Investor Services Limited

VIII. AWARDS TO THE GROUP IN 2018

Awards Received by the Group in 2018

The Company

1. "Excellent Underwriting Institution for Corporate Bonds" and "Comprehensive Innovation Award for Corporate Bonds" in 2018

   Issued by: Shanghai Stock Exchange

2. "Excellent Underwriting Institution for Corporate Bonds" and "Excellent Underwriting Institution for Rate Securities" in 2018

   Issued by: Shenzhen Stock Exchange

3. Excellent Information Services Brokers for Southbound Trading

   Issued by: the Hong Kong Stock Exchange

4. "Best Contribution Award of Non-bank Underwriters for Local Bonds", "Excellent Underwriting Institution of Components of Chinese Bond-Green Bond Index", "Excellent Underwriting Institution for Non-banks" and "Top 100 in Clearing House – Excellent Proprietary Business Operators Award" in 2018

   Issued by: China Central Depository and Clearing Co., Ltd.

5. 11th Best Investment Banks Selection in China

   Team awards:

   (1) Ranked No. 2 – "Best Local Investment Bank"

   (2) Ranked No. 2 – "Best Equity Underwriting Investment Bank"

   (3) Ranked No. 3 – "Best Debt Underwriting Investment Bank"

   (4) Ranked No. 4 – "Best Investment Bank for IPO"

(5) Ranked No. 2 – "Best Investment Bank for Re-financing"

(6) Ranked No. 3 – "Best Investment Bank for Mergers and Acquisitions"

(7) Ranked No. 1 – "Investment Bank with the Most Innovation Capability"

(8) Ranked No. 1 – "Best Investment Bank in TMT Sector"

(9) Ranked No. 2 – "Best Investment Bank in Financial and Real Estate Sector"

(10) Ranked No. 2 – "Best Investment Bank in Energy Sector"

(11) Ranked No. 2 – "Best Investment Bank in Pharmaceutical and Health Sector"

(12) Ranked No. 1 – "Best Investment Bank in Aviation and Military Sector"

Project awards:

(1) Ranked No. 1 for "Best IPO Project": China Galaxy

(2) Ranked No. 2 for "Best Re-financing Project": Caihong Display Devices Company Limited

(3) Ranked No. 2 for "Best Corporate Bond Project": 17 Bingzhuang 01–04

(4) Ranked No. 4 for "Best Corporate Bond Project": 17 Yaju 01

(5) Ranked No. 7 for "Best Convertible Bonds Project": Xiaokang Convertible Bonds

(6) Ranked No. 7 for "Best Asset–backed Securitization Project": Asset-backed Special Plan of Insigma & CSC Qingchun Road Tunnel PPP Project (網新建投慶春路隧道PPP項目資產支持專項計劃)

(7) Ranked No. 4 for "Best Overseas Project": Share Issuance, Asset Purchase and Raise of Replenishing Capital by Hebei Xuanhua Construction Machinery Co., Ltd. and Connected Transactions

Issued by: New Fortune Magazine

6. 2018 Junding Award for Comprehensive Service Investment Bank in China Junding Award for Investment Bank for IPO, Top 10 Investment Banks for Bond Investment on the Stock Exchange, Top 10 Investment Banks for Inter-bank Bonds

   Issued by: Securities Times

7. 2018 Junding Award for Securities Companies for Asset Management in China

   Issued by: Securities Times

8. Innovation Award of CSI ICBC Wealth Index Product

   Issued by: ICBC

9. Best Securities Companies for Asset Management of “2018 EastMoney List”

   Issued by: EastMoney.com

10. “Best Intelligent Broker Award” of Golden Horse Award for Securities Market in China

    Issued by: Securities Times

11. “Top 10 APP Award” and “Best User Service APP Award” of 2018 Securities Firm APP List

    Issued by: Sina Finance

12. Excellent APP for Securities Companies Selection Award: Award for Leader of APP for Securities Companies, Excellent Operation Team, Securities Companies APP of the Highest Level of Appearance

    Issued by: China Brokers

13. Contribution Award for Outstanding Product Innovation: Youwen

    Issued by: Financial Electronics Magazine

China Securities Funds

1. Excellent Securities Investment and Trading Firm

   Issued by: Shenzhen Stock Exchange

2. 2018 Outstanding Award for Contribution to Economic Development

   Issued by: Beijing Huairou People's Government

3. Mutual Fund for 20 Years – Gold Abacus Best New Managers Award

   Issued by: Securities Daily

China Securities Futures

1. 2018 Securities and Futures Industry Selection on Poverty Alleviation in China

   (1) Excellent Targeted Poverty Alleviation Award

   (2) Excellent Innovative Poverty Alleviation Award

   (3) Best Precision Poverty Alleviation Project Award

   Issued by: the Securities Association of China, China Futures Association, Securities Times

2. Second Prize of the 6th China Financial Futures Exchange Cup for Excellent Organization of the National Financial Knowledge Competition for University Students

   Issued by: China Financial Futures Exchange

3. Silver Award for Excellent Membership in 2018

   Issued by: Shanghai Futures Exchange

4. Excellent Membership in 2018

   Issued by: Dalian Commodity Exchange

5. 11th Best Futures Operation Institution and the Best Futures Analyst Selection in China

   (1) Best Futures Company in China

   (2) Best Honest and Self-regulating Futures Company

   (3) Best Service Award for Financial Futures

   (4) Best Charitable Precision Poverty Alleviation Award

   (5) Best Award for Brand Building and Promotion

   (6) Best Award for Development of Futures Derivatives Innovation Business

   (7) Golden Management Team of Futures Companies in China

   (8) Best Helmman of China Futures Companies

   Issued by: Futures Daily, Securities Times

6. Award for Excellent Investor Service in the 12th National Competition of Futures Trading

   Issued by: Futures Daily, Securities Times

7. 16th China Finance Industry Power Chart: “2018 Gold Medal Industrial Research Award”

   Issued by: hexun.com

KEY ACCOUNTING DATA

Unit: RMB million

Items	2018	2017	Increase/ decrease as compared to the same period last year (%)	2016
Total revenue and other income	16,492	16,421	0.43	17,584
Operating profit	4,044	5,349	-24.40	7,060
Total profit	4,051	5,355	-24.35	7,057
Net profit attributable to equity holders of the Company	3,087	4,015	-23.11	5,259
Net cash flow from operating activities	10,560	-30,447	N/A	20,411

Unit: RMB million

Items	December 31, 2018	December 31, 2017	Increase/ decrease as compared to the same period last year (%)	December 31, 2016
Total assets	195,082	205,883	-5.25	181,695
Total liabilities	147,219	161,885	-9.06	140,432
Equity attributable to equity holders of the Company	47,577	43,754	8.74	41,063
Total share capital	7,646	7,246	5.52	7,176

KEY FINANCIAL INDICATORS

Items	2018	2017	Increase/ decrease as compared to the same period last year *(%)*	2016
Basic earnings per Share *(RMB Yuan/Share)*	0.37	0.51	-27.45	0.81
Diluted earnings per Share *(RMB Yuan/Share)*	0.37	0.51	-27.45	0.81
Return on weighted average equity *(%)*	6.78	9.92	Decreased by 3.14 percentage point	18.10

Note: Earnings per Share and the return on weighted average equity above are calculated in accordance with the International Accounting Standards, and might be different from those calculated in accordance with the relevant regulations stipulated under the Standards Concerning the Compilation Rules for Information Disclosure by Companies Offering Securities to the Public No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (2010 Revision) issued by CSRC.

Items	December 31, 2018	December 31, 2017	Increase/ decrease as compared to the same period last year *(%)*	December 31, 2016
Net assets per Share attributable to equity holders of the Company *(RMB Yuan/Share)*	6.22	6.04	2.98	5.72
Gearing ratio *(%)*	70.09	73.25	Decreased by 3.16 percentage point	66.98

Note: In calculating the gearing ratio for the Reporting Period as indicated in the table above, accounts payable to brokerage clients have been excluded from the assets and the liabilities.

In calculating the net assets per Share attributable to equity holders of the Company as indicated in the table above, the perpetual bonds of RMB5 billion issued by the Company was included in the net assets attributable to equity holders of the Company. After excluding such impact, the net assets per Share attributable to ordinary shareholders of the Company as at the end of Reporting Period was RMB5.57 (December 31, 2017: RMB5.35).

NET CAPITAL AND RELEVANT RISK CONTROL INDICATORS OF THE COMPANY

Items	December 31, 2018	December 31, 2017
Net capital *(RMB million)*	41,030	37,025
Net assets *(RMB million)*	46,055	42,472
Total risk capital reserves *(RMB million)*	17,087	17,013
Risk coverage ratio *(%)*	240.13	217.63
Capital leverage ratio *(%)*	23.02	21.80
Liquidity coverage ratio *(%)*	525.32	173.80
Net stable funding ratio *(%)*	196.74	136.24
Net capital/net assets *(%)*	89.09	87.18
Net capital/liabilities *(%)*	40.89	34.71
Net assets/liabilities *(%)*	45.89	39.81
Proprietary equity securities and securities derivatives/net capital *(%)*	9.27	12.64
Proprietary non-equity securities and securities derivatives/net capital *(%)*	182.35	145.12

Note: All risk control indicators including net capital of the Company complied with the relevant requirements of the Administrative Measures for Risk Control Indicators of Securities Companies (Revision in 2016) (《證券公司風險控制指標管理辦法》) (2016年修訂版) issued by the CSRC.

FINANCIAL POSITION FOR THE LAST FIVE YEARS

Profit Status

Unit: RMB million

Items	2018	2017	2016	2015	2014
Total revenue and other income	16,492	16,421	17,584	24,512	11,452
Total expenses	12,448	11,072	10,524	13,051	6,909
Share of profits and losses of associates	8	6	-3	–	–
Profit before income tax	4,051	5,355	7,057	11,461	4,543
Net profit attributable to equity holders of the Company	3,087	4,015	5,259	8,639	3,407

Assets Status

Unit: RMB million

Items	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Share capital	7,646	7,246	7,176	6,100	6,100
Total equity	47,863	43,999	41,263	30,183	16,728
Equity attributable to equity holders of the Company	47,577	43,754	41,063	30,106	16,669
Total liabilities	147,219	161,885	140,432	153,005	106,678
Accounts payable to brokerage clients	35,039	41,417	56,736	72,045	43,487
Total assets	195,082	205,883	181,695	183,188	123,406

KEY FINANCIAL INDICATORS

Items	December 31, 2018	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
Dividends per Share *(RMB Yuan)*	0.18 (budget)	0.18	0.18	–	–
Basic earnings per Share *(RMB Yuan)*	0.37	0.51	0.81	1.37	0.56
Diluted earnings per Share *(RMB Yuan)*	0.37	0.51	0.81	1.37	0.56
Return on weighted average equity *(%)*	6.78	9.92	18.10	40.00	22.90
Gearing ratio *(%)*	70.09	73.25	66.98	72.84	79.07

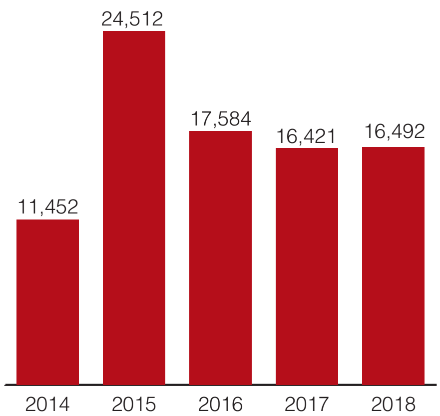
Notes:

(1) Accounts payable to brokerage clients represent the amount received from and repayable to clients arising from the normal course of the Group's securities brokerage business. Such amounts are subject to regulation of third-party depository institutions.

(2) In calculating the gearing ratio for the Reporting Period of the table above, accounts payable to brokerage clients have been excluded from the assets and the liabilities.

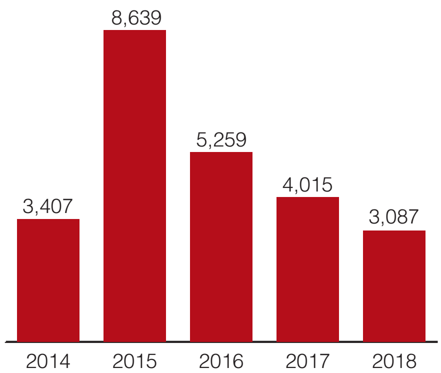
Total revenue and other income

(Unit: RMB million)



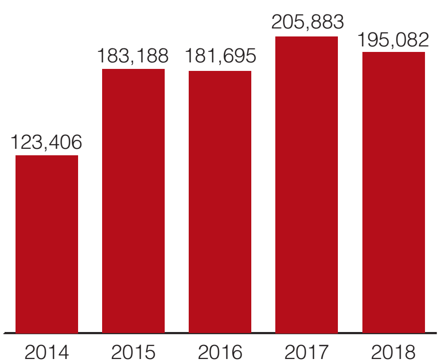
Net profit attributable to the equity holders of the Company

(Unit: RMB million)



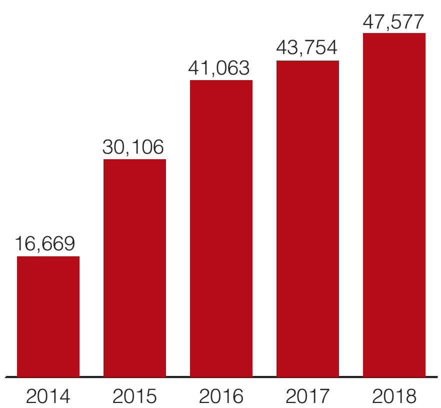
Total assets

(Unit: RMB million)

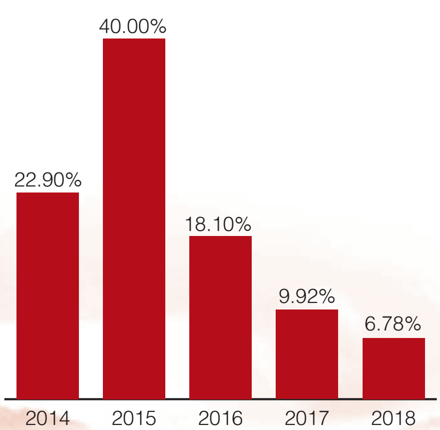


Equity attributable to the equity holders of the Company

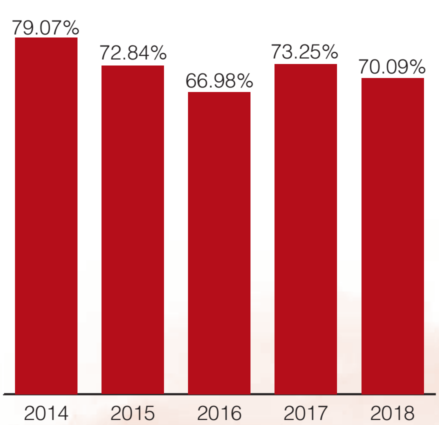
(Unit: RMB million)



Return on weighted average equity



Gearing ratio



1. ANALYSIS ON CORE COMPETITIVENESS DURING THE REPORTING PERIOD

In 2018, the Company continued to adhere to the core value of “recognition for achievement, ability and status,” as well as the concepts of “risk management as priority” and “healthy development” to strive for better service for existing customers and realize mutual growth with the enterprise. In the meantime, the Company penetrated the local market and moved towards the international market to explore potential quality customers. The Company aimed at taking the advantages of investment banking business as the starting point to steadily develop innovative business, becoming a large best-in-class full-service investment bank based in the PRC with global vision leveraging on the development trends in the PRC and global capital market.

Investment banking business of the Company continued to stay at a leading position in the industry, with indicators for core business leading the industry. In 2018, the number of equity financing projects underwritten by us as a lead underwriter and the amount of lead underwriting ranked No. 2 and No. 1 in the industry, respectively. The number of bond business underwritten by us as a lead underwriter ranked No. 2 and the amount of lead underwriting ranked No. 2 in the industry, among which, both the number of projects underwritten by us as a lead underwriter and the amount of lead underwriting of corporate bonds ranked No. 1. For merger and acquisition business, the number of MAR (material asset restructuring) projects ranked No. 1 in the industry. The Company ranked No. 2 among lead securities brokers by the number of innovation-level companies which were listed on the NEEQ and under continuous supervision of the Company. (Source: NEEQ Company, Wind Info and statistics of the Company)

Wealth management business of the Company remained at the top of the market. In 2018, the net income from the securities brokerage business of the Company accounted for 3.08% of the market share, ranking No. 10 in the industry. As of December 31, 2018, the balance of the Company’s margin financing and securities lending amounted to RMB25,122 million, and the market share was 3.32%, representing a decrease of 1.20% as compared to that at the end of 2017. (Source: Wind Info and statistics of the Company)

The performance of trading and institutional customer service business of the Company remained at a leading position. For fixed income business, the proprietary investment in bonds precisely caught up with market trend with the combination of stable allocation and positive directional trading, hence achieving a satisfactory result in bond investment. The Company actively developed the Bond Connect business, and has accumulated dozens of institutional customers, and quotation quality ranking has risen rapidly.

The Company continued to optimize its asset management business. As of December 31, 2018, the Company's assets under management ("AUM") of entrusted assets reached RMB652,229 million, ranked No. 6 in the industry, representing an increase of 20.03% as compared to that of the end of 2017. Among which, the AUM of actively managed products reached RMB195,544 million, representing an increase of 26.72% as compared to that of the end of 2017. (Source: The Securities Association of China)

The Company's asset custody and operation service business continued to maintain a stable development momentum. The products under custody include securities investment funds, asset management scheme of funds companies, asset management scheme of securities companies, asset management scheme of futures companies, private investment funds and various kinds of products. The total scale of custody and operation services of the Company covers investment targets of the whole market. As of December 31, 2018, the total scale of custody and operation services of the Company was RMB204,719 million, representing an increase of 48.34%, ranked in the forefront of the industry. Among which, the size of entrusted securities investment funds (mutual funds) was RMB39,347 million, ranked No. 2 among the securities companies in the custody industry. (Source: Wind Info and statistics of the Company)

In terms of information technology, the Company continued to improve the development and services of Qingting Dianjin APP, Youwen and derivatives market making system. The Company's "Risk Measurement and Management System" was awarded the "Computer Software Copyright Registration Certificate" issued by the National Copyright Administration.

II. BUSINESS OVERVIEW

(I) Overview

As of December 31, 2018, the total assets of the Group were RMB195,082 million, representing a year-on-year ("YoY") decrease of 5.25% as compared to that on December 31, 2017. Equity attributable to equity holders of the Company was RMB47,577 million, representing a YoY increase of 8.74% as compared to that on December 31, 2017. During the Reporting Period, total revenue and other income of the Group amounted to RMB16,492 million in aggregate, representing a YoY increase of 0.43%. Total expenses amounted to RMB12,448 million, representing a YoY increase of 12.43%. Net profit attributable to equity holders of the Company amounted to RMB3,087 million, representing a YoY decrease of 23.11%.

(II) Analysis of Principal Businesses

The principal businesses of the Group comprise four segments: investment banking business, wealth management business, trading and institutional client services business and investment management business. During the Reporting Period, total revenue and other income of the investment banking segment amounted to RMB3,318 million in aggregate, representing a YoY decrease of 11.31%. Total revenue and other income of the wealth management segment amounted to RMB6,381 million in aggregate, representing a YoY decrease of 11.62%. Total revenue and other income of the trading and institutional client services segment amounted to RMB4,666 million in aggregate, representing a YoY increase of 35.48%. Total revenue and other income of the investment management segment amounted to RMB1,525 million in aggregate, representing a YoY decrease of 10.71%.

1. Investment Banking Segment

(1) Equity Financing Business

In 2018, the number of equity financing on primary market was 394, representing a YoY decrease of 60.04%. The proceeds raised amounted to RMB1,047,975 million. The financing scale showed a YoY decrease of 31.81%. Among which, the number of IPO projects launched significantly decreased. Only 105 companies were listed in the whole year, representing a YoY decrease of 76.03%. The proceeds raised amounted to RMB137,815 million, representing a YoY decrease of 40.11%. The number of issuance and listing for equity re-financing was 289 throughout the year (including asset private placement), representing a YoY decrease of 47.26%. The proceeds raised amounted to RMB910,160 million, representing a YoY decrease of 30.35%. (Source: Wind Info)

In 2018, against strengthened audit and inactive subscription in the market, the investment bank business of the Company still recorded satisfactory results and the market share further improved. The Company completed 31 equity financing projects, ranked No. 2 in the industry. The aggregate amount of equity offerings underwritten by the Company as a lead underwriter was RMB94,052 million, ranked No. 2 in the industry. Among which, the number of IPOs underwritten by us as a lead underwriter was 10 with an aggregate amount of underwritten as a lead underwriter of RMB14,374 million. The number of refinancing projects was 21 with an aggregate amount of underwritten as a lead underwriter of RMB79,678 million. In 2018, the Company achieved outstanding results in IPO of industry leading enterprises and influential equity financing projects. The Company completed the IPO of Contemporary Amperex Technology Co., Ltd. (a leading enterprise in the field of new energy automobile power battery) and the IPO of Sangfor Technologies Inc. (a leading enterprise in the field of network security cloud computing), rights issue of Shaanxi International Trust Co., Ltd. and Guanghui Energy Co., Ltd., preferred shares of Bank of Guiyang Co., Ltd., non-public share issuance from Agricultural Bank of China, Huaxia Bank, Black Cow Food, Datang Power, China Southern Airlines, Jiangsu Guoxin, as well as other projects. As of December 31, 2018, the Company had 36 IPOs and 16 equity refinancing projects under review, ranking No. 1 and No. 2 in the industry, respectively. (Source: disclosure of review by CSRC, The Securities Association of China, Wind Info and statistics of the Company)

Details of the Company's equity sponsorship and underwriting in 2018:

	2018		2017	
Items	Amount of lead underwriting *(RMB'00 million)*	Numbers of offerings	Amount of lead underwriting *(RMB'00 million)*	Numbers of offerings
IPO	143.74	10	144.44	25
Refinancing Issuance	796.78	21	827.68	28
Total	940.52	31	972.12	53

Source: statistics of the Company (refinancing excludes asset-oriented private placement)

For overseas business, in 2018, China Securities International completed 14 IPOs. The equity financing proceeds totaled HK$79,334 million. In terms of the number of IPO sponsored projects on the main board of the Hong Kong Stock Exchange, it tied for No. 4 among Chinese securities companies in Hong Kong and tied for No. 6 in the industry. For underwriting, in terms of the number of IPO offerings on the main board of the Hong Kong Stock Exchange, it ranked No. 10 among Chinese securities companies in Hong Kong and ranked No. 11 in the industry. The amount of underwriting for IPO projects on the main board of Hong Kong Stock Exchange ranked No. 10 among Chinese securities companies in Hong Kong and ranked No. 19 in the industry. China Securities International also completed one IPO project in the United States. The equity financing proceeds totaled US$51,150.00 thousand. In addition, China Securities International completed one refinancing project in Hong Kong. (Source: Dealogic Info)

Outlook for 2019

In 2019, although the macroeconomic environment is still not optimistic, under the support of government policy, the establishment of the science and technology innovation board and pilot registration system will bring in additional IPO businesses. The equity refinancing rules are expected to improve. Equity financing business in primary market is expected to remain relatively stable. The Company will continue to leverage on its advantage in balanced investment banking product offerings and put more efforts in exploring high-quality clients, attach importance to project quality control and risk management, and steadily promote the development of equity financing business. For overseas business, in addition to constantly focusing on exploring sponsored business, China Securities International will also actively involve in the projects such as IPO underwriting, Pre-IPO and IPO underwriting the United States in 2019.

(2) Debt Financing Business

In 2018, the bond market became bullish from volatility, with a significant decline in the rate of return. Changes occur in the macroeconomy during stability and worries exist at the time of changes. Given the complex and tough external environment, the macroeconomy is facing downward pressure. Decision-making on monetary policy shifted from stable and neutral to stable, and its marginal was further loosened. The People's Bank of China carried out four times of targeted Reserve Requirement Ratio (RRR) cuts to support the real economy in the whole year. Structural deleveraging advanced stability, such that initial results were achieved in financial risk prevention and control, and therefore stable deleveraging became the main objective of the next stage. The worldwide risk assets did not perform well. The issue scale of the bond market, especially that of the credit bonds, rebounded significantly, compared with the scale of 2017. And the primary and secondary markets, in terms of yield, presented a downward trend in fluctuation. In particular, in 2018, due to the requirement of the new asset management rules for rigid cash payment and net worth management, coupled with the fact that a number of credit default events occurred, market risk preference was reduced with differentiated demands. Interest rate bonds outperformed credit bonds, and high-grade credit bonds outperformed medium and low-grade credit bonds, leading to expansion of credit spread.

In 2018, the debt financing business of the Company maintained a promising development momentum, The Company completed a total of 586 underwriting projects as a lead underwriter, with a cumulative total scale of the lead underwriting project is RMB628,388 million, which both ranked No. 2 in the industry. Among which, the total scale of underwriting of corporate bonds, enterprise bonds, financial bonds, other debt financing instruments of non-financial enterprises ranked No. 1 in the industry, and corporate bonds ranked No. 1 in the industry steadily for four consecutive years. During the Reporting Period, the Company completed a total of 262 underwriting projects as a lead underwriter for corporate bonds, and the total amount of the lead underwriting projects was RMB240,537 million. By leveraging on our professional advantages in the corporate bond business, the Company has accumulated such large-scale central enterprise customers and high-quality industry customer including PetroChina, Sinopec, State Grid. In terms of product innovation, the Company, as a lead underwriter, successfully launched the "18 Kingland You", which was a special plan supported by the sustainable development assets of the country's first PPP project; "18 the first travel bonds 01/02", which was the country's first high-quality main corporate bond of the National Development and Reform Commission (NDRC), and the first shelf corporate bonds in the market; "18 Taifu 01", which was the country's first batch of panda bonds public issued for "Belt and Road"; "18 Longhu 01", which was the country's first special corporate bond for residential housing lease; "18 Zhe state-owned assets and bonds 01", which was the country's first approved fund corporate bond of NDRC after introduction of the asset management rules; "18 debt of Reform Holdings – convertible bonds 01", which was the country's first high-quality enterprise shelf convertible special bonds in the market; "18 Wumart SCP003", which was the credit risk mitigation warrant from the country's first securities company supporting private enterprise bond financing.

Details of debt financing business of the Company in 2018 are as follows:

Items	2018 Amount of lead underwriting *(RMB'00 million)*	2018 Total project scale *(RMB'00 million)*	2018 Number of offerings	2017 Amount of lead underwriting *(RMB'00 million)*	2017 Total project scale *(RMB'00 million)*	2017 Number of offerings
Corporate bonds	2,405.37	5,026.53	262	1,694.73	2,821.10	167
Enterprise bonds	156.00	191.10	18	138.76	182.20	14
Convertible bonds	115.25	132.75	10	31.14	31.14	3
Financial bonds	961.23	3,024.50	47	698.17	2,805.60	35
Others	2,646.03	6,264.14	249	1,494.02	4,670.74	229
Total	6,283.88	14,639.02	586	4,056.81	10,510.78	448

Source: statistics of the Company

Note: Others mainly consist of medium-term notes, short-term commercial papers, private placement notes, asset-backed securitization and government-backed agency bonds.

For overseas business, in 2018, China Securities International completed 16 overseas bond issuance transactions and one structured note. The amount of the project totaled US$5,818 million, ranked No. 9 among Chinese securities companies in Hong Kong.

Outlook for 2019

In the first half of 2019, the macroeconomic may still encounter greater downward pressure. Stable monetary policy will make the liquidity position become relatively loose. The bond market is expected to maintain a moderate growth amidst fluctuation. In the second half of 2019, the macroeconomy is expected to rebound after hitting bottom, and reverse adjustment to the rate of return may occur in the bond market. The Company will actively seize market opportunities, strengthen internal and external collaboration, consolidate its competitive edges in such traditional businesses as corporate bonds, debt financing instruments of non-financial institutions and enterprise bonds, and continue to focus on debt financing business with greater market potential such as asset-backed securitization, exchangeable bonds, panda bonds and overseas U.S. dollars denominated bonds so as to adapt to market changes with a widened bond product offering. For overseas business in 2019, China Securities International will actively participate in the PRC-invested overseas bond issuance projects, being the managerial role as a global coordinator, and promote the expansion of rating advisory services.

(3) Financial Advisory Business

In 2018, the pace of reviewing the M&A projects became faster, and the audit concept is more market-oriented.192 M&A projects were completed in A-share market and approved by the CSRC, and the transaction amount was RMB620,562 million, representing a YoY decrease of 24.71% and 29.98% over 2017, respectively. As of December 31, 2018, 10,691 companies were accumulatively quoted on the NEEQ, representing a decrease of 939 companies as compared to that at 2017. During the Reporting Period, despite the sluggish market, the M&A business of the Company still recorded satisfactory results. As a result, the structure of investment banking service of the Company was further balanced. The Company acted as financial advisor in 19 significant asset restructuring projects, ranking No. 1 in the industry. The transaction amount was RMB60,527 million, ranking No. 3 in the industry. The Company assisted CSICL (stock code: 601989) in becoming the first state-owned enterprises as a listed company which successfully carried out market-oriented conversion, completed several influential, innovative restructuring transactions such as the acquisition and merger of Beijing Wangfujing International Commercial Development Co. Ltd by WFJ (stock code: 600859), change in share capital of QianFeng Co. (currently known as "BAIC BluePark", stock code: 600733) and share issuance to acquire BAIC BJEV Vehicle Co., Ltd., as well as share issuance and asset purchase projects by TRS (stock code: 300229), in order to further enhance its market influence of the Company. Among which, the share issuance and asset purchase by TRS is the first M&A restructuring project subject to "small and quick" review in the capital market. In 2018, the Company also made a breakthrough in the field of bankruptcy reorganization of listed companies being a member of the bankruptcy, reorganization and liquidation team of ST Liuzhou Chem (stock code: 600423), which set a precedent of serving as a member of the judicial restructuring manager in the capacity of a financial advisor. In terms of cross-border M&A business, the cross-border transaction conducted by Tianhua Chem in which the Company served as a financial adviser was one of the few cases being approved on cross-border share swaps in the A share market. By way of cross-border share swaps, the Company assisted Tianhua Chem (stock code: 600579) in introducing a high-end industrial parent company in Germany into China, which was a key combination of "China Manufacturing 2025" and "German Industry 4.0".

In 2018, as a chief agency broker, the Company recommended 22 companies to be quoted on NEEQ. As of December 31, 2018, the Company continuously oversaw 314 listed enterprises, among which, 52 enterprises were engaged in the innovation sector, ranked No. 2 in the industry. (Source: Wind Info, NEEQ Company and Choice Financial Terminal)

For overseas business, in 2018, China Securities International completed one merger project, and two financing projects in Hong Kong's secondary market.

Outlook for 2019

In 2019, the Company will seize market opportunity and improve the ability in integration for M&A business, and strengthen the service layout of the cross-border business, consolidate its unique advantages in the financial advisory of bankruptcy reorganization of listed companies, and enhance diversified service capability of the Company's M&A business. In terms of the NEEQ listing business, the Company will keep abreast of the policy reform to further improve the way of serving quality customers, nurture emerging industries and retain high-quality customers.

2. Wealth Management Segment

(1) Brokerage and Wealth Management Business

In 2018, the bilateral trading volume of equity and funds in the market was RMB182.51 trillion, representing a YoY decrease of 20.10% (Source: Shanghai and Shenzhen Stock Exchanges). The competition among securities firms was increasingly fierce on commission rate, business flow, service approach, service provided and expertise of employees. As the equity funds trading amount decreased in general, the brokerage business faced great challenges.

In 2018, the Company endeavored to establish an integrated client services platform and ecological chain to develop businesses covering financial products, margin financing and securities lending, the NEEQ, private equity, investment advisory services, futures, precious metals and IB business through resource integration. The Company, with customer-oriented culture, continued to strengthen the core competitiveness of brokerage business with clients as the focus through raising the standard of service and enhancing procedures, and strived to fulfill diversified wealth management, investment and financing needs of retail, high net worth, institutional, corporate and other clients at different levels.

In 2018, the net income from the securities brokerage business of the Company accounted for 3.08% of the market share, ranked No. 10 in the industry. As of December 31, 2018, trading volume of the agency sales of equity funds amounted to RMB5.17 trillion with a market share of 2.83%. The sale of standardized products amounted to RMB59,754 million and the net income from the distribution of financial products had a market share of 2.88%, ranked No. 10 in the industry. The number of new capital accounts was 758,200; the total number of clients' capital accounts at the end of the Reporting Period was 8,349,400. The market value of securities under custody for the Company's clients accounts was RMB1.61 trillion with a market share of 4.93%, ranked No. 4 in the industry; in which new client assets amounted to RMB310,689 million (Sources: Shanghai and Shenzhen Stock Exchanges, China Securities Depositary and Clearing Corporation Limited, The Securities Association of China and statistics of the Company). As of December 31, 2018, the Group had 302 securities branches, of which 56% were located in the relatively affluent Five Provinces and Two Municipalities (Beijing, Shanghai, Guangdong, Fujian, Zhejiang, Jiangsu and Shandong), and among which 57 were located in Beijing. As the securities company with the largest number of securities branches in Beijing, the Company has established a solid client base for its brokerage and wealth management businesses.

In terms of futures brokerage business, in 2018, with prolonged efforts of supply-side structural reform, crude oil, apples, cotton yarn, copper options and other new varieties were listed as scheduled, and mutual harmonious development took place inside and outside the market. "Insurance+futures" pilot business continued to expand, further indicating the function of futures market in serving the real economy. In 2018, aggregate trading volume and amount in national futures market recorded a YoY decrease of 1.54% and a YoY increase of 12.20%, respectively. In 2018, China Securities Futures achieved an aggregate amount of agency transactions of RMB5.89 trillion, representing a YoY decrease of 0.57%. The scale of daily average customers' equity was RMB4,768 million. The number of new customers was 13,361, and the total number of customers was more than 110,000. As of December 31, 2018, China Securities Futures has set up 24 business divisions and a subsidiary in charge of risk management in Shanghai – Shanghai Fangdun Investment Management Co., Ltd. (上海方頓投資管理有限公司), which has laid a solid foundation for futures brokerage and risk management business.

For the overseas business, China Securities International provides wealth management services to clients of the Company's securities brokerage business including institutional clients. As of December 31, 2018, the aggregate transaction amount of stock agency of China Securities International was HK$27,127 million, with 3,762 new clients and 20,073 clients in aggregate, and the total market value of stock under custody for the Company's clients' accounts was HK$26,160 million. In 2018, China Securities International has completed the launch of the fund sales platform, aimed at providing customers with professional overseas excellent fund products.

Outlook for 2019

In 2019, under the premise of compliance management, being customer-oriented, the brokerage and wealth management business analyzes, explores and meets the wealth management needs of retail and high net worth clients, and enhance customer experience, promote online and offline integration and improve service efficiency through the power of financial technology. Also, it improves product sales and service system, consolidates service system by customer categorization and classification, raises service quality, optimizes the allocation of resource among human, property and materials, improves mechanism, and forms a management mechanism characterized by a strong headquarter and pragmatic branches. We will improve the centralized operation platform, deepen the management model, execute a comprehensive procedural management and training, and strengthen the sale and service capabilities of our branches under the competitive market environment. It will build a wealth management brand, and increase the core competitiveness of brokerage and wealth management business.

(2) Margin Financing and Securities Lending Business

In 2018, affected by the overall environment of the A shares secondary market, the margin financing and securities lending business of the whole market experienced a significant decrease. As of December 31, 2018, the balance of margin financing and securities lending of the Shanghai and Shenzhen Stock Exchange was RMB755,704 million, decreased by 26.36% as compared to that of the end of 2017 (Source: Wind Info). As of December 31, 2018, the closing balance of the Company's margin financing and securities lending business was RMB25,122 million; the market share was 3.32%, representing a decrease of 1.20% as compared to that at the end of 2017. The number of margin financing and securities lending accounts was 137,000, representing an increase of 1.75% as compared to that at the end of 2017.

For the overseas business, as of December 31, 2018, the balance of China Securities International's margin financing and securities lending business was HK$753 million, representing a decrease of 36.58% as compared to that at the end of 2017. The number of margin financing and securities lending accounts was 3,023, representing a decrease of 23.11% as compared to that at the end of 2017.

Outlook for 2019

In 2019, the Company will continue to strengthen the risk management capability in margin financing and securities lending on one hand, promote the establishment of customer service system comprehensively, and provide the customers with overall customer service solutions including investment health report, investment advisory and strategy services and algorithmic trading on the other hand to further improve its core competitiveness. For the overseas business, in the context of increasing overall market volatility and strengthened risk management, apart from urging for a change in the quality of targeted customer base, Chine Securities International will also strengthen the quality of customers' collaterals which is our highlight in the future. We will mainly focus on advancing the development of a customer base using blue-chips as mortgage financing, as a way to improve the Company's overall financing risk management structure.

(3) *Repurchase Business*

In 2018, affected by the new business regulations and significant decrease in the market, the collateralized stock repurchase business of the whole market presented a momentum of negative growth. As of December 31, 2018, the balance of collateralized stock repurchase business of the Company decreased by RMB11,329 million to RMB33,908 million as compared to that at the end of 2017, representing a decrease of 25.04%.

For the overseas business, as of December 31, 2018, the turnover of the repurchase business of China Securities International was HK$13.48 million.

Outlook for 2019

In 2019, under the prerequisite of ensuring risks which can be measured, controlled and at a tolerable level, the Company will actively and prudently carry out stock pledge business. It will reinforce cooperation between various business lines, achieve internal linkage, and provide a basket of business solutions to the Company's strategic customers. Leveraging on the investment and research capabilities of the Company, the Company will increase risk identification on listed companies, and at the same time, increase its effort for the development of active management channel business, proactively serve the real economy and alleviate financing difficulties and problems of private enterprises in a market-oriented manner.

3. Trading and Institutional Client Services

(1) Equity Sales and Trading Business

The equity sales and trading business of the Company mainly provides trading, advisory and research services, and distributes equity securities underwritten by the Company to institutional clients. The Company also engages in proprietary trading and market-making activities of stocks, funds, ETF, and financial derivatives including stock index futures, commodity futures, options and total return swaps. It provides clients with customized options and swaps products linked to various types of assets to meet the hedging and investment demand of institutional clients.

With respect to the securities sales and trading business, the Company guarded its bottom line for risk management and took advantage of structural opportunities, which helped control the systematic risks on various businesses to a certain extent. The Company provided market-making services to 69 listed companies in 2018. With respect to the derivatives trading business, along with the stable development of the existing business, the Company actively explored new business models in the derivatives trading business to enhance its investment strategies using its own funds to provide solutions to meet the needs of our clients. The Company further diversified the investment variety, expanded the scope of market–making services and constantly developed and optimized trading system. The Company stably promoted the OTC derivatives business including OTC options and non-financing swaps, actively explored new types of linked subjects and revenue structure and provided diversified options to meet the personalized investment needs of clients.

For the overseas business, the equity sales and trading business of the Company mainly provides trading, advisory and research services, and distributes equity securities underwritten by the Company to institutional clients. China Securities International completed 13 Hong Kong IPO projects and one refinancing project in 2018.

Outlook for 2019

The Company's equity sales and trading business will continue to leverage on its advantage in fundamental pricing. Upholding the value investing concept, the Company will promote the diversification of variety of investment product and strategy, so as to realize stable incomes that are aligned with market conditions. With respect to clients' needs for asset allocation and risk management, the capital-based intermediary businesses which is based on derivative pricing and trading capacity have relatively greater development potential. The Company will steadily develop the OTC derivative business, increase resource investment in market-making and continuously explore opportunities for cross-border investments to satisfy various needs of clients and improve its investment system using its own funds.

(2) Fixed Income Products Sales and Trading Business

In 2018, in view of the intensified market competition, the Company maintained sound relationship with customers and expanded its client base, dug deep into the bond investments needs of various types of clients according to its business development needs to achieve relatively satisfactory sales performance. As of December 31, 2018, the scale of corporate bond sales ranked first in the industry. With respect to the FICC business, the Company explored for opportunities of investment in gold and derivatives while investment transactions under traditional fixed income proprietary business maintained good performance, so as to bring the synergy of FICC related business into full play via the cooperation between the FICC business and traditional fixed income products. Meanwhile, the Company continued to push forward the market-making business at a moderate pace and significantly improved its ranking among market-makers. The Company was recognized as one of the leaders in market-making services in 2018. In October 2018, the Company was granted the qualification to carry out pilot cross-border business.

With respect to proprietary business, the Company maintained stable style in proprietary investment, in particular the proprietary investment in bonds, which precisely caught up with market trend with the combination of stable allocation and positive directional trading, hence achieving a satisfactory result in bond investment. In July 2018, the Company was qualified as a quotation institution of the "Bond Connect". As of December 31, 2018, it has accumulated a number of overseas institutional clients. In December 2018, the Company obtained the qualification to carry out credit derivatives business; in the same month, the Company created an inter-bank credit risk mitigation warrant and a contract of exchange credit protection to practically and effectively support the debt financing of private enterprises. CSC also became the first securities company to support the debt financing of private enterprises through creation of an inter-bank credit risk mitigation warrant.

The investment advisory business of the Company kept market risks and credit risks well managed, and also kept abreast of the market pace to proactively carry out asset allocation and optimize asset structure, and accomplished satisfactory investment performance. In addition, the Company put more effort in the marketing and product design of the investment advisory business, fully explored innovative business models, proactively reached out to extensive market participants, and continuously developed interested and potential clients to enhance its market influence.

For the overseas business, as of December 31, 2018, the volume of China Securities International's bond trading was approximately HK$29,268 million.

Outlook for 2019

In 2019, the Company will continue to develop the underwriting, issuance and sales business of bonds and asset-backed securitization products, enhance market research and analysis and seize market opportunities to enhance investment and sales in fixed income products and proactively explore investment advisory business.

(3) Investment and Research Business

Specialized research capability is the foundation for institutional client services. The Company's research business is well recognized and highly influential in the industry, and highly trusted by institutional clients. The investment research business of the Company mainly provides institutional clients with research consultation services covering macroeconomy, fixed income, strategy, industry, corporate, financial engineering and other aspects. Clients mainly include mutual funds, insurance companies, the National Social Security Fund, private equity funds, securities firms and other institutions. The research business of the Company provides clients with research reports and various kinds of tailored research consultation services. As of December 31, 2018, the Company had a research and sales team comprising 153 members, and published a total of 4,035 research reports of various types, extending the industry coverage and coverage of overseas listed companies. At present, the Company's stock research covered 27 industries. In 2018, we organized 47 large-scale conferences and some other professional conferences for institutional clients, including 2019 annual conference for capital markets, and 2018 interim conference for investment strategy.

For the overseas business, in 2018, China Securities International published a total of 136 Chinese and English research reports and 341 commentaries, including 12 Hong Kong IPO reports.

Outlook for 2019

In recent years, the buyer agency has paid more and more attention to the comprehensive capability of the seller's research institution. After suspension of the selection of the best analyst of New Fortune, the market became increasingly competitive for the research services to high-end institutional clients. In 2019, the Company will give impetus to the introduction of high-end talents, incessantly improve research with wider perspective and deeper insight, and actively promote the collaboration with other business lines of the Company on the basis of compliance as to provide different institutional clients and business lines with more comprehensive and in-depth services.

(4) Prime Brokerage Business

The Company provides market-leading full-chain prime brokerage services to institutional investors, including institutional investment and financing, product design, product agency sales, asset custody, product operating, trading service, account service, research service, financing solution and value-added services. Relying on the prime brokerage services, the Company further improved the trading service structure of institutional clients: horizontal coverage includes banks, insurance, trust, public offering, private placement, financial companies and other institutional clients, as well as high-net-worth clients; vertical coverage includes all trading channels, real-time risk control, collection of transaction data, performance evaluation and other comprehensive institutional services. Moreover, an addition of new algorithmic trading services, such as stock index futures, Southbound trading and change in holding as well as buyback, satisfied customers' diversified algorithmic trading needs. Additional local deployment mode can meet the special needs of mutual funds using algorithmic trading.

As of December 31, 2018, the total scale of custody and operating services of the Company amounted to RMB204,719 million, representing an increase of 48.34%, and ranked a leading position in the industry in terms of growing speed. Among it, the number of products under custody reached 1,531, and products of operating service reached 1,362, representing an increase of 1.06% and 0.81%, respectively.

Outlook for 2019

In 2019, with the gradual implementation of new asset management regulations, significant changes occur in the development pattern of the asset management industry: regulators will assign more duties to custodians and operators, and asset management products gradually shift to the mode of "strong custodian management" and "net-worth", thereby providing a broader space for the development of asset custody and operation service business to securities companies. In 2019, the Company will continue to improve the trading service system, with a focus on PB services and the major customer trading services. Among which, the regulators will spare no effort in building a personalized PB system, a designated system and a platform of procedural trading service, and expanding the PB system trading service. Hardware and software fixtures including dedicated counters, exchange custody services, dedicated speed trading counters for organizations will be improved, and the effectiveness of algorithmic trading strategies and the scope of trading varieties and other service capabilities will be increased to better provide high-end institutions trading services.

(5) *QFII Business and RQFII Business*

The Company carries out QFII and RQFII brokerage agency business. In 2018, the Company has developed a professional service brand featuring advanced transaction system and trading algorithm and extensive research information with the purpose of meeting the financial needs of overseas institutional customers.

Outlook for 2019

In 2019, the Company will continue to leverage and consolidate its overseas and domestic business resources to build a diversified worldwide client network. It will proactively carry out QFII and RQFII businesses to provide its clients with high-level, all-round, diversified, differentiated and integrated financial services.

(6) *Other Investment Businesses*

China Securities Investment was established on November 27, 2017, which completed its first capital injection on January 3, 2018, and commenced other investment businesses in daily operations. In 2018, China Securities Investment has cumulatively invested in 15 projects with a total investment amount of RMB747 million, and achieved profit in 2018, forming a new focal point of profit growth for the Group.

Outlook for 2019

In 2019, China Securities Investment will continue to carry out the investment in equity and financial products at a moderate pace and implement investment layout by putting strict control over project quality as the top priority, striving for incremental income for the Company.

4. Investment Management Segment

(1) Asset Management Business

The Company provides professional asset management services including collective asset management business, targeted asset management business, asset-backed securitization, in order to help clients preserve and increase the value of financial assets. At present, the Company has built a complete product line to meet the investment needs of clients with different preferences on risks and return as well as diversified financing needs of clients

In 2018, the regulatory authorities have successively promulgated a series of new asset management regulations and ancillary implementation rules. The scale of the securities companies' asset management industry tended to decline significantly, and the situation of business development was tough. Through formulating the layout in advance, the Company intensively cultivated the ability in investment management, proactively enlarge the actively managed business, and conscientiously promote the transformation of asset management business from channel business to actively managed business. Viewing from the change in business structure, the Company's transformation effect is considered to be obvious.

As of December 31, 2018, the Company's AUM of entrusted assets reached approximately RMB652,229 million, ranked No. 6 in the industry, representing an increase of 2.03% as compared to that of the end of 2017. Among which, the AUM of actively managed products reached approximately RMB195,544 million, representing an increase of 26.72% as compared to that of the end of 2017.

The scale of the Company's asset management business is as follows:

Unit: RMB'00 million

	AUM	
	December 31, 2018	December 31, 2017
Collective asset management business	301.66	218.81
Targeted asset management business	5,807.95	6,036.28
Specialized asset management business	412.68	137.42
Total	6,522.29	6,392.51

Source: The Securities Association of China, the Asset Management Association of China and statistics of the Company

Outlook for 2019

In 2019, the Company will strictly implement the requirements under the new asset management regulations, vigorously develop the actively managed business, enhance its ability in investment management, extend its client coverage actively, and further consolidate the foundation of the Company's asset management business.

(2) Fund Management Business

China Securities Funds will continue to maintain robust and prudent investment style and continue to enhance its investment and research capabilities. It continuously enriches and perfects the research framework of large-scale asset allocation of "macro and micro mutual verification", adheres to the principle of value investment and stable investment, and realizes the preservation and appreciation of investors' assets with favorable return on investment. The institutional customers of China Securities Funds are diversified, covering commercial banks, securities firms, trust companies, financial companies, private equity funds and other client resources. Under the new regulatory environment, China Securities Funds actively adjusted the business structure, actively carried out product innovation and responded to the call of "Serving the Real Economy with Financial Services" to develop key projects such as state-owned enterprise reform funds and regional theme funds. In 2018, China Securities Funds enhanced the overall ability in risk resistance through adapting to the market environment, and took the initiative of adjusting and reducing the management scale of China Securities Funds. As of December 31, 2018, the AUM of the fund was RMB94,381 million, representing a decrease of 31.47% as compared to that at December 31, 2017. Among which, the AUM of mutual fund was RMB14,265 million, and segregated fund products were RMB80,117 million.

Outlook for 2019

In 2019, conforming to the development orientation of the asset management industry in the new era, China Securities Funds will continue to strengthen its capacity in providing financial services in the real economy with an aim to drive business development by enhancing internal governance, improving management level, and nurturing core talents; and will continue to develop its level of investment research, expand client base and launch key products to realize a stable growth in management scale and the value preservation and appreciation of the clients' assets, to strengthen its core competitiveness and improve its brand influence.

(3) *Private Equity Investment Business*

In 2018, affected by macroeconomic monitoring, volatility in the capital market and the new asset management regulations, inverted prices in primary and secondary markets, which resulted in increasingly tense competitions in the equity investment market. In the field of equity investment, China Securities Capital, conformed to the trend of market development and demand, strengthened risk control compliance, and was eager to explore, and try to set up different types of funds in a number of hot areas to innovate and make breakthrough, thereby driving for the steady growth of fund management scale.

As of December 31, 2018, China Securities Capital managed a total of 42 funds, including 13 integrated funds, 5 industrial funds, 15 designated funds, and 9 real estate funds, with the fund management scale of RMB45,358 million, representing an increase of RMB26,801 million as compared to that at the end of 2017. As of December 31, 2018, China Securities Capital completed over 113 investment projects, including 11 main board listings, 30 NEEQ quotations, and 19 exit projects, with an average investment yield of 171%.

Outlook for 2019

China Securities Capital will fully demonstrate its capital advantage as a securities company, strengthen compliance risk control and management, improve selections for counterparties and projects externally, expand fund scale and realize prudent investment. Based on its core competitiveness of the existing equity investment business, China Securities Capital will reinforce in-depth cooperation with capital platforms and organizations of state-owned enterprises, actively explore into business areas including mergers and acquisitions with listed companies, mixed ownership reforms of state-owned enterprises, debt-to-equity swaps and financial advisory.

III. DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT OF THE COMPANY

(I) Industry Structure and Trend

In 2019, the securities industry in China encounters a highly complicated external environment.

First, macroeconomic growth slows down, which exerts pressure on the fundamentals of the securities market. The current world is in the transition period of shifting from recession to depression in the fifth Kondratieff Cycle. The benefits of innovation brought by the information technology revolution are gradually diminished, and global macroeconomy is exposed to the risks of downward and upward tendency in long-term growth and inflation, respectively; the excessive production capacity brought by preliminary policy stimulus can be eliminated by domestic supply-side structural reform, and the proportion of equipment investment in GDP will continue to decrease; macroeconomy will enter the stage of active destocking and even the stage of passive destocking, and both output and inventory levels will face downward pressure. Listed companies, being the microscopic components of the macroeconomy, will be affected in term of their overall profitability.

Second, monetary policy remains reasonable and sufficient, favorable for bottom-reach and stabilization of the securities market. According to the China Monetary Policy Report, Quarter Three, 2018 of the People's Bank of China, policy orientation for the next stage is to form a triangular supportive frame between implementing prudent and neutral monetary policy, increasing benefits for micro subjects and effectively utilizing the functions of capital market. Since the fourth quarter of 2018, the People's Bank of China has actively implemented open market operations, realized targeted cuts to required reserve ratios through establishing TMLF and further improved services to the real economy. All these actions contributed to improving liquidity structure of the financial market, reducing risk-free interest rate level and mitigating the downward pressure on the valuation level of the securities market.

Third, regulatory policy regards risk mitigation as the main focus and places emphasis on the real economy as a whole. It was explicitly pointed out at the Central Economic Work Conference that it is necessary to insist on the basic approach of structural deleveraging, prevent abnormal fluctuations and resonance in financial market, and maintain a solid, controllable, well-organized and moderate financial market. In addition, it was stated at the meeting of the Political Bureau of the Central Committee of the CPC that we should further stabilize employment, financial market, foreign trade, foreign investment, investment and expectations, and shore up market confidence. Various special funds on poverty alleviation and special asset management schemes will be put into operation successively to mitigate the risk of share pledge and liquidation faced by listed companies. Asset impairment pressure on the securities industry will keep easing.

Fourth, competition in securities industry will be increasingly intensified. On one hand, in the context of financial mixed operation, more businesses of securities companies will overlap with those of other financial institutions. The implementation of the new rules on Asset Management will drive asset management and trust companies of securities companies to compete with mutual funds and private equity funds for the general asset management market. Implementation of transformation of wealth management will force securities companies to directly compete with bank financing institutions and specialized investment advisors. On the other hand, the Administrative Measures for Foreign Investment Securities Companies increased the maximum foreign shareholding ratio of securities companies to 51% and cancelled separate restriction on the business scope of joint venture securities companies. Several international investment banks have submitted applications for establishing foreign-controlled securities companies, therefore, domestic securities companies will face the competitive pressure from potential entrants.

In addition, the securities industry is faced with good development opportunities. It was stated at the Central Economic Work Conference of 2018 that “As capital market plays a key role in financial operation, we should build a standard, transparent, open, dynamic and resilient capital market through deepening the reform, improve the quality of listed companies and trading system and attract more medium and long-term funds”. This provided a clear direction for the development of capital market for making China prosperous and powerful and also provided new opportunities for securities companies to implement national strategies and serve the real economy.

First, in respect of serving the national innovation-driven development strategies, securities companies can explore into the service mode of Science and Technology Innovation Board to new types of operation of the economy, strive to develop private equity funds of science and technology innovation enterprises, boost the connection between science and technology innovation enterprises and securities market, and improve their project screening capability and underwriting sponsoring capability through pilot registration.

Second, in respect of serving supply-side structural reform, securities companies can promote more fund resources to be allocated to the areas most needed for the transformation and upgrading of traditional industries through business innovations including debt-to-equity swap, bonds of innovation and start-up companies, green bonds, infrastructure ABS and REITS; in addition, securities companies can promote the development of M&A business and integrate and optimize the productivities of traditional industries, so as to ease internal competition in traditional industries and improve the ROI of industries as a whole.

Third, in respect of serving the opening up of the financial industry, securities companies can, by seizing the opportunity of accelerated inflow of foreign funds into domestic securities market, expand Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Hong Kong Stock Connect related business layout and provide QDII clients with targeted investment research services; and expedite the establishment of WFOE to implement private equity fund management business through foreign institutions, keep effectively utilizing operation service team, and build international software and hardware facilities; and actively participate in “Shanghai-London Stock Connect” underwriting and marketing work and boost the linkage between domestic and international securities markets.

Fourth, in respect of satisfying diversified demands of residents for wealth management, securities companies can effectively utilize product creation ability and investment research service ability, to provide personalized asset allocation schemes and provide professional investor education services according to liquidity needs and risk preference of residents, so as to improve the professional level of China securities market.

Fifth, in respect of serving national poverty alleviation strategies, securities companies can assist enterprises in poverty-stricken areas in materializing IPO, bond issuance, etc. and promote poverty alleviation through industries.

(II) Development Strategies of the Company

The Company strives to be a large comprehensive securities company based in the PRC with global vision and comprehensive advantage. The Company kept its mission of "bringing together talents, serving customers, creating value and contributing to society" firmly in mind, and attached great importance to its corporate culture of "people-oriented, learn modestly from others and learn from history". The Company insisted on the business mode of developing capital-light business and capital-intensive business at the same time, and kept utilizing the synergistic effect among various business lines, and optimized market-oriented incentive mechanism. The Company expects to be committed to improving customer service capability, supporting the real economy, and improving efficiency in wealth accumulation and management through establishing long-term effective strategies.

In order to materialize above visions, the Company will consolidate its advantage of leading in value-creating ability and attach great importance to promoting work on customer development and customer service to improve service quality; strengthen talent strategy to improve team quality; increase capital and fund strength to optimize and improve balance sheet performance; improve information technology capability to promote digital transformation of the Company; keep improving compliance risk control capability to ensure sound development of the Company; keep increasing modern management and operation capabilities to improve efficiency and benefits.

(III) Business Plan

In 2019, in light of strategic upgrading of customer service system, the Company will integrate its resources to enrich product systems and improve comprehensive service capability; organize the Company's compliance risk control work to build efficient and solid compliance risk control guarantee system; deepen data governance work to fully promote digital transformation of the Company; optimize asset and liability structure allocation to improve the operational efficiency of funds; expedite the promotion of the construction of centralized operation to improve operational efficiency and support business innovation and development; optimize talent allocation to deepen reasonable grade management system; deepen and consolidate year of cost-effectiveness activity, to effectively control the Company's costs; insist on governing the Party strictly to effectively improve the creativity, cohesion and fighting capacity of the Company.

For specific operation plans of each business line, please refer to "Section 4 Management Discussion and Analysis – II. Business Overview – (II) Analysis of Principal Businesses" in this annual report.

(IV) Capital Requirement

In 2018, the Company continued to conduct its businesses in a healthy and well-organized manner. During the Reporting Period, in order to satisfy business development requirement, the Company, according to the arrangements of asset and liability management work, successfully completed non-public offering of four tranches of corporate bonds with a total issuance amount of RMB14 billion; non-public offering of two tranches of securities company short-term corporate bonds with a total issuance amount of RMB5.9 billion; non-public offering of one tranche of subordinated bonds with an issuance amount of RMB5 billion; issuance of 1,896 tranches of structured notes with a total issuance amount of approximately RMB52.9 billion (as of December 31, 2018, the outstanding balance amounted to approximately RMB10.3 billion).

In 2019, the Company will manage the size and structure of liabilities in a scientific manner based on business development needs and maintain a healthy gearing ratio, and properly manage liabilities and liquidity.

(V) Potential Risks (including Implementation of Comprehensive Risk Management and Compliance Risk Control, and Investment in Information Technology)

The Company may be mainly exposed to the following risks: market risk, credit risk and liquidity risk. In 2019, China economy is expected to bounce back after a major dip. In respect of policy orientation, positive fiscal policy and prudent monetary policy are still expected to dominate. Subject to Sino-U.S. trade friction, exchange rate fluctuations, insufficient domestic demand and policy on supply-side structural reform, however, macro-economy is still subject to downward pressure, which will pose certain pressure on the operation of the Company. The Company may be mainly exposed to market risk brought by fluctuations in stock and bond markets to investment portfolio of the Company; credit risk brought by insufficient repayment capability of financiers in financing business or abnormal price of shares secured (or pledged) to the Company, credit risk brought by increased violation cases in bond market as a whole and increased refinancing pressure of the issuer to bond portfolio of the Company, and liquidity risk brought by insufficient capital supply and rising financing costs at a specific time point in the expected context of overall capital supply balance. In addition, the Company may be exposed to other risks including strategic risk, operational risk, compliance risk, legal risk, technical risk and reputational risk. Joint effect of above risks will pose certain challenge to the operation of the Company.

IV. FINANCIAL STATEMENT ANALYSIS

(I) Profitability Analysis

In 2018, in the complicated and changing market environment, the Company has responded in an active manner and forged ahead, and maintained a sound development in respect of its various business operations. Subject to the conditions in the market environment as a whole, however, operating results of the Company decreased as compared with that in 2017.

In 2018, the Group recognized total operating revenue and other income of RMB16,492 million, representing a YoY increase of 0.43%. Net profit attributable to equity holders of the Company amounted to RMB3,087 million, representing a YoY decrease of 23.11%. Basic earnings per Share amounted to RMB0.37, representing a YoY decrease of 27.45%. Return on weighted average equity was 6.78%, decreasing YoY by 3.14 percentage point.

1. Asset Structure and Asset Quality

In 2018, the group completed an IPO of A Shares, and hence replenished working capital and maintained a good liquidity. During the Reporting Period, the Company made provision for impairment of assets with signs of impairment, and hence guaranteed more prudent operation of the Company and high-quality assets.

The Group has maintained a stable asset and liability structure. As of December 31, 2018, the Group's total assets amounted to RMB195,082 million, representing a YoY decrease of RMB10,801 million, or 5.25%. After deducting accounts payable to brokerage clients, the Group's total assets amounted to RMB160,043 million, representing a YoY decrease of RMB4,424 million, or 2.69%. Among which, investment assets mainly include investments in associates and investments in financial assets, accounted for 56.16% of the total assets; margin accounts and financial assets held under resale agreements accounted for 30.58% of the total assets; cash and bank balances accounted for 10.66% of the total assets; and other assets in aggregate accounted for 2.60% of the total assets.

As of December 31, 2018, the Group's total liabilities amounted to RMB147,219 million with a high proportion of short-term liabilities, representing a YoY decrease of RMB14,666 million, or 9.06%. After deducting accounts payable to brokerage clients, the Group's total liabilities amounted to RMB112,180 million, representing a YoY decrease of RMB8,288 million, or 6.88%. Among which, the amount from financial assets sold under repurchase agreements was RMB32,532 million, accounting for 29.00% of the total liabilities; the amount from short-term borrowings, placements from banks and other financial institutions, short-term financing instruments payable and non-current liabilities due within one year was RMB26,124 million, accounting for 23.29% of the total liabilities; the amount from issued debt instruments and was RMB37,650 million, accounting for 33.56% of the total liabilities; the amount from financial liabilities at fair value through profit or loss and derivative financial liabilities was RMB1,430 million, accounting for 1.27% of the total liabilities; and the amount from other liabilities in aggregate was RMB14,444 million, accounting for 12.88% of the total liabilities.

As of December 31, 2018, the Group's equity attributable to equity holders of the Company amounted to RMB47,577 million, representing a YoY increase of RMB3,823 million, or 8.74%.

The gearing ratio of the Group slightly decreased. As of December 31, 2018, after deducting accounts payable to brokerage clients, the gearing ratio of the Group was 70.09%, representing a YoY decrease of 3.16 percentage point.

(II) Cash Flow Status

After deducting accounts payable to brokerage clients, the Group's net increase in cash and cash equivalents was RMB5,565 million in 2018, representing a YoY increase of RMB11,630 million, which was mainly due to the significant YoY increase in cash inflow from operating activities.

Net cash flow from operating activities in 2018 was RMB10,560 million, representing a YoY increase of cash inflow of RMB41,007 million as compared to an inflow of RMB-30,447 million in 2017, which was mainly attributable to YoY increase in cash inflow from operating activities due to margin accounts business and repurchase business.

Net cash flow from investing activities in 2018 was RMB-152 million, representing a YoY decrease of cash outflow of RMB3,817 million as compared to a net cash flow of RMB-3,969 million in 2017, which was mainly attributable to decrease in net cash outflow for purchasing investment financial assets.

Net cash flow from financing activities in 2018 was RMB-4,843 million, representing a YoY increase of cash outflow of RMB33,195 million as compared to cash flow of RMB28,352 million in 2017, which was mainly attributable to the increase in net cash outflow for repaying short-term financing funds.

(III) Access to and Ability of Financing

Currently, the Company obtains short-term funds from commercial banks and other investors primarily by way of bond repurchases, inter-bank lending, margin refinancing, issuance of short-term commercial papers, issuance of beneficiary certificates, issuance of short-term corporate bonds by securities companies etc., to investors on the SSE, and to commercial banks through inter-bank market, inter-institutional private equity products quotation and service system and OTC market in accordance with the relevant policies and regulations. As of December 31, 2018, as approved by the People's Bank of China, the Company can implement a maximum inter-bank borrowing of RMB20,000 million, and a maximum bond-pledged repurchase of RMB49,100 million in inter-bank market, which effectively guaranteed the placements obtained by the Company through monetary market in a timely manner.

In addition, the Company may, subject to market conditions and its own demands, finance by way of equity financing, placing, rights issue, issuance of corporate bonds, subordinated bonds, perpetual subordinated bonds and private placement bonds and other financing methods as approved by the competent authorities.

To maintain a balance between liquidity and profitability, the Company held a number of fixed income products, and changes in interest rates will have direct impact on the interests received from the bank deposits held by the Company, as well as the market price of the bond investment and the investment income. Meanwhile, equity investment of the Company is also impacted, though indirectly, by changes in interest rates. In addition, the Company has subsidiaries which are incorporated outside mainland China, with the amounts invested by the Company denominated in foreign currencies. As the Company has foreign currency denominated capital and assets and has raised funds through the issuance of bonds denominated in foreign currencies by its overseas subsidiaries, changes in exchange rates and overseas market interest rate levels will have certain impacts on the Company.

To maintain the liquidity and profitability of its assets, the Company's proprietary capital is centrally managed by its treasury department. There are also a comprehensive management system and corresponding work flows in place. The Company adjusts the structures of its different classes of assets and liabilities in a timely manner and utilizes corresponding financial tools to mitigate the risks and the impacts of the above factors.

V. ANALYSIS ON INCOME STATEMENT

(I) Financial Highlights

In 2018, the Group accomplished a profit before income tax of RMB4,051 million, representing a YoY decrease of 24.35%. Major financial highlights of the Group are as below:

Unit: RMB million

Items	2018	2017
Fee and commission income	7,232	8,781
Interest income	6,764	5,257
Investment gains	2,417	2,414
Other income	79	-31
Total expenses	12,448	11,072
Profits and losses attributable to associates	8	6
Profit before income tax	4,051	5,355
Income tax expense	948	1,294
Profit attributable to equity holders of the Company	3,087	4,015

(II) Structure of Total Revenue and Other Income

In 2018, the total operating revenue and other income of the Group amounted to RMB16,492 million, representing a YoY increase of 0.43%. The structure of revenue remained relatively stable. The revenue structure of the Group in the past five years is as follows:

Items	2018	2017	2016	2015	2014
Fee and commission income	43.85%	53.47%	60.19%	60.79%	57.12%
Interest income	41.02%	32.01%	25.25%	22.73%	25.59%
Investment gains	14.66%	14.70%	13.72%	16.24%	16.61%
Other income	0.47%	-0.18%	0.84%	0.24%	0.68%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

(III) Fee and Commission Income

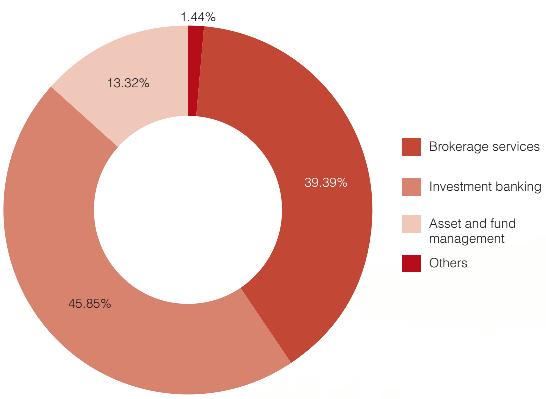
In 2018, the net fee and commission income of the Group amounted to RMB6,429 million, representing a YoY decrease of 15.51%, which was mainly due to the decrease in fee and commission income from brokerage business and investment banking business. The breakdown of fee and commission income of the Group during 2017 and 2018 is as follows:

Unit: RMB million

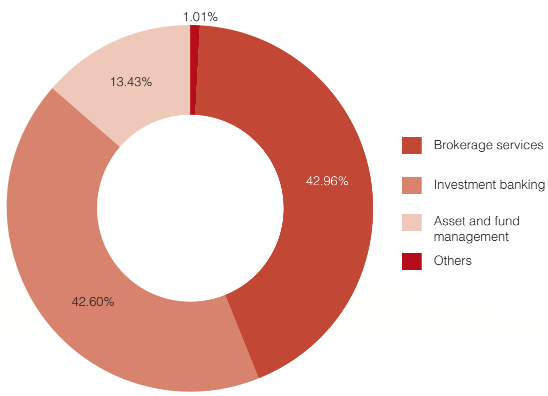
Items	2018	2017	Change	Change in percentage
Fee and commission income				
Brokerage services	2,849	3,772	-923	-24.47%
Investment banking	3,316	3,741	-425	-11.36%
Asset and fund management	963	1,179	-216	-18.32%
Others	104	89	15	16.85%
Fee and commission expenses	803	1,172	-369	-31.48%
Net fee and commission income	6,429	7,609	-1,180	-15.51%

The Breakdown of Fee and Commission Income in 2017 and 2018

The Breakdown of Fee and Commission Income in 2018



The Breakdown of Fee and Commission Income in 2017



The fee and commission income from brokerage business decreased by RMB923 million, or 24.47% YoY, which was mainly due to YoY decrease in the trading volume of stocks and funds in A share market in the PRC in 2018.

The fee and commission income from investment banking business decreased by RMB425 million, or 11.36% YoY, which was mainly due to slowdown in issuance and significant decrease in issuance amount of IPO and refinancing projects in 2018, with a decrease in the fee and commission income from investment banking business.

The fee and commission income from asset and fund management business decreased by RMB216 million, or 18.32% YoY, which was mainly due to decrease in income from directional asset management and fund management business during the Reporting Period.

(IV) Interest Income

In 2018, the net interest income of the Group amounted to RMB1,993 million, representing a YoY increase of RMB668 million. The table below sets out the major composition of the net interest income of the Group during the indicated periods:

Unit: RMB million

Items	2018	2017	Change	Change in percentage
Interest Income				
– Margin financing and securities lending	2,743	2,946	-203	-6.89%
– Financial assets held under resale agreements	1,222	721	501	69.49%
– Bank deposits	1,556	1,568	-12	-0.77%
– Interest income from financial assets measured at fair value through other comprehensive income (“FVOCI”).	1,215	N/A	N/A	N/A
– Interest income from financial assets measured at amortized cost	27	N/A	N/A	N/A
– Others	1	22	-21	-95.45%
Interest expenses				
– Accounts payable to brokerage clients	155	193	-38	-19.69%
– Financial assets sold under repurchase agreements	1,106	1,124	-18	-1.60%
– Placements from banks and other financial institutions	555	483	72	14.91%
– Borrowings	64	46	18	39.13%
– Bonds issued and short-term financing instruments payable	2,819	1,963	856	43.61%
– Others	72	123	-51	-41.46%
Net interest income	1,993	1,325	668	50.42%

Interest income from margin financing and securities lending decreased by RMB203 million, or 6.89% YoY, which was mainly due to a decrease in interest income resulting from decrease of scale in margin financing and securities lending business subject to the overall environment of A share market in the PRC.

Interest income from financial assets held under resale agreements increased by RMB501 million, or 69.49% YoY, which was mainly due to an increase in interest income arising from collateralized stock repurchase business.

During the year, interest income from financial assets measured at fair value through other comprehensive income amounted to RMB1,215 million, and interest income from financial assets measured at amortized cost amounted to RMB27 million, which was mainly because interest income from financial assets measured at fair value through other comprehensive income ("FVOCI") and financial assets measured at amortized cost recognized using effective interest method were adjusted to interest income from net investment gains, as adjustment was made to the format of financial statements of financial enterprises pursuant to the Notice of the Ministry of Finance on Revising and Issuing the Format of Financial Statements of Financial Enterprises (Cai Kuai [2018] No. 36) (《關於修訂印發2018年度金融企業財務報表格式的通知》(財會[2018]36號)) issued in December 2018.

Interest expenses increased by RMB839 million, or 21.34% YoY, which was mainly due to an increase in interest expenses arising from issued bonds and short-term financing instruments payable.

(V) Net Investment Gains

In 2018, the net investment gains of the Group amounted to RMB2,417 million, representing a YoY increase of 0.12%. The table below sets out the major composition of the net investment gains of the Group during the indicated periods:

Unit: RMB million

Items	2018	2017	Change	Change in percentage
Net gains from available-for-sale financial assets	N/A	1,542	N/A	N/A
Net gains from financial instruments held for trading and financial instruments designated as at fair value through profit or loss	N/A	1,106	N/A	N/A
Financial assets measured at fair value through other comprehensive income (“FVOCI”)	352	N/A	N/A	N/A
Financial instruments at fair value through profit or loss (“FVTPL”)	815	N/A	N/A	N/A
Net gains or losses from derivative financial instruments	1,585	185	1,400	756.76%
Others	-335	-419	N/A	N/A
Total	2,417	2,414	3	0.12%

Increase in net gains from derivative financial instruments was mainly due to an increase in the gains from change of fair value of equity derivative financial instruments.

(VI) Total Expenses

In 2018, the total expenses of the Group (excluding fee and commission expenses and interest expenses) amounted to RMB6,874 million, representing a YoY increase of RMB906 million, or 15.18%.

The table below sets out the major composition of the expenses of the Group during the indicated periods:

Unit: RMB million

Items	2018	2017	Change	Change in percentage
Staff costs	3,954	4,103	-149	-3.63%
Tax and surcharges	80	87	-7	-8.05%
Other operating expenses and costs	1,686	1,702	-16	-0.94%
Impairment losses	1,154	76	1,078	1,418.42%
Total	6,874	5,968	906	15.18%

Staff costs for the year decreased by RMB149 million, or 3.63% YoY, which was mainly due to the decrease in performance-based remuneration.

Impairment losses for 2018 amounted to RMB1,154 million, representing an increase of RMB1,078 million YoY, which was mainly due to the increase in impairment losses of margin financing and securities lending and financial assets held under resale agreements.

The table below sets out the composition of the impairment losses of the Group during the indicated periods:

Unit: RMB million

Items	2018	2017	Change	Change in percentage
Financial assets measured at fair value through other comprehensive income ("FVOCI")	6	N/A	N/A	N/A
Available-for-sale financial assets	N/A	32	N/A	N/A
Margin financing and securities lending	1,076	24	1,052	4,383.33%
Financial assets held under resale agreements	75	19	56	294.74%
Others	-3	1	-4	-400.00%
Total	1,154	76	1,078	1,418.42%

VI. ANALYSIS ON FINANCIAL POSITION

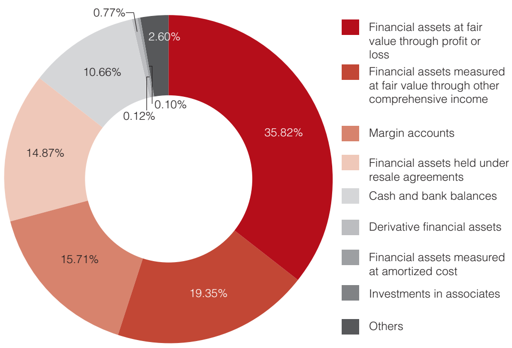
(I) Assets

As of December 31, 2018, the total assets of the Group amounted to RMB195,082 million, representing a YoY decrease of RMB10,801 million, or 5.25%. Excluding the effect of accounts payable to brokerage clients, the total assets of the Group amounted to RMB160,043 million as at December 31, 2018, representing a YoY decrease of RMB4,424 million, or 2.69%. Major changes in the total assets of the Group were as follows:

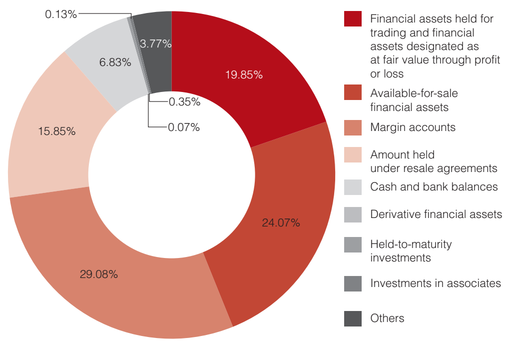
Unit: RMB million

Items	December 31, 2018	December 31, 2017	Change	Change in percentage
Available-for-sale financial assets	N/A	39,582	N/A	N/A
Financial assets measured at fair value through other comprehensive income ("FVOCI")	30,969	N/A	N/A	N/A
Investments in associates	163	206	-43	-20.87%
Held-to-maturity investments	N/A	579	N/A	N/A
Financial assets measured at amortized cost	187	N/A	N/A	N/A
Financial assets held for trading and financial assets designated as at fair value through profit or loss	N/A	32,649	N/A	N/A
Financial assets at fair value through profit or loss	57,326	N/A	N/A	N/A
Derivative financial assets	1,240	120	1,120	933.33%
Margin accounts	25,148	47,821	-22,673	-47.41%
Financial assets held under resale agreements	23,797	26,065	-2,268	-8.70%
Cash and bank balances	17,056	11,228	5,828	51.91%
Others	4,157	6,217	-2,060	-33.13%
Total	160,043	164,467	-4,424	-2.69%

Analysis of the Components of Assets in 2018



Analysis of the Components of Assets in 2017



(II) Investments

The investment of the Group primarily comprises financial assets measured at fair value through other comprehensive income ("FVOCI"), investments in associates, financial assets measured at amortized cost, financial assets at fair value through profit or loss ("FVTPL"), derivative financial assets, etc.

As of December 31, 2018, the total external investments of the Group amounted to RMB89,885 million, representing a YoY increase of RMB16,749 million, or 22.90%. Its total external investments accounted for 56.16% of the total assets, representing a YoY increase of 11.69 percentage point.

The following table sets out, as of the dates indicated, the investments of the Group and its percentage to the total assets by category:

Unit: RMB million

Items	December 31, 2018 Amount	December 31, 2018 Percentage to total assets	December 31, 2017 Amount	December 31, 2017 Percentage to total assets
Available-for-sale financial assets	N/A	N/A	39,582	24.07%
Financial assets measured at fair value through other comprehensive income ("FVOCI")	30,969	19.35%	N/A	N/A
Investments in associates	163	0.10%	206	0.13%
Held-to-maturity investments	N/A	N/A	579	0.35%
Financial assets measured at amortized cost	187	0.12%	N/A	N/A
Financial assets held for trading and financial assets designated as at fair value through profit or loss	N/A	N/A	32,649	19.85%
Financial assets at fair value through profit or loss ("FVTPL")	57,326	35.82%	N/A	N/A
Derivative financial assets	1,240	0.77%	120	0.07%
Total	89,885	56.16%	73,136	44.47%

(III) Financial Asset Investments

As of December 31, 2018, total financial asset investments of the Group amounted to RMB89,722 million, representing an increase of RMB16,792 million, or 23.02%, accounting for 56.06% of total assets, which was mainly for an increase in investments in debt instruments, funds and derivative financial assets. The table below sets out the composition of the financial asset investment portfolio of the Group:

Unit: RMB million

	December 31, 2018		December 31, 2017	
Items	Amount	Percentage to total financial asset investments	Amount	Percentage to total financial asset investments
Debt instruments	58,898	65.64%	49,758	68.23%
Equity investments	4,391	4.89%	5,876	8.06%
Fund investments	5,016	5.59%	1,529	2.10%
Derivative financial assets	1,240	1.38%	120	0.16%
Others	20,177	22.50%	15,647	21.45%
Total	89,722	100.00%	72,930	100.00%

(IV) Investments in Associates

Unit: RMB million

Items	December 31, 2018	December 31, 2017	Change	Change in percentage
Investments in associates	163	206	-43	-20.87%

As of December 31, 2018, the Group's investments in associates amounted to RMB163 million, representing a YoY decrease of RMB43 million, or 20.87%, which was mainly due to decrease in associates during the Reporting Period.

(V) Cash and Bank Balances

As of December 31, 2018, cash and cash balances amounted to RMB17,056 million, representing a YoY increase of RMB5,828 million, which was mainly due to a decrease in margin accounts and amount held under resale agreements of the Group.

Unit: RMB million

Items	December 31, 2018	December 31, 2017	Change	Change in percentage
Cash and bank balances	17,056	11,228	5,828	51.91%

(VI) Liabilities

As of December 31, 2018, total liabilities of the Group amounted to RMB147,219 million, representing a YoY decrease of RMB14,666 million, or 9.06%. Excluding the effect of accounts payable to brokerage clients, total liabilities of the Group amounted to RMB112,180 million as at December 31, 2018, representing a YoY decrease of RMB8,288 million, or 6.88%. The following table sets out the breakdown of the total liabilities of the Group as of the dates indicated:

Unit: RMB million

Items	December 31, 2018	December 31, 2017	Change	Change in percentage
Accounts payable to brokerage clients	35,039	41,417	-6,378	-15.40%
Short-term borrowings, placements from banks and other financial institutions, short-term financing instruments payable and noncurrent liabilities falling due within one year	26,124	50,692	-24,568	-48.47%
Financial liabilities held for trading, financial liabilities designated as at fair value through profit or loss	N/A	138	N/A	N/A
Financial liabilities at fair value through profit or loss	1,253	N/A	N/A	N/A
Derivative financial liabilities	177	286	-109	-38.11%
Financial assets sold under repurchase agreements	32,532	29,147	3,385	11.61%
Issued debt instruments	37,650	23,873	13,777	57.71%
Others	14,444	16,332	-1,888	-11.56%
Total	147,219	161,885	-14,666	-9.06%

In 2018, the A share market and fund market in China recorded a YoY decrease in overall trading volume. As of December 31, 2018, total accounts payable to brokerage clients of the Group amounted to RMB35,039 million and accounted for 23.80% of the total liabilities of the Group, representing a YoY decrease of RMB6,378 million, or 15.40%.

The following table sets out the Group's accounts payable to brokerage clients by geographical locations and types of customers as of the dates indicated:

Unit: RMB million

Items	December 31, 2018	December 31, 2017	Change	Change in percentage
Mainland China	33,925	39,533	-5,608	-14.19%
– Individual	26,250	31,204	-4,954	-15.88%
– Corporate	7,675	8,329	-654	-7.85%
Outside Mainland China	1,114	1,884	-770	-40.87%
Total	35,039	41,417	-6,378	-15.40%

As of December 31, 2018, short-term borrowings, placements from banks and other financial institutions, short-term financing instruments payable and non-current liabilities falling due within one year amounted to RMB26,124 million in aggregate, representing a YoY decrease of RMB24,568 million, or 48.47%, mainly attributable to the decrease in the scale of short-term financing instruments payable and placements from banks and other financial institutions.

As of December 31, 2018, financial assets sold under repurchase agreements amounted to RMB32,532 million, representing a YoY increase of RMB3,385 million, or 11.61%, which was mainly due to the increase in financial assets sold under repurchase agreements through collateralized repurchase and quoted repurchase.

As of December 31, 2018, the Group's total outstanding amount of bonds payable due beyond one year amounted to RMB37,650 million, representing a YoY increase of RMB13,777 million, or 57.71%. In 2018, the Group issued corporate bonds and subordinated bonds with an issuance amount of RMB19 billion.

(VII) Equity

As of December 31, 2018, the total equity of the Group amounted to RMB47,863 million, representing a YoY increase of RMB3,864 million, or 8.78%, mainly attributable to public issuance of A Shares by the Company and profits during the Reporting Period. The following table sets out the components of the Group's total equity as at the dates indicated:

Unit: RMB million

Items	December 31, 2018	December 31, 2017
Share capital	7,646	7,246
Other equity instruments	5,000	5,000
Capital reserve	8,753	7,085
Surplus reserves	3,013	2,702
General reserve	7,535	6,930
Investment revaluation reserve	-33	-270
Foreign currency translation reserve	157	42
Retained earnings	15,506	15,019
Non-controlling interests	286	245
Total	47,863	43,999

VII. ANALYSIS OF PRINCIPAL SUBSIDIARIES AND NON-CONTROLLING COMPANIES

Name	Shareholding of the Company	Date of Establishment	Registered Capital	Place of Business	Registered Address	Contact Number
China Securities Futures	100%	March 16, 1993	RMB700 million	11-B (Parallel to Ground Level)/11-A, 8-B4, 9-B&C (Nominal Level), Shangzhan Building, 107 Zhongshan, Third Road, Yuzhong District, Chongqing (重慶市渝中區中山三路107號上站大 樓平街11-B，名義層11-A， 8-B4，9-B、C)	11-B (Parallel to Ground Level)/11-A, 8-B4, 9-B&C (Nominal Level), Shangzhan Building, 107 Zhongshan Third Road, Yuzhong District, Chongqing (重慶市渝中區中山三路107號上站大樓平街11-B，名義層11-A，8-B4，9-B、C)	86-23-8676 9602
China Securities Capital	100%	July 31, 2009	RMB1,650 million	12/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座12層)	Room 2, East Side, 6/F, 188 Chaoyangmennei Avenue, Dongcheng District, Beijing (北京市東城區朝陽門內大街188號6層東側2間)	86-10-8513 0648
China Securities International	100%	July 12, 2012	Share capital of HK$2,000 million	18/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong	18/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong	+852-3465 5600
China Securities Funds	55%	September 9, 2013	RMB300 million	17&19/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座17、19層)	Unit 1, Building No. 3, Balongqiao Yayuan, Qiaozi Town, Huairou District, Beijing (北京市懷柔區橋梓鎮八龍橋雅苑3號樓1室)	86-10-5910 0211
China Securities Investment	100%	November 27, 2017	RMB1,000 million	9/F, Block B, Kaiheng Center Building, Dongcheng District, Beijing (北京市東城區凱恒中心大廈B座9層)	Unit 109, Block C, Beijing Fund Town Center, No. 1 Jinyuan Avenue, Changgou Town, Fangshan District, Beijing (北京市房山區長溝鎮金元大街1號北京基金小鎮大廈C座109)	86-10-8513 0622

(1) China Securities Futures has a registered capital of RMB700 million. As of December 31, 2018, total assets and net assets of China Securities Futures amounted to RMB5,925.39 million and RMB1,306.90 million, respectively. In 2018, China Securities Futures realized total revenue and other income amounting to RMB379.04 million in aggregate, profit before income tax amounting to RMB178.98 million and net profit amounting to RMB151.99 million.

(2) China Securities Capital has a registered capital of RMB1,650 million. As of December 31, 2018, total assets and net assets of China Securities Capital amounted to RMB2,175.42 million and RMB1,314.45 million, respectively. In 2018, China Securities Capital realized total revenue and other income amounting to RMB103.65 million in aggregate, profit before income tax amounting to RMB5.18 million and net profit amounting to RMB5.67 million.

(3) China Securities International has a share capital of HK$2 billion. As of December 31, 2018, total assets and net assets of China Securities International amounted to RMB5,598.64 million and RMB1,767.79 million, respectively. In 2018, China Securities International realized total revenue and other income amounting to RMB430.89 million in aggregate, profit before income tax amounting to RMB-54.34 million and net profit amounting to RMB-39.26 million.

(4) China Securities Funds has a registered capital of RMB300 million. As of December 31, 2018, total assets and net assets of China Securities Funds amounted to RMB552.24 million and RMB493.40 million, respectively. In 2018, China Securities Funds realized total revenue and other income amounting to RMB192.70 million in aggregate, profit before income tax amounting to RMB33.47 million and net profit amounting to RMB25.88 million.

(5) China Securities Investment has a registered capital of RMB1 billion. As of December 31, 2018, total assets and net assets of China Securities Investment amounted to RMB1,029.65 million and RMB1,021.77 million, respectively. In 2018, China Securities Investment realized total revenue and other income amounting to RMB33.04 million in aggregate, profit before income tax amounting to RMB29.05 million and net profit amounting to RMB21.77 million.

VIII. INTRODUCTION OF MAJOR ASSOCIATES

Zhongguancun Equity Exchange Services Group Limited (中關村股權交易服務集團有限公司) is an associate of the Company with registered capital of RMB500 million. As of December 31, 2018, total assets and net assets of Zhongguancun Equity Exchange Services Group Limited amounted to RMB490.81 million and RMB479.86 million, respectively. In 2018, Zhongguancun Equity Exchange Services Group Limited realized total revenue and other income amounting to RMB37.78 million in aggregate, total profit amounting to RMB-18.38 million and net profit amounting to RMB-19.71 million (unaudited).

IX. INTRODUCTION OF SECURITIES BRANCHES

No.	Name of Branch	Establishment date	Registered address	Contact number
1	Hubei Branch	February 6, 2012	3rd Floor, Block A, Longyuan Building, No.24 Zhongbei Road, Wuchang District, Wuhan, Hubei Province	86-27-8789 0128
2	Shanghai Branch	February 6, 2012	Room 1605, 1606 and 1607, No.518 Kunming Road, Yangpu District, Shanghai	86-21-5513 8037
3	Shenyang Branch	February 7, 2012	No. 1, 12/F, No.61 North Station Road, Shenhe District, Shenyang City, Liaoning Province	86-24-2486 3279
4	Jiangsu Branch	February 13, 2012	2rd Floor, Yellow River Building, No.58 Longyuan West Road, Gulou District, Nanjing	86-25-8315 6571
5	Hunan Branch	March 1, 2013	No. 9, Section 2 Furong Middle Road, Furong District, Changsha City	86-731-8225 0463
6	Fujian Branch	April 16, 2013	3rd Floor, Wuyi Center, No.33 East Street, Gulou District, Fuzhou City	86-591-8761 2358
7	Zhejiang Branch	April 18, 2013	Room 604, 6th Floor, No. 225 Qingchun Road, Shangcheng District, Hangzhou City	86-571-8706 7252
8	Northwest Branch	April 19, 2013	No.56 South Street, Beilin District, Xi'an, Province	86-29-8726 5999
9	Guangdong Branch	April 24, 2013	Room 5102 and 5105, No.30 Pearl River East Road, Tianhe District, Guangzhou	86-20-3838 1917
10	Chongqing Branch	April 14, 2014	2–2, Building 2, Yijing•Fenghao, No. 195 Longshan Road, Longshan Street, Yubei District, Chongqing	86-23-6263 4398

No.	Name of Branch	Establishment date	Registered address	Contact number
11	Shenzhen Branch	April 21, 2014	22F, Building B, Rongchao Business Center, No. 6003 Yitian Road, Futian District, Shenzhen City	86-755-2395 3860
12	Sichuan Branch	April 25, 2014	No. 25, South 3rd Section of Yihuan Road, Wuhou District, Chengdu City, Sichuan	86-28-8557 6963
13	Shandong Branch	May 23, 2014	11th Floor of No.4 Building, No. 8 Long'ao North Road, Lixia District, Jinan City, Shangdong	86-531-6138 1399
14	Jiangxi Branch	May 28, 2014	Unit 05, 30th Floor, Building 2#, Heping International Hotel, No. 69 North Yanjiang Road, Donghu District, Nanchang City, Jiangxi	86-791-8670 0335
15	Henan Branch	June 3, 2014	2nd Floor, China Building, No.3 Business Outer Ring Road, Zhengdong New District, Zhengzhou City, Henan	86-371-6909 2409
16	Shanghai Free Trade Zone Branch	September 26, 2014	Room 2206, North Block, No. 528 Pudong South Road, China (Shanghai) Free Trade Pilot Zone	86-21-6682 1628
17	Tianjin Branch	November 10, 2014	Room 201, South Building, International Exchange Center, Tianjin University of Technology, No.26 Yuliang Road, Nankai District, Tianjin	86-22-2366 3362

X. EXPLANATION IN SCOPE OF STATEMENT CONSOLIDATION

As of December 31, 2018, the number of structural entities included in the consolidated financial statements of the Company was seven. The number of primary entities included in the consolidated financial statement of the Company was twelve.

XI. NO CHANGE IN THE INCOME TAX POLICY OF THE COMPANY DURING THE REPORTING PERIOD

From January 1, 2008, the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法》) and the Regulations on the Implementation of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法實施條例》) became effective for the Company and other subsidiaries (except China Securities Futures and China Securities International). Income tax computation and payment are governed by the Announcement of the State Administration of Taxation on Printing and Distributing the Administrative Measures for Collection of Consolidated Payments of Enterprise Income Tax by the Enterprises with Trans-regional Operations ([2012] No. 57) (《國家税務總局關於印發〈跨地區經營匯總納税企業所得税徵收管理辦法〉的公告》([2012] 57號)). The income tax rate applicable to the Company is 25%.

In accordance with Explanation on Implementation of Tax Preferential Treatments concerning Western China Development Strategy (《關於執行國家西部大開發所得税優惠政策的説明》) issued by the local taxation bureau in Yuzhong District, Chongqing City, the applicable income tax rate for China Securities Futures was 15%.

The applicable income tax rate for China Securities International was 16.5%.

XII. PROFIT DISTRIBUTION POLICY OF THE COMPANY

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

The Articles of Association of the Company set out the basic principles of the profit distribution policy and specific policy and provided that "the Company shall give priority to the distribution of dividends in cash", and "provided that the Company does not have material investment plans, major cash expenses, etc. and that the capital needs for normal operation of the Company are met, the profits distributed by the Company in cash shall not be less than 10% of the distributable profits of the same year, and within any three consecutive years, the accumulated profit distribution in cash shall not be less than 30% of the average annual distributable profit for those three years".

The Company attaches much importance to providing reasonable returns to investors and maintaining the continuity and stability of the Company's profit distribution policy, while taking into account the company's long-term interests, the overall interests of all shareholders and the company's sustainable development. Development and execution of profit distribution of the Company, in particular cash dividend policy, are in strict accordance with relevant provisions of the Articles of Association and procedures of consideration, with clear standards and proportion of dividends and well-established decision-making procedures and mechanism. In considerations at Board meeting, independent non-executive directors of the Company, from the perspective of safeguarding the interests of investors, expressed their objective and independent opinions; in considerations at general meeting, all minority shareholders of the Company were entitled to express their opinions and appeals and their legitimate interests were safeguarded.

On October 30, 2018, 2017 profit distribution plan of the Company was considered and approved at the 2018 second extraordinary general meeting, i.e., RMB1.80 (tax inclusive) distributed for every 10 Shares. This plan has been fully implemented by December 4, 2018. This profit distribution involved cash dividends representing 36.98% of net profit attributable to ordinary equity holders of the Company for 2017. This profit distribution has complied with the provisions of the Guidelines for Cash Dividends of Listed Companies of the SSE (《上海證券交易所上市公司分紅指引》) and the Articles of Association. Independent non-executive directors of the Company have expressed independent opinions on 2017 profit distribution and were of the view that this profit distribution has complied with the relevant provisions of laws, regulations, regulatory documents and the Articles of Association, and was in line with the actual conditions of the Company and the long-term interests of shareholders as a whole, and was favorable for the long-term development of the Company, therefore they have agreed to this profit distribution plan.

(II) Ordinary share dividend distribution plans or budgets over the past three years (including the Reporting Period)

Profit distribution plans of the Company were considered and decided at the general meeting after being considered and approved by the Board of Directors and the Board of Supervisors.

From 2016 to 2018, the Company's dividend was as follows:

Unit: Yuan Currency: RMB

Year of dividend	Amount of dividends per ten shares (tax inclusive)	Amount of cash dividends (tax inclusive)	Net profit attributable to ordinary equity holders of the listed company in the consolidated financial statements of the dividend year	Proportion of net profit attributable to ordinary equity holders of the parent company in the consolidated financial statements
2018 (budget)	1.80	1,376,349,342.84	2,793,459,930.82	49.27%
2017	1.80	1,376,349,342.84	3,721,427,677.06	36.98%
2016	1.80	1,304,349,342.84	4,965,251,675.20	26.27%

2018 Profit distribution budget:

Confirmed by the external of auditors, the Company (refers to the "Parent Company", the same thereafter) achieved a net profit of RMB2,950,604,631.12 in 2018.

According to relevant provisions of the Company Law, the Securities Law, the Financial Regulations of Financial Enterprises (《金融企業財務規則》), the Interim Measures for the Supervision and Administration of the Risk Reserves of Public Securities Investment Funds (《公開募集證券投資基金風險準備金監督管理暫行辦法》) and the Articles of Association, the Company intended to distribute its net profit for 2018 according to the following orders:

According to 10% of net profit, a statutory reserve of RMB295,060,463.11 was drawn;

According to 10% of net profit, a general risk reserve of RMB295,060,463.11 was drawn;

According to 10% of net profit, a trading risk reserve of RMB295,060,463.11 was drawn;

According to 2.5% of mutual funds custodian fee, a risk reserve of RMB796,984.77 was drawn;

According to 10% of aggregate product management fees, a risk reserve of RMB3,136,929.95 was drawn.

The above items totaled RMB889,115,304.05, subtracting the Company's interest on perpetual bonds of RMB294,000,000.00 and subtracting the dividends for 2017 distributed in the year 2018 of RMB1,376,349,342.84 and adding undistributed profit at the beginning of the year of RMB14,025,052,350.65, and the Company's undistributed profit at the end of 2018 was RMB14,416,192,334.88.

Based on an overall consideration of the long-term development of the Company and the interests of shareholders, 2018 profit distribution budget is as follows:

The Company proposes to distribute in the form of cash dividends, on the basis of 7,646,385,238 Shares in the total issued share capital as of December 31, 2018, RMB1.80 (tax inclusive) for every 10 Shares to all shareholders, amounting to RMB1,376,349,342.84 (tax inclusive) in aggregate, representing 49.27% of net profit attributable to ordinary equity holders of the Company in the consolidated financial statements for 2018. The remaining undistributed profit will be carried forward to the subsequent year.

Cash dividend is denominated and declared in RMB and payable in RMB to the A Shareholders and in Hong Kong dollars to the H Shareholders. The actual amount declared in Hong Kong dollars will be calculated based on the average of the intermediate exchange rate for conversion of Hong Kong dollars to RMB as announced by the People's Bank of China one calendar week prior to the date of convening the 2018 annual general meeting for considering the resolution on profit distribution.

After the budget is considered and approved at the general meeting, the Company will distribute cash dividends within two months after the date of convening the general meeting. Registration date and specific issuance date in relation to this dividend distribution will be announced separately.

XIII. RISK MANAGEMENT

(I) Overview

The Company attaches great importance to the formation of a risk management system all the time. Adopting the risk management concept of "risk management as priority, risk management by all", the Company regards alignment with the general operating strategic goal of the Company and risk maintenance at a tolerable level as the foundation of risk management and seeks to ensure that risks associated with various businesses of the Company are measurable, controllable and commensurate with returns. The Company continues to enhance its risk management system in accordance with the needs arising from its business development, market condition changes and the regulatory requirements, so as to ensure the progressive enhancement and effective operation of a comprehensive risk management mechanism.

(II) Structure of Risk Management

The Board of Directors is the Company's ultimate decision-making body for risk management. The executive management is the executive body, while different units are responsible for directly managing the risks in their business or operational activities. The Company has three dedicated risk control departments, namely the Risk Management Department, the Legal and Compliance Department and the Internal Audit Department, which independently monitor and manage risks before, during and after the event, according to their respective roles and responsibilities.

The Board of Directors makes decisions with respect to the Company's risk management strategies and policies, internal control arrangements, as well as the resolution of significant risk events. The Supervisory Committee carries out supervision on the performance of risk management duties of the Board of Directors, Executive Committee and senior management in accordance with laws, regulations and the Articles of Association.

The Risk Management Committee under the Board of Directors is responsible for supervising the overall risk management of the Company in general and ensuring the risks are adequately managed so that management activities may be effectively carried out on risks associated with the Company's business and operating activities. The Risk Management Committee under the Board of Directors considers and advises the overall objectives and basic policies of compliance management and risk management, confirms the specific constitution of risk management strategies and risk management resources so that they are aligned with the internal risk management policies; formulates tolerance level for major risks; and supervises and reviews the risk management policies and makes recommendations to the Board.

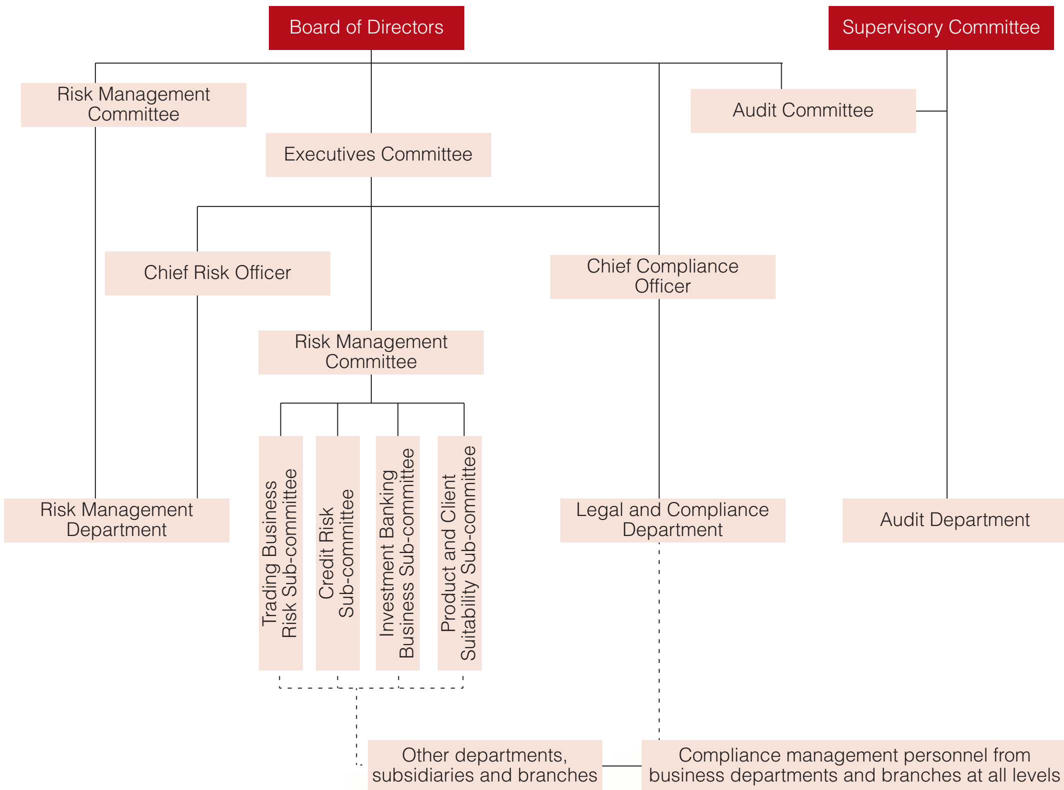
The Company's Executive Committee makes overall decisions with respect to the prevention, control, mitigation, or acceptance of risks in the Company's business and operating activities and makes decisions on efforts to improve the internal control rules and procedures and control measures in accordance with the risk management policies adopted by the Board.

The Risk Management Committee under the Executive Committee is responsible for determining the Company's risk appetite, risk tolerance level and major risk limits; formulating and promoting the implementation of the Company's risk management rules and procedures; approving risk limits and risk control standards specific to each business line; reviewing and approving new businesses and products; reviewing and approving the Company's risk reports; conducting research on risk control strategies and action plans for major business matters.

The Chief Risk Officer of the Company, serving also as the chairman of the Company Risk Management Committee under the Executive Committee, is responsible for leading professional risk management activities across the Company, including organizing the formulation of relevant risk management rules and procedures, improving the Company's risk management practices, and guiding the Risk Management Department in the identification, evaluation, monitoring and reporting of various risks.

Each and every department, branch and subsidiary of the Company, within their respective roles and responsibilities, is responsible for following the decisions, rules and procedures, and risk control polices, and implementing risk-control measures and engaging in direct risk control efforts in their business activities. Every staff of the Company has the responsibility to comply with the Company's relevant rules and procedures and contribute to daily risk control efforts as part of their own job responsibilities.

The Risk Management Department is responsible for risk management of the Company; the Legal and Compliance Department is responsible for legal affairs and compliance management, and the Internal Audit Department is responsible for the Company's internal audit activities. The aforementioned three independent risk management departments establish their own rules and procedures and operate independently to promote risk management of the Company. Specifically, the Risk Management Department is responsible for risk management before and during the event through risk monitoring and assessment, the Legal and Compliance Department is responsible for managing the overall legal and compliance risks of the Company, and the Internal Audit Department is responsible for conducting audits to identify material defects in key rules and procedures and processes, as well as internal control weakness, and supervising corrections and rectifications.



In addition, pursuant to the needs of risk management in investment banking business, along with regulatory requirements, the Company has established the internal audit department in the first half of 2018. Through company-level review, the Company conducted export management and terminal risk control of investment banking projects, and performed ultimate approval of decision-making functions for the materials and documents submitted, reported, issued or disclosed in the name of the Company.

(III) Risk Management Mechanism

The Risk Management Department works with business and management departments to identify major risks during the course of different business and management activities, issue the Risk Catalogue and Key Control List, and continue to update the same in light of business changes and monitoring findings.

The Company establishes a before-the-event risk control mechanism. It focuses on each of the main business lines to formulate specific risk limits and risk control standards, and has explicit procedures of risk control; the Risk Management Department and the Legal and Compliance Department have participated in the before-the-event evaluation for important projects and the operation system, and have expressed their opinions independently; important risk control parameters are directly under the management and control of the Risk Management Department, which also conducts independent verification for valuation model of financial instruments before going online.

The Risk Management Department formulates the risk monitoring processes and indicators for key business and management lines. In particular, risk monitoring indicators for brokerage business, proprietary business, securities financing business, and asset management business as well as risk control indicators including net capital are monitored through the monitoring system, while the risk monitoring for other business or management lines primarily relies on regular and ad hoc monitoring by means of on-site monitoring, risk information reporting, data access and regular meetings. Main businesses of subsidiaries fall within the scope of monitoring.

The Company also formulates operational process for risk assessment, and determines main assessment methods and qualitative and quantitative risk rating criteria for various types of risks. The Risk Management Department assesses and rates the risk matters on an ongoing basis, evaluates the control of major business risks on a regular basis, and conducts comprehensive year-end assessments of the risk control process, risk events and positions, and risk incidents of the departments, branches and subsidiaries as a key component of their performance assessment.

The Company has formulated guidelines for various types of risk management and control, including market risk, credit risk, operational risk, liquidity risk and reputation risk, in order to guide and regulate the response to risks in various business lines. The Company has established crisis management mechanism and programs, and has formulated effective contingency measures and plans for various businesses, especially for key risks and emergencies such as liquidity crisis and accidents on transaction system, while emergency response mechanism has been established and is drilled sporadically on a regular basis.

The Company is responsible for building mechanisms for communicating and reporting risk information and significant risk warnings, communicating and managing risk information and providing significant risk warnings. The Risk Management Department is responsible for formulating operational procedures for communicating and reporting risk information and issuing risk warnings, and the departments and branches and subsidiaries report risk information or issue warnings on potential risks identified by themselves to the Risk Management Department. The Risk Management Department then manages the risk information, performs comprehensive analyses on various risk information to identify risk control weaknesses and loopholes and propose recommendations on improving risk control, reports significant risks to the Chief Risk Officer and Risk Management Committee or executive management, and at the same time, communicates risk information to relevant departments, while tracking any follow-up activities. The Risk Management Department prepares risk reports and risk control recommendation reports according to the results on risk identification, monitoring and assessment, and reports the findings to involved parties and the executive management of the Company. The Risk Management Department continuously monitors risks and the risk control status by following up on the implementation of risk control recommendations by relevant parties in managing risks identified in the risk reports.

The Legal and Compliance Department manages legal and compliance risks through compliance consultation, compliance review, compliance inspection, compliance supervision, compliance reporting, complaints reporting and handling, compliance accountability, information segregation wall, anti-money laundering and a series of compliance management methods as well as contracts, litigation management and other before- and during-the-event management for business lines.

The Internal Audit Department detects material defects in key rules and procedures and processes or internal control weaknesses through audits, reports these issues to the Supervisory Committee, the Audit Committee, management, the Legal and Compliance Department and the Risk Management Department, and drives any follow-up corrections and rectifications.

In 2018, the Company takes the opportunity of promoting the implementation of consolidated management to further optimize the comprehensive risk management mechanism, especially for the investment in more resources in risk measurement, risk management and system construction for risk management in the subsidiaries. The risk management capability of grouping and fine management level of the Company has been father strengthened.

(IV) Details of the Primary Risks Associated with the Operation of the Company

The risks in the daily operating activities of the Company primarily include strategic risk, credit risk, liquidity risk, market risk, operational risk, information technology risk, legal risk and compliance risk and reputation risk. The Company has established specific policies and procedures to identify and address these risks, set out appropriate risk limits and internal control processes to manage these risks, and built a sound control mechanism and information technology systems to continuously monitor and control these risks.

1. Strategic Risk Management

Strategic risks refer to the risks that affects the Company's overall development direction, corporate culture, information and capability of survival or corporate effectiveness.

The Company established rational organizational structure of strategic management, including the Board of Directors and the Development Strategy Committee, the Executive Committee and the Executive Office (leading organizational department for strategic planning) under the Board of Directors, as well as each department, each branch and subsidiary.

The Company has clearly formulated the procedures and methods of strategic planning, established assessment mechanism for strategic risk, including analysis on potential risk factors when formulating strategic plans, as well as regular review and discussion performed by the Board of Directors and the Executive Committee during the process of strategic planning. The Company will, based on the assessment on the implementation of strategic planning, make adjustment to the strategic plans or adopt targeted measures to control the strategic risk when necessary.

2. *Credit Risk Management*

Credit risks refer to the risks arising from the economic loss caused by failure of performing the obligations in the contract by counterparties, issuers of debt financing instruments (or financiers).

Credit risks of the Company arising from securities financial business primarily includes risks from decline in value or insufficient liquidity of collateral provided by customers, customers' failure to repay debts in full in a timely manner due to involvement in legal disputes of collateral assets, and credit risks arising from fraudulent credit information, violation of contracts and regulatory requirements in transaction actions. Control of credit risk from securities financing business is realized primarily through risk education for customers, credit investigation and verification on customers, credit management, risk assessment on collateralized (pledged) securities, reasonable setting of indication of defaulting customers, financing of customers with insufficient guaranteed securities and normal customers, the Company will perform the provision for impairment in accordance with prudential principles by complying with the accounting standards of IFRS 9.

Credit risk arising from bond investments is primarily due to counterparty defaults, credit issuer defaults or decline in the creditworthiness of issuers, among others. The Company establishes ratings and credit lines for counterparties and maintains black lists to manage its counterparty credit risk, and sets a number of credit limits to control risks on credit facilities, including minimum ratings for credit products and maximum credit exposure of a single borrower. In 2018, with the increasing number of default cases in bond market, the Company further improved the credit quality of investment portfolio, post-investment tracking mechanism and credit risk management capability.

The Company controls credit risk arising from over-the-counter derivative transactions through setting counterparty ratings and credit lines, and setting limits on the sizes of transactions and credit risk exposures before transactions take place. The Company conducts a daily check and measurement of the credit risk exposures of counterparties. The Company has also adopted mark-to-market practices to monitor the contracts of derivative transactions and for valuation of collateral, and established forced position squaring procedures to control its credit risk exposures within established limits.

In order to manage the credit risk arising from the brokerage business, securities brokerage transactions in mainland China are all settled on a fully pledged basis, which enables settlement risks associated with brokerage business to be well under control. The Company strictly complies with relevant trading and settlement rules and procedures to eliminate non-compliant financing operations for clients. With regard to clients' credit risk, the Company has adopted safeguarding measures to prevent overdraft or negative balance of equivalent securities for repurchase financing clients, including due diligence of clients, establishing reasonable discount rate of pledged bonds, minimum ratio of equivalent securities retained, maximum leverage ratio and pledge concentration of single bond, and established various rules and practices to manage the credit risk of option trading clients, including margin management, position limits, and forced closeout.

Furthermore, the Company's Risk Management Department monitors the credit risk on an ongoing basis, including tracking the credit qualification status of counterparties and bond issuers, monitoring coverage of collateral for securities and financial business, requiring the business department to fulfill its duty of post-investment management, as well as using stress testing and sensitivity analysis, among others, to measure the credit risk of major business lines.

3. ***Liquidity Risk Management***

Liquidity risks refer to the risks that a commercial bank is unable to acquire sufficient funds in a timely manner at a reasonable cost, in response to repay due debts, fulfill other payment obligations and meet other funding needs during normal course of business.

The Company has established clear decision-making levels, along with authority mechanism, mechanism for hierarchical control, and has clearly defined the duties and functions of the Board of Directors, as well as executive management and business departments of the Company in terms of liquidity risk management. The Company has established strict administrative measures of proprietary funds, and requires strict compliance with such administrative measures in implementing foreign liabilities, guarantees and investments. The Company also implements management on liquidity risk limits and conducts daily position analyses and monthly liquidity position analyses mechanism to manage liquidity movements in a timely manner. In respect of business, in order to effectively control the market liquidity risk of its securities portfolios, the Company has implemented securities centralized management system in securities investment and securities financial business, and adopted bond credit rating standards for fixed income securities investments. The Company has calculated liquidity coverage rates and net stable funds rates in accordance with regulatory requirements and controlled all indicators to be fell within the safety and compliance interval.

The Asset and Liability Management Committee is responsible for organizing and managing the asset and liability allocation plan of the Company, reviewing and approving the internal valuation interest rate of capital and emergency plans for liquidity risk. The Company established the Treasury Operations Department to initiate the management of the liquidity of its proprietary funds, accounting for expanding mid- and long-term stable funding channels, reasonably adjusting the asset allocation among various business lines, and steadily optimizing its assets and liabilities structure. The Company has improved its daily practice for liquidity risk management and control mechanism with the assistance of classified liquidity reserve system, refining internal funds transfer pricing (FTP) system, as well as establishing and optimizing liquidity emergency plans and stress tests. In addition, in the first half of 2018, the Company carried out initial public offering of A Shares and various debt financing instruments to further improve the liquidity.

4. Market Risk Management

Market risks refer to the risks of losses in the Company's on-and-off balance sheet business due to adverse changes in the market price (interest rate, exchange rate, securities price and commodity price).

For market risks, the Company has established an integrated risk management organizational structure, implemented stage-by-stage authorization, provided clear structure of duties and authorities of the Board of Directors, executive management and business department in market risk control and built risk management processes that enable coverage of activities before, during and after making investments, with an overall risk limits application. The Company annually reviews and approves risk limits for the entire Company as well as each proprietary business line, including: exposure limits, stop-loss limits, value-at-risk ("VaR") limits and stress testing limits, with the Risk Management Department monitoring and supervising their implementation and compliance. The Company has adopted daily mark-to-market practices, and implemented stop-loss procedures which commensurate with its trading strategies. On a regular basis, the Company assesses the risk tolerance of its proprietary business lines and the effectiveness of risk control, and includes the assessment results in the performance evaluation of these business lines. The Company makes ongoing efforts to improve its proprietary business management system, to steadily realize automated controls over relevant limit indicators.

The Company adopts VaR as a tool to measure the market risk of its investment portfolio comprising securities and its derivatives. VaR is a method that estimates the maximum possible loss on the portfolio due to movements in market interest rates or securities prices over designated period and within a given confidence interval. As VaR mainly relies on relevant information of historical data, it has certain inherent limitations. To complement, the Company implements daily and specific stress tests to assess the impact on the risk control indicators of net capital of the Company and profit or loss of proprietary portfolio from extreme adverse changes of risk factors, and proposes emergency plans with relevant recommendations and measures in accordance with the assessment. The Company also calculates various risk factors, including Gamma and Vega, for options derivatives, to evaluate their sensitivity risk.

The Company uses sensitivity analysis as a primary instrument to monitor the interest rate risk. Sensitivity analysis measures the impact on the total income and shareholders' equity interests arising from fair value changes of various financial instruments held at the end of the period when there are reasonable and possible changes in interest rates, on the assumptions that all other variables remain constant and overall market interest rates shift in a parallel manner, while risk management activities which may be taken by the Company to reduce interest rate risks are not taken into consideration.

With regard to foreign exchange rate risk management, as the proportion of assets denominated in foreign currencies held by our Company is insignificant, and represents a small portion of the income structure, the Company is of the view that the impact of foreign exchange rate risk on the Company's current operation is significant in general. The Company manages its foreign exchange rate risk by limiting the size of assets and liabilities denominated in foreign currencies, assigning stop-loss limits for investments in overseas companies and risk hedging with foreign exchange derivatives.

The investment structure of the Company primarily comprises equity interest securities and their derivatives business as well as fixed income businesses. Other market price related businesses include gold trading where the Company primarily focuses on providing liquidity services and arbitrage trading, and performs hedging with T+D gold trading and gold future transactions. The size of the current gold portfolio represents a very small portion and a negligible risk exposure. Accordingly, the Company believes that other price risks do not have a significant impact on the Group's current operations.

5. *Operational Risk*

Operational Risks refer to the risks of losses caused by imperfect or problematic internal procedures, employees, IT systems or external events.

Concerning the potential operational risks in each business and management activity of the Company, the Company carries out the segregation of various businesses with three lines of defense comprising a system of checks and balances between its front, middle and back offices. A business authority delegation and accountability system, as well as a management system, procedures and risk control measures for each business has been established and reinforced. Within the scope of authority of the Company, operational risks are transferred or mitigated by personnel and operation outsourcing and, where necessary, insurance is purchased to the extent authorized. Mechanisms for information exchange, reporting of major events and information feedback have also been set up.

The Risk Management Department of the Company monitors and assesses the operational risks of various businesses including the brokerage business, and also implements regular risk control evaluation. It examines the key risks of various business and management lines, and establishes and implements key control measures in practical business procedures. The business departments are organized to conduct self-evaluation of risk and control to identify new material risks and take appropriate risk control measures. Statistical analysis on various types of operational risk events is performed at least on an annual basis to calculate the frequency of their occurrence and the level of losses, as well as to assess the changing trend of risk and risk allocations. In 2018, the Company enhanced various risk warnings and risk education programs, and held "Compliance Risk Control Awareness and Code of Conducts Examination" participated by all the staff members, enhanced targeted monitoring and investigation of major risks, improved emergency management scheme, and kept promoting the applications of various operational risk management tools such as the Key Risk Indicators (KRI), the Risk Control Self-Assessment (RCSA) and Loss Data Collection (LDC).

6. Information Technology Risk Management

Information technology risks refer to the operational, legal and reputational risks incurred from natural factors, human factors, technical defects and management flaws while the information technology is applied in the Company.

The Information Technology Department of the Company is responsible for the management of planning, establishment and operation maintenance of the information technology system. The Company carries out centralized management and backup of the data in transaction system, implementation of mutual separation of development, testing and operation maintenance of information technology system, as well as mutual separation of data management and application system, and implements strict control of access authority and track record, controls the choice of relevant software, hardware and external suppliers of information technology system, performs real-time and automatic monitoring of the connection of important communication network and operation of the significant business system. In addition, the emergency management of business continuity of the Company is centrally led by the Risk Management Department, and the Information Technology Department is responsible for the technical support work.

7. Legal Risk and Compliance Risk Management

Legal risks refer to the risk from contracts not being performed due to invalidity within the law, or improper entering into of the contracts; Compliance risks refer to the risk that the Company may be exposed to legal sanction or regulatory measures, major property loss or reputation loss as a result of its non-compliance with the laws and regulations, regulatory requirements, rules, relevant codes stipulated by self-regulatory organizations as well as code of conduct applicable for our own business activities.

The Legal and Compliance Department of the Company unified to manage legal affairs of the Company and controlled legal risks. It centralized to review all agreements and contracts of the Company, provided legal opinions on major business matters of the Company and performed centralized management, as well as instructed to handle litigations of the Company. Meanwhile, as the department responsible for compliance management under the guidance of the Chief Compliance Officer to carry out independent compliance management of the Company. The main responsibilities of compliance management of the Legal and Compliance Department are daily tracking, analysis, issue of laws and regulatory rules currently in effect and timely identifying, evaluating and managing relevant compliance risk in business operation and business innovation of the Company through various means and methods of compliance inspection, compliance review, compliance checking, compliance supervision. Specific or part-time compliance management officers are engaged in all functional departments, business lines and securities branches of the Company, and are responsible for daily compliance issues in their own departments. The compliance management of the Company has permeated all divisions of the Company, such as decision-making, implementation, supervision and feedback, which have been included in the whole process of executive management of the Company. The Company proactively cultivates a culture of compliance and improves the self-restraint mechanisms in order to ensure compliant operations and standardized development.

8. Reputation Risk Management

Reputation risks refer to the risks of negative comments to the Company from relevant stakeholders as a result of our operations, management and other activities or external events.

The Company strictly upholds the compliance operation concept in accordance with laws, treasuring and proactively maintaining its reputation. The Executive Office of the Company, the leading management department for management of significant emergency issues and public opinions, is responsible for comprehending the emergency issues and other issues which may have impact on the reputation of the Company through timely obtaining the relevant information reported by the media to monitor, evaluate and coordinate response to the reputation risk.

I. BUSINESS REVIEW

In 2018, the national economy remained steady with changes, and the growth in GDP declined to 6.6%. Under the backdrop of deleverage and Sino-US trade war, the securities market experienced significant fluctuations. The Shanghai Composite Index closed at 2,493.90 points at the end of 2018, representing a decrease of 24.59% throughout the year. The Shenzhen Stock Exchange Index closed at 7,239.79 points at the end of 2018, representing a decrease of 34.42% throughout the year; and the Growth Enterprise Market index closed at 1,250.53 points at the end of 2018, representing a decrease of 28.65% throughout the year. In 2018, the average daily trading volume of equity funds was RMB375,530 million, representing a decrease of 20.10%; the balance of funds raised in margin financing and securities lending business was RMB748,981 million, representing a decrease of 26.70% as compared with that at the beginning of 2018; the number of equity financing was 394 with raised funds of RMB1,047,975 million, representing a YOY decrease of 60.04% and 31.81%, respectively, among which 105 were IPOs with raised funds of RMB137,815 million, representing a YOY decrease of 76.03% and 40.11%, respectively; 10,245 bonds were issued with an issue size of RMB11,442,263 million, representing YOY increase of 21.40% and 27.53%, respectively. (source: Wind Info)

In 2018, the total assets of the domestic securities industry as at the end of the year was RMB6.26 trillion and the net assets was RMB1.89 trillion, representing an increase of 2.16% as compared with that at the beginning of 2018; the income of the industry throughout the year was RMB266,287 million, realizing a net profit of RMB66,620 million, representing a decrease of 14.47% and 41.04%, respectively. (source: statistics of the Securities Association)

In face of the complicated and ever-changing market environment in 2018, the Company actively took responsive measures and forge forward, ensuring favorable development of various businesses. Please refer to the section headed "Section 4 – Management Discussion and Analysis" in the report for the details on principal businesses, operating model and industry review.

II. MAJOR RISKS AND UNCERTAINTIES

The major risks the Company is exposed to include market risks, credit risks, liquidity risks and operational risks. For the risk management objectives and policies of the Company, please refer to the description on risk management of the Company set out in this annual report. Please refer to the "Section 4 – Management Discussion and Analysis – III. Discussion and Analysis on Future Development of the Company – (V) Potential Risks" of this annual report for the major risks and uncertainties the Company faced in 2018.

III. RELEVANT LAWS AND REGULATIONS OF SIGNIFICANT INFLUENCE

Adhering to the principle of operating according to laws and regulations, the Company complies with the national laws, administrative regulations and various rules and normative documents promulgated by regulatory authorities.

In order to control operational risks, the Company established a sound and systematic mechanism by setting up a basic system at company level, under which each business line, department and branch shall establish a highly controllable management system, operational process and standardized regulations. The system covers all businesses and processes of the Company. In 2018, the Company formulated, amended and reviewed over 200 policies on internal management to enhance internal control capabilities according to regulatory requirements and the needs for business management of the Company; the Legal and Compliance Department of the Company is the department for the management of policies of the Company and shall be responsible for reviewing and approving the policies of the Company, requiring the business and management departments of the Company implement all requirements of the regulatory authorities and self-regulatory organizations in all businesses systems of the Company in a timely manner, ensuring that each policy is implemented in accordance with the laws and regulations and guaranteeing the coordination and uniformity among policies.

IV. PROFIT DISTRIBUTION AND PROPOSED DIVIDEND

The formulation and implementation of the cash dividend policy and the 2018 profit distribution plan of the Company are set out in the "Section 4 Management Discussion and Analysis – XII. Profit Distribution Policy of the Company" section of this annual report.

V. TAX RELIEF

(I) Tax Relief of A Shareholders

Pursuant to "Notice on Relevant Issues Concerning Differential Individual Income Tax Policies on Dividends and Bonuses of Listed Companies" (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 "Notice on Relevant Issues Concerning the Implementation of Differential Individual Income Tax Policies on Dividends and Bonuses of Listed Companies" (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), issued by the Ministry of Finance, the State Administration of Taxation and CSRC, for the dividends and bonuses received by individual investors from listed companies, from the date when individual investors obtain the Company's stocks to the equity registration date, if the term of shareholding exceeds one year, individual income tax will be temporarily exempted; if the term of shareholding does not exceed one year (including one year), the listed company will not withhold individual income tax, and will make corresponding adjustments in accordance with the above notification requirements when individual investors transfer stocks.

For shareholders of resident enterprises, income tax dividends and bonuses are calculated and paid by itself in accordance with regulations.

For qualified foreign institutional investors (QFII), pursuant to the "Notice on Relevant Issues Concerning the Payment of Dividends, Bonuses and Interests and Withholding the Enterprise Income Tax by Chinese Resident Enterprises to Qualified Foreign Institutional Investors" (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税有關問題的通知》(國税函[2009] 47號)) issued by the State Administration of Taxation, the listed company withholds corporate income tax at a rate of 10%. If the dividends received by QFII shareholders require to enjoy the treatment of Tax Treaty (arrangement), they may apply for tax refunds to the competent tax authorities after obtaining the dividends and bonuses in accordance with relevant regulations.

Pursuant to the "Notice on the Tax Policies Concerning the Pilot Programs Mechanism of Shanghai-Hong Kong Stock Connect Stock Market" (Cai Shui [2014] No. 81) (《股票市場交易互聯互通機制試點有關税收政策的通知》(財税[2014]81號)) issued by the State Administration of Taxation issued by the Ministry of Finance, the state Administration of Taxation and CSRC for the dividends and bonuses received by Hong Kong market investors (including enterprises and individuals) by investing A Shares listed on the Shanghai Stock Exchange, before fulfilling the condition of provision of identities of investors, period of shareholding and other details and data to CSDC by Hong Kong Securities Clearing Co., Ltd., differential taxation policies are not implemented temporarily in accordance with the period of shareholding. Instead, the listed company withholds income tax at a rate of 10%, and handles the withholding declaration with its competent tax authorities. For Hong Kong investors who are tax residents in other countries and whose country enters into Tax Treaty with China that dividend and bonus income tax rate is less than 10%, enterprise or individual may, on its own or entrusting withholding agent, submit an application for tax treaty treatment to the competent tax authorities of the listed company. After the review by the competent tax authorities, tax refund shall be implemented based on the difference between the tax pad and the taxable amount calculated according to the tax treaty rate.

(II) Tax Relief of H Shareholders

Pursuant to the Notice on Issues Concerning Individual Income Tax Collection and Management after the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號)) issued by the PRC State Administration of Taxation, the dividends received by overseas resident individual shareholders from the shares issued by domestic non-foreign invested enterprises in Hong Kong are subject to the payment of individual income tax according to the items of "interests, dividend and bonus income," which shall be withheld by the withholding agents in accordance with the relevant laws. Overseas resident individual shareholders who hold shares issued by domestic non-foreign invested enterprises in Hong Kong are entitled to relevant preferential tax treatment pursuant to the provisions in the tax agreements signed between the countries where they are residents and China, or the tax arrangements between the Mainland and Hong Kong (Macau). The relevant dividend tax rate 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, generally withhold individual income tax at the rate of 10%, and are not obligated to file an application. In circumstances where the tax rate for dividends is not equal to 10%, the following provisions shall apply: (1) for citizens from countries falling under agreements subject to tax rates lower than 10%, the withholding agents will file applications on their behalf to seek entitlement to the relevant agreed upon preferential treatments, and upon approval by the tax authorities, excessive withheld tax amounts will be refunded; (2) for citizens from countries falling under agreements subject to tax rates higher than 10% but lower than 20%, the withholding agents shall withhold individual income tax at the agreed-upon effective tax rate upon distribution of dividends (bonus), and are not obligated to file an application; (3) for citizens from countries without tax agreements or under other circumstances, the withholding agents shall withhold individual income tax at a tax rate of 20% upon distribution of dividends.

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

Pursuant to the Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets (Cai Shui [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》(財稅[2016]127號)) and the Notice on Taxation Policies concerning the Pilot Program of an Interconnection Mechanism for Transactions in the Shanghai and Hong Kong Stock Markets (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 CSRC, for dividends derived by mainland individual investors from investing in H-shares listed on the Hong Kong Stock Exchange through Shenzhen Hong Kong Stock Connect, H-share companies shall withhold individual income tax at a tax rate of 20% for the investors. For mainland securities investment funds investing in Shares listed on the Hong Kong Stock Exchange through Shenzhen Hong Kong Stock Connect, the above rules also apply and individual income tax shall be levied on dividends derived therefrom. Dividends derived by mainland enterprise investors from investing in shares listed on the Hong Kong Stock Exchange through Shenzhen Hong Kong Stock Connect shall be included in their total revenue, and the enterprise income tax thereon may be levied according to the tax law. For dividends derived by mainland resident enterprises where the relevant H shares have been continuously held for more than 12 months, the enterprise income tax thereon may be exempt according to the tax law.

VI. ANALYSIS AND DESCRIPTION OF REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES, AND RECTIFICATION ON SIGNIFICANT ACCOUNTING ERRORS

During the Reporting Period, the Company has revised the accounting policies in relation to financial instruments and income in accordance with the International Financial Reporting Standards (IFRS), and made a disclosure on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk). Such revision did not cause significant impact on the equity interests attributable to the parent company of the Group on January 1, 2018. In addition, before disclosure of this annual report, the accounting policies of the Company were changed in the following aspect:

1. Changes in accounting policies in relation to leasing standards: The Ministry of Finance has revised the Accounting Standards for Enterprises No. 21 – Leasing (hereinafter referred to as "New Leasing Standards") in December 2018. Such revision improved the definition of leasing, and incorporated contents in relation to lease identification, division and consolidation of lease contracts, etc.; cancelled the classification of operating lease and financing lease of lessee, and required right-of-use assets and lease liabilities recognized in all leases (except short-term leases and low-value asset leases); improved subsequent measurement by the lessee, and added accounting treatment in case of revaluation of options and changes in lease.

As required by the Ministry of Finance, the Company shall execute the above revised standards from January 1, 2019. Such change did not cause significant impact on the equity interests attributable to the parent company in the consolidated financial statements of the Company on January 1, 2019.

2. Changes in accounting policies in relation to changes in format of financial statements of financial enterprises: According to the Notice on Revising and Issuing the Format of Financial Statements of General Enterprises (Cai Kuai [2018] No. 36) (《關於修訂印發2018年度金融企業財務報表格式的通知》(財會[2018]36號)) issued by the Ministry of Finance in December 2018, (1) as of December 31, 2018, interests of financial instruments accrued based on effective interest method shall be included in the carrying amount of corresponding financial instruments, and shall be reflected in the relevant "financial investment: debt investment", "financial investment: other debt investment", "bonds payable" and other items, while the items "interests receivable" or "interests payable" shall not be presented separately. Items "interests receivable" and "interests payable" shall only reflect the interests of relevant financial instruments receivable or payable as they fall due but have yet been received or paid as of the balance sheet date, and normally, such amount shall be presented in "other assets" or "other liabilities" items due to the relatively small amount; (2) interest income from financial assets classified as measured at amortized cost and financial assets classified under fair value through other comprehensive income calculated by effective interest method shall be included in "interest income", and shall not be included in "investment income".

The above adjustment did not cause significant impact on equity interests attributable to the shareholders of parent company and net profit attributable to shareholders of the parent company in 2018 consolidated financial statements of the Company.

VII. SIGNIFICANT FINANCING

(I) Details of use of previously raised funds

Pursuant to the Approval of Initial Public Offering of Shares of CSC Financial Co., Ltd. (《關於核准中信建投証券股份有限公司首次公開發行股票的批覆》)(Zheng Jian Xu Ke [2018] No.828) from CSRC, the Company completed the IPO of 400,000,000 Shares of RMB denominated ordinary shares (A Shares) to domestic investors at the offering price of RMB5.42 per Share. The subscription price for the shares was paid up in RMB, amounting to RMB2,168,000,000.00. After deducting the issuance expenses, the net proceeds from the total fund raised by the Company was RMB2,068,697,180.29 (after deducting the underwriting fees, online issuance fees and other transaction fees, but excluding the interest income arising from subscription funds of RMB denominated ordinary shares (A Shares) offering during the frozen period. The above mentioned capital was paid up on June 13, 2018, and the amount was verified by PwC Zhong Tian, who issued the capital verification report numbered PricewaterhouseCoopers Zhong Tian Yan Zi [2018] No. 0388 (普華永道中天驗[2018]第0388號)). The net price to the Company of each security amounted to RMB5.17, and the closing price on the first day of listing (June 20, 2018) was RMB7.80.

The use of proceeds previously raised from H Shares of the Company as of December 31, 2018 is set out as follows:

Unit: RMB ten thousand

Total amount of the raised proceeds:	673,269.25	Accumulated use of total raised proceeds:	649,283.82
Total amount of the unused raised proceeds at the beginning of 2018:	148,985.43	Use of total amount of raised proceeds in respective years:	649,283.82
Total amount of raised proceeds with changes in usage:	Nil	2016:	204,106.16
Total amount of raised proceeds with changes in usage as a proportion of total raised proceeds:	Nil	2017:	320,177.66
		2018:	125,000.00

	Investment project		Total investment amount of the raised proceeds			The accumulated investment amount of the raised proceeds as of December 31, 2018					
No.	Proposed investment project	Actual investment project	Proposed investment amount before capital raising	Proposed investment amount after capital raising	Actual investment amount	Proposed investment amount before capital raising	Proposed investment amount after capital raising	Actual investment amount *(Note 3)*	Difference between proposed investment amount after capital raising and actual investment amount *(Note 1)*	Actual investment amount during the Reporting Period	The date on which the project reaches the expected fully utilized state (or the completion progress of the project as of the closing date)
1	Meeting customer investment and financing needs	Meeting customer investment and financing needs	35%, an amount equivalent to 235,401.45	35%, an amount equivalent to 235,644.24	235,644.24	235,401.45	235,644.24	235,644.24	–	–	Note 2
2	Enhancing investment and market-making capacity	Enhancing investment and market-making capacity	20%, an amount equivalent to 134,515.11	20%, an amount equivalent to 134,653.85	127,572.66	134,515.11	134,653.85	127,572.66	7,081.19	–	Note 2
3	Product seed funding	Product seed funding	20%, an amount equivalent to 134,515.11	20%, an amount equivalent to 134,653.85	130,000.00	134,515.11	134,653.85	130,000.00	4,653.85	125,000.00	Note 2
4	Enhancing cross border business capacity and international competitiveness, increasing proportion of overseas assets and revenue	Enhancing cross border business capacity and international competitiveness, increasing proportion of overseas assets and revenue	15%, an amount equivalent to 100,866.33	15%, an amount equivalent to 100,990.39	88,740.00	100,886.33	100,990.39	88,740.00	12,250.39	–	Note 2
5	Working capital and other general business use	Working capital and other general business use	10%, an amount equivalent to 67,257.56	10%, an amount equivalent to 67,326.92	67,326.92	67,257.56	67,326.92	67,326.92	–	–	Note 2
	Total		672,575.56	673,269.25	649,283.82	672,575.56	673,269.25	649,283.82	23,985.43	125,000.00	Note 2

The use of proceeds previously raised from A shares of the Company as of December 31, 2018 is set out as follows:

Unit: RMB ten thousand

Total amount of the raised proceeds:	206,869.72	Accumulated use of total raised proceeds:	206,869.72
Total amount of the unused raised proceeds at the beginning of 2018:	N/A	Use of total amount of raised proceeds in respective years:	206,869.72
Total amount of raised proceeds with changes in usage:	Nil	2018:	206,869.72
Total amount of raised proceeds with changes in usage as a proportion of total raised proceeds:	Nil		

No.	Investment project		Total investment amount of the raised proceeds			The accumulated investment amount of the raised proceeds as of December 31, 2018					
	Proposed investment project	Actual investment project	Proposed investment amount before capital raising	Proposed investment amount after capital raising	Actual investment amount	Proposed investment amount before capital raising	Proposed investment amount after capital raising	Actual investment amount *(Note 3)*	Difference between proposed investment amount after capital raising and actual investment amount *(Note 1)*	Actual investment amount during the Reporting Period	The date on which the project reaches the expected fully utilized state (or the completion progress of the project as of the closing date)
1	Replenish the working capital of the Company	Replenish the working capital of the Company	206,869.72	206,869.72	206,869.72	206,869.72	206,869.72	206,869.72	–	206,869.72	Note 2
	Total		206,869.72	206,869.72	206,869.72	206,869.72	206,869.72	206,869.72	–	206,869.72	Note 2

Note 1: The difference between the actual investment amount and promised investment amount after capital raising was the unused capital raised as of December 31, 2018. The Company has compared, item by item, the promised investment projects stated in the H share prospectus with the disclosed specific usage. As of December 31, 2018, the H share capital raised which the Company had promised but had not used was equivalent to RMB239.8543 million. The Company will utilize the H share raised capital according to the actual development needs. Among these, the H share proceeds raised will be used for increasing investment and market-making capacity, and the trading and institutional client service business (equivalent to RMB70.8119 million) will be used in expanding the scale of investment in FICC and stocks and derivatives and enhancing market-making capacity for various products; the H share capital raised to be used for product seed funding and the investment management business (equivalent to RMB46.5385 million) will be used for the junior-grade investments when issuing asset management products of the securities company, the capital increase of China Securities Funds and China Securities Capital, and the offering of alternative investment services, after which the capital raised will be used according to actual needs; the H share capital raised to be used for enhancing cross-border business capacity and international competitiveness, increasing proportion of overseas assets and revenue, and overseas business (equivalent to RMB122.5039 million) will be temporarily maintained at the overseas capital raising account and remitted to the overseas subsidiaries for further use according to the actual business needs of the overseas subsidiaries after obtaining the approval of the relevant regulatory authorities.

Note 2: The actual investment amount of the raised funds from overseas listed foreign invested shares were converted into Renminbi at actual exchange rate. The raised funds were transferred into the general account maintained by the Company from the special bank account for proceeds upon approval of the Company for the purpose of the actual investment projects. There are no distinguishment between the raised funds in the self-owned general account and other capital in the general account. For the purpose of the actual investment projects, the Company confirmed that the raised funds were actually utilized in respect of the repayment and payment out of the funds in the general account.

Note 3: The discrepancy between the committed investment amount prior to fund raising and the committed investment amount upon completion of fund raising mainly refers to the difference resulted from the translation of exchange rate.

(II) Bond Financing

During the Reporting Period, the Company non-publicly issued four tranches of corporate bonds with a total issuance amount of RMB14.0 billion; two tranches of securities company short-term corporate bonds with a total issuance amount of RMB5.9 billion; and one tranche of subordinated bonds with a total issuance amount of RMB5.0 billion. Details are as set out below:

(1) In March 2018, the Company non-publicly issued a 2-year fixed rate corporate bond ("18 Xintou F1") with a face value of RMB4 billion. The bond pays interest annually at 5.43% per annum and is not guaranteed.

(2) In April 2018, the Company non-publicly issued a 3-year fixed rate corporate bond ("18 Xintou F2") with a face value of RMB4 billion. The bond pays interest annually at 5.12% per annum and is not guaranteed.

(3) In July 2018, the Company non-publicly issued a 3-year fixed rate corporate bond ("18 Xintou F3") with a face value of RMB3.5 billion. The bond pays interest annually at 4.86% per annum and is not guaranteed.

(4) In July 2018, the Company non-publicly issued a 3-year fixed rate corporate bond ("18 Xintou F4") with a face value of RMB2.5 billion. The bond pays interest annually at 4.84% per annum and is not guaranteed.

(5) In February 2018, the Company non-publicly issued a 350-day fixed rate short-term corporate bond ("18 CSC D1") with a face value of RMB3.0 billion. The bond pays interest annually at 5.34% per annum and is not guaranteed.

(6) In May 2018, the Company non-publicly issued a 345-day fixed rate short-term corporate bond ("18 CSC D2") with a face value of RMB2.9 billion. The bond pays interest annually at 4.70% per annum and is not guaranteed.

(7) In November 2018, the Company non-publicly issued a 3-year fixed rate subordinated bond ("18 CSC C1") with a face value of RMB5.0 billion. The bond pays interest annually at 4.38% per annum and is not guaranteed.

Subsequent Events after the Reporting Period:

(1) In January 2019, the Company non-publicly issued a 3-year fixed rate subordinated bond ("19 CSC C1") with a face value of RMB5.5 billion. The bond pays interest annually at 4.00% per annum and is not guaranteed.

VIII. REPURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

Except for the initial public offering of 400,000,000 A Shares by the Company at RMB5.42 per Share on the SSE on June 20, 2018, the Company or any of its subsidiaries did not repurchase, sell or redeem securities of the Company for the year ended December 31, 2018.

IX. BIOGRAPHICAL DETAILS OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The biographical details of Directors, Supervisors and senior management of the Company are set out in "Section 8 Directors, Supervisors, Senior Management and Employees – I. Changes in Shareholding and Remuneration – (II) Biographical Details of the Current Directors, Supervisors and Senior Management of the Company" of this annual report.

X. SERVICE CONTRACTS AND APPOINTMENT LETTERS OF DIRECTORS AND SUPERVISORS

The Company entered into service contracts or appointment letters with Directors of the current session of the Board with their term of office starting from the date of the approval of election at the Shareholders' general meeting and the obtaining of the relevant qualification, until the expiry date of the term of the session of the Board.

In addition, the Company or its subsidiaries did not enter into any service contract with the Directors and Supervisors which will be terminated in one year without any compensation (other than statutory compensation).

XI. PERMITTED INDEMNITY PROVISIONS

The Company has purchased insurance for the Directors against legal liabilities arising from performance of their duties. The applicable law governing the relevant insurance policies was PRC law. The Company reviews the coverage of such insurance each year. During the Reporting Period, there were no claims for compensation against the Directors or senior management of the Company.

XII. MANAGEMENT CONTRACTS

During the Reporting Period, apart from employment contracts of employees, no management or administrative contracts were entered into or subsisting in respect of the whole or a substantial part of any business of the Company.

XIII. REMUNERATION POLICIES

The details of remuneration policies of the Company's Directors, Supervisors and senior management are set out in the "Section 8 Directors, Supervisors, Senior Management and Employees – IV. Performance of Duties of Directors, Supervisors and Senior Management and V. Remuneration of Directors, Supervisors and Senior Management" of this annual report.

Details of the Company's employee remuneration policies and employee compensation are set out in "Section 8 Directors, Supervisors, Senior Management and Employees – VII. Employees of the Parent Company and Major Subsidiaries – (II) Remuneration Policies" and "Notes to the Financial Statements "of this annual report.

XIV. DIRECTORS' AND SUPERVISORS' INTERESTS IN MATERIAL CONTRACTS

During the Reporting Period, the Company or its subsidiaries did not enter into any transaction, arrangement or contract of significance in which the Directors or Supervisors or their respective connected entities had a material interest, whether directly or indirectly.

XV. DIRECTORS' INTERESTS IN BUSINESSES COMPETING WITH THE COMPANY

During the Reporting Period, none of the Directors had interests in any business which competes with the businesses of the Company.

XVI. INTERESTS AND SHORT POSITIONS HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

To the best knowledge of all Directors, as of December 31, 2018, no Directors, Supervisors or members of senior management of the Company had interests or short positions in the Shares, underlying Shares and debentures of the Company or any of the Company's associated corporations (as defined in Part XV of the Securities and Futures Ordinance), which were required, pursuant to Section 352 of the Securities and Futures Ordinance, to be entered into the register referred to therein, or required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") under Appendix 10 to the Hong Kong Listing Rules, to be notified to the Company and the Hong Kong Stock Exchange.

As of December 31, 2018, no Directors and Supervisors or any of their spouses or children under 18 years of age had been granted the rights to purchase Shares or bonds of the Company for the benefit or exercise any aforesaid rights by themselves, nor have any Directors and Supervisors or any of their spouses or children under 18 years of age been granted the aforesaid rights from any other corporate body due to the arrangement made by the Company or any its subsidiaries.

XVII. INTERESTS AND SHORT POSITIONS TO BE DISCLOSED BY THE SHAREHOLDERS PURSUANT TO THE SECURITIES AND FUTURES ORDINANCE

Details of interests and short positions to be disclosed by the Shareholders pursuant to the Securities and Futures Ordinance are set out in the "Section 7 Changes in Shares and Information on Substantial Shareholders – V. Disclosure of Interests – Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company" of this annual report.

XVIII. PRE-EMPTIVE RIGHTS

The Company was established in accordance with the PRC laws with no arrangement regarding pre-emptive rights.

XIX. RESERVES AND DISTRIBUTABLE RESERVES

Please refer to the "Consolidated Statement of Changes in Equity" and Note 51 to the consolidated financial statements" of this annual report for details of changes in the reserves and the reserves of distributable profits of the Company.

XX. PROPERTY, PLANT AND EQUIPMENT

Please refer to "Note 18 to the consolidated financial statements" of this annual report for property, plant and equipment of the Group as of December 31, 2018.

XXI. MAJOR CLIENTS AND SUPPLIERS

The Company has a high-quality and diversified client base (primarily consisting of industry-leading corporations, institutional investors and high-net-worth individuals). The Company develops and maintains long-term relationships with clients and is dedicated to providing them with a comprehensive suite of products and services. The Company has gained its clients' trust through deep engagement and thorough knowledge and understanding of their businesses.

In 2018, the total revenue and other income of the Company from the top five clients in the aggregate did not exceed 10% of our total revenue and other income in the aggregate. By virtue of the nature of our business, the Company has no major suppliers.

XXII. RELATIONSHIP WITH EMPLOYEES, CLIENTS, SUPPLIERS AND PERSONS WHO ARE MATERIALLY RELATED

Employees' remuneration consists of fixed salary, performance-based bonuses, insurance and other benefits. The Company continues to promote and implement staff training programs featuring comprehensive planning, implementation by levels and clear purposes. For details about the remuneration and training plans for employees of the Company, please refer to the "Section 8 Directors, Supervisors, Senior Management and Employees – VII. Employees of the Parent Company and Major Subsidiaries – (II) Remuneration Policies" and "– (III) Training Program" of this annual report.

For information on the relationship between the Company and securities brokers, please refer to the "Section 8 Directors, Supervisors, Senior Management and Employees – VII. Employees of the Parent Company and Major Subsidiaries – (IV) Information of Securities Brokers" section of this annual report. For information on the relationship between the Company and major clients and suppliers, please refer to the "Major Clients and Suppliers" section of this annual report.

XXIII. SUFFICIENT PUBLIC FLOAT

Upon listing of the H Shares, the Hong Kong Stock Exchange granted a waiver to the Company, approving that the minimum public float for the H Shares shall be the highest of (1) 15% of the total issued Share capital of the Company; (2) such percentage of H Shares to be held by the public immediately after the completion of the global offering (assuming that the over-allotment option is not exercised); and (3) such percentage of H Shares to be held by the public immediately after the completion of the global offering (as increased by the H Shares to be issued upon any exercise of the over-allotment option). Upon the completion of the global offering (including the partial exercise of over-allotment option) and based on the minimum public float granted by the Hong Kong Stock Exchange, the minimum public float for the H Shares of the Company is no lower than 17.40%.

Upon the completion of issuance of A Shares, the number of H Shares held by the public represented not less than 16.49% of the total issued Share capital. Based on the public information available to the Company and the knowledge of the Directors as of the Latest Practicable Date before the publishing of this annual report, the Company has satisfied the public float requirements by maintaining a total public float of A Shares and H Shares of not less than 17.40%.

XXIV. CORPORATE GOVERNANCE

The details of corporate governance are set out in the "Section IX Corporate Governance Report" section of this annual report.

XXV. PERFORMANCE OF SOCIAL RESPONSIBILITIES

The Company actively fulfills its social responsibility. To achieve its objectives of establishing a better platform for employees, providing better services for clients and making a greater contribution to society, the Company strictly implements industry policies and environmentally friendly policies announced by the government. The Company, as a financial institution, fulfills its economic responsibility, social responsibility and environmental responsibility pursuant to regulatory requirements, facilitating the harmonic and sustainable development of the relationship between the Company and the society and the environment. The Company assigns different roles for different tasks and has established a long-lasting working mechanism for the implementation of social responsibility.

The Company conducts its businesses in a lawful manner and strives to increase the market share of its businesses and operating results. The Company continuously improves its corporate governance structure, placing efforts on enhancing the scientific standard of decision-making and operational efficiency, and increasing the standard of information disclosure. In addition, the Company continues to strengthen internal controls and improve the capability of its compliance management and risk management. The Company actively commences the construction of combating corruption and upholding integrity, and improves supervision and management mechanism. The Company is gradually forming a client-oriented integrated operation model and keeps upgrading its client services and clients satisfaction. Moreover, it actively participates in the establishment of multi-level capital markets, including the NEEQ and regional equity trading markets, and whole-heartedly provides services in investment, financing and financial advisory for the development of small- and medium-sized enterprises. Upholding the principle of "people-oriented", the Company optimizes its remuneration and benefits policy, encourages the training of and communication among employees, improves the working environment, safeguards the legal rights of employees, improves talent cultivation system and boosts the development of talent team, and provides platforms and opportunities for talents. The Company cares about the physical and mental health of employees and organizes different types of activities to enrich the leisure time and cultural life of employees by holding healthy walk campaigns, knowledge contests and parents-child activities as well as setting up various leisure clubs. In addition to maintaining its daily operations, with a strong sense of social responsibility, the Company actively participates in charity events and activities, demonstrating its mission to reward and contribute to the society.

In 2018, the Company made donations to a total of more than 20 external organizations with an amount of RMB5,779,800, mainly involving poverty alleviation, donations to schools, resource protection and other charitable projects. Among which, the Company donated RMB5 million to five national poverty Counties, namely Ji County in Shanxi Province and Li County in Gansu Province, Anyuan County in Jiangxi Province, Jinggangshan City in Jiangxi Province and Huayuan County in Hunan Province, mainly for supporting local pension, education and poverty alleviation through development of local featured industry; donated RMB0.3 million to Zhagun Airike Village and Langan Village, Taga'er, Shache County, Kashi Prefecture, Xinjiang, for supporting the construction of local infrastructure; and donated supplies with a total value of RMB0.2 million to Third Kindergarten of Xianjun, Tongren County, Nanzang District, Qinghai Province.

In 2018, the Company did not have any material environmental protection or other significant social security issues.

XXVI. AUDITORS

Please refer to the "Section 6 Other Significant Events – II. Appointment or Termination of Auditors" of this annual report for details of the engagement or dismissal of auditors.

XXVII. ENVIRONMENTAL POLICY AND PERFORMANCE

CSC has always been upholding the environmental concept of "low-carbon environmental protection and green operation". As a financial service institution, emissions in the course of business operation of CSC primarily include nitrogen oxide, SO2 and greenhouse gas due to fuel consumption of motor vehicles, and indirect greenhouse gas emissions due to consumption of electricity in the offices; the consumption of resources primarily includes fuel oil for public vehicles, outsourced electric power, water for office use and papers for office use. Based on the characteristics of the industry, CSC had no significant impact on the environment and natural resources, but CSC still attaches importance to its environmental performance management. On the one hand, the Company recognized and strictly complied with the laws and regulations and related policies in relation to environment stipulated by the state and relevant regulatory authorities, such as the Environmental Protection Law of the PRC, the Energy Conservation Law of the PRC, the Comprehensive Work Plan for Energy Conservation and Emission Reduction in the 13th Five-Year Plan Period (《"十三五"節能減排綜合工作方案》) issued by the State Council, etc., while on the other hand, the Company achieved energy conservation and emission reduction through various measures, such as the measure of a paper-free office, assigning designated persons to inspect the use of electricity in the offices, the energy conservation settings of air-conditioners in the public area, reducing the standby power consumption of electrical appliances, installing water conservation facilities, strengthening control over fuel consumption and the management and control of use of business vehicles, etc., to ensure that the management of emissions and use of resources by CSC meet the requirements of relevant laws and regulations and truly turn the concept of "low-carbon environmental protection and green operation" into actions.

XXVIII. FUTURE DEVELOPMENT/FORWARD-LOOKING

Please refer to "Section 4 Management Discussion and Analysis – III. Discussion and Analysis on Future Development of the Company" of this annual report for the Company's future development and prospect.

By order of the Board
WANG Changqing
Chairman

Beijing, the PRC, March 18, 2019

SECTION 6 OTHER SIGNIFICANT EVENTS

I. ANALYSIS AND EXPLANATION OF THE BOARD OF DIRECTORS ON THE REASONS AND IMPACT OF THE CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR ACCOUNTING METHODS

Analysis and explanation of the Board of Directors on the reasons and impact of the changes in accounting policies, accounting estimates or accounting methods are set out in "Section 5 Report of Directors – VI. Analysis and Description of Reason for and Impact of Changes in Accounting Policies and Accounting Estimates, and Rectification on Significant Accounting Errors" of this annual report.

II. APPOINTMENT OR TERMINATION OF AUDITORS

Unit: RMB ten thousand

	Current appointment
Name of the PRC auditor	PricewaterhouseCoopers Zhong Tian LLP
Remuneration for the PRC auditor	126
Term of service of the PRC auditor	Four years
Name of the overseas auditor	PricewaterhouseCoopers
Remuneration for the overseas auditor	99
Term of service of the overseas auditor	Four years

Note: The above is the audit expenses for the annual report of the Company, which does not include the audit expenses for subsidiaries of the Company.

Unit: RMB ten thousand

	Name	Remuneration
Internal control auditor	PricewaterhouseCoopers Zhong Tian LLP	40

III. EXPLANATION OF APPOINTMENT OR TERMINATION OF AUDITORS

At the 2017 annual general meeting of the Company, it was considered and approved that PwC Zhong Tian and PwC be reappointed as the external auditors of the Company for 2018, respectively. They shall be responsible for the provision of the relevant audit services in accordance with the China Accounting Standards for Business Enterprises and the International Financial Reporting Standards, respectively.

IV. MATERIAL LITIGATION AND ARBITRATION

During the Reporting Period, the Group had no major litigation or arbitration that involves an amount exceeding RMB10 million and accounting for more than 10 percent of the absolute value of the Company's latest audited net assets to be disclosed under the Listing Rules of the SSE.

During the Reporting Period, the Company, as the subject of bond issuance, has issued the following interim announcements on involvement in major litigation and arbitration on the bond section on the website of SSE:

Summary and type of events	Index for inquiries
The case that the Company, as the manager, on behalf of "CSC Longxing No. 916 Directional Asset Management Scheme", applied for arbitration in relation to the default matters in stock-pledged repurchase business by Pan Yicen, the financier, and Luo Weiguang, the guarantor	Announcement on Involvement in Arbitration of CSC Financial Co., Ltd. issued on the bond section on the website of SSE on July 24, 2018
The case that the Company, as the applicant, applied for arbitration in relation to the default of stock-pledged repurchase business by Huang Qingle, the financier	Announcement on Involvement in Arbitration by CSC Financial Co., Ltd. and Announcement on Involvement in Litigation, Arbitration and Update by CSC Financial Co., Ltd. issued on the bond section on the website of SSE on August 29, 2018 and September 26, 2018, respectively
The case that the Company, as the applicant, applied for arbitration in relation to the default of stock-pledged repurchase business by Beijing Maiden Voyage Corrugated Pipe Manufacturing Co., Ltd, the financier	Announcement on Involvement in Arbitration by CSC Financial Co., Ltd. and Announcement on Involvement in Litigation, Arbitration and Update by CSC Financial Co., Ltd. issued on the bond section on the website of SSE on August 29, 2018 and September 26, 2018, respectively
The case that the Company, as the manager, on behalf of "CSC Longxing No. 824 Directional Asset Management Scheme", applied for arbitration in relation to the default matters in stock-pledged repurchase business by Guoguang Global Asset Management Co., Ltd., the financier	Announcement on Involvement in Arbitration by CSC Financial Co., Ltd. issued on the bond section on the website of SSE on August 29, 2018

Summary and type of events	Index for inquiries
The case that the Company, as the manager, on behalf of "CSC Longxing No. 578 Directional Asset Management Scheme", applied for arbitration in relation to the two default matters in stock-pledged repurchase business by Beijing Yinji Huacheng Investment Center LLP, the financier, and Xiao Wenge, the guarantor	Announcement on Involvement in Litigation, Arbitration and Update by CSC Financial Co., Ltd. issued on the bond section on the website of SSE on September 26, 2018
The case that the Company, as a third party, filed a litigation against Shanghai Bikong Longxiang Investment Management Co., Ltd. in relation to securities investment funds trading dispute involving Xinjiang Investment Development (Group) Co., Ltd.	Announcement on Involvement in Litigation, Arbitration and Update by CSC Financial Co., Ltd. issued on the bond section on the website of SSE on September 26, 2018
The case that the Company, as one of the applicants, applied for an arbitration against Wuxi Wuzhou International Decoration Co., Ltd., etc. in relation to the securities contract dispute involving Shanghai Meiqi Asset Management Center LLP	Announcement on Involvement in Arbitration by CSC Financial Co., Ltd. issued on the bond section on the website of SSE on October 10, 2018

V. MATERIAL CONTRACTS AND EXECUTION

During the Reporting Period, the Group did not have significant contracting or lease arrangements, nor were there such arrangements carried forward to the Reporting Period from the previous period.

VI. RELATED PARTY TRANSACTION/CONNECTED TRANSACTION

The Group conducts connected transactions in strict compliance with both the Listing Rules of the SSE and the Hong Kong Listing Rules, and "Policy on Management of Connected Transactions of CSC Financial Co., Ltd." (中信建投証券股份有限公司關連交易管理制度). The Group's connected transactions were conducted based on the principles of fairness, openness and impartiality, and the connected transaction agreements were entered into based on the principles of equality, voluntariness, fairness and compensation.

During the Reporting Period, the Company was in compliance with the requirements of connected transactions set out in Chapter 14A under the Hong Kong Listing Rules. During the Reporting Period, the Company did not have any connected transaction which would be required to be disclosed under such rules. Details on related party transactions under the relevant accounting standards can be found in Note 56 in the appended consolidated financial statements. Pursuant to Rule Chapter 14A.10 of the Hong Kong Listing Rules, the Hong Kong Stock Exchange will not normally treat a PRC government bodies as a connected person. As such, the transactions between the Group and BSCOMC or Central Huijin and its associates do not constitute connected transactions.

VII. MATERIAL ACQUISITIONS AND DISPOSAL DURING THE REPORTING PERIOD

During the Reporting Period, the Group did not have any material acquisitions, disposals, swaps or asset reorganizations of subsidiaries, associates, joint operations or joint ventures.

VIII. CLASSIFICATION AND RATING OF THE COMPANY BY SECURITIES REGULATORS

In 2018, in the classification and rating of securities firms by the CSRC, the Company was rated "Class A Grade AA" for nine consecutive years. The Company is one of the only three PRC securities companies in the industry which received such a rating for nine consecutive years during 2010 and 2018 with such a rating being the highest rank granted by the CSRC. In addition, China Securities Futures, the Company's wholly-owned subsidiary, was rated "Class A Grade AA" for three consecutive years under the classification base on futures firms announced in 2018.

SECTION 7 CHANGES IN SHARES AND INFORMATION ON SUBSTANTIAL SHAREHOLDERS

I. SHARE CAPITAL STRUCTURE OF THE COMPANY

As of December 31, 2018, the share capital structure of the Company was as follows:

Name of Shareholders	Type of Shares	Number of Shares	Percentage in the total number of Shares
BSCOMC (北京國管中心)	A Shares	2,684,309,017	35.11%
Central Huijin (中央匯金)	A Shares	2,386,052,459	31.21%
HKSCC Nominees Limited (香港中央結算(代理人)有限公司) *(note)*			
Glasslake Holdings (鏡湖控股) *(note)*	H Shares	351,647,000	4.60%
CSRF (結構調整基金) *(note)*	H Shares	112,740,500	1.47%
Other Shares held under the name of HKSCC Nominee Limited	H Shares	796,328,202	10.41%
Other Shares held under the name of HKSCC Nominee Limited	A Shares	10,087,236	0.13%
CITIC Securities (中信証券)	A Shares	427,000,000	5.58%
Tengyun Investment (騰雲投資)	A Shares	300,000,000	3.92%
Shanghai Shangyan (上海商言)	A Shares	150,624,815	1.97%
Century Jinyuan (世紀金源)	A Shares	37,375,185	0.49%
Other public holders of A Shares	A Shares	389,912,764	5.10%
Other public holders of H Shares	H Shares	308,060	0.01%
Total		7,646,385,238	100.00%

Note: As of December 31, 2018, the Company noted from the Shareholders' interests disclosed on the Hong Kong Stock Exchange that Glasslake Holdings held 351,647,000 H Shares of the Company, representing 4.60% of the total share capital of the Company and CSRF held 112,740,500 H Shares of the Company, representing 1.47% of the total share capital of the Company. The total number of H Shares of the Company held by HKSCC Nominees Limited acting as the nominee for all institutional and individual investors that maintain an account with it was 1,260,715,702 H Shares as of December 31, 2018. Save for 351,647,000 H Shares and 112,740,500 H Shares of the Company held by Glasslake Holdings and CSRF, respectively, to the knowledge of the Company, the number of remaining H Shares of the Company held under the name of HKSCC Nominees Limited was 796,328,202 H Shares.

II. DESCRIPTION OF CHANGES IN SHARES

On June 20, 2018, the Company was listed on the main board of the Shanghai Stock Exchange and initially issued 400,000,000 A Shares to the public. Upon the initial public offering and listing of A Shares of the Company, the total share capital of the Company was changed from 7,246,385,238 Shares to 7,646,385,238 Shares, 6,385,361,476 of which were A Shares, and 1,261,023,762 were H Shares.

III. SHAREHOLDERS

As of December 31, 2018, the total number of Shareholders as shown on the register of members of the Company was 91,994, of which 91,919 were A Shareholders and 75 were H Share registered Shareholders. The H Share registered Shareholders include HKSCC Nominees Limited, which held H Shares and A Shares of the Company as the nominee for all institutional and individual investors that maintained an account with it as of December 31, 2018.

IV. INFORMATION ON SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As of December 31, 2018, BSCOMC, the largest Shareholder of the Company, and Central Huijin, the second largest Shareholder of the Company, held 35.11% and 31.21% of the Shares of the Company, respectively.

As of the Latest Practicable Date, BSCOMC and Central Huijin held 35.11% and 31.21% of the Shares of the Company, respectively.

(I) BSCOMC

BSCOMC is a wholly people-owned enterprise approved by Beijing Municipal Government with its entire capital contributed by Beijing State-owned Assets Supervision and Administration Commission. It was established on December 30, 2008 with a registered capital of RMB35 billion. BSCOMC is an investment and financing entity focusing on the operation of state-owned capital and the management of state-owned equities with the objective of achieving the securitization of state-owned capital and maximizing its value. BSCOMC primarily acts as the industry investment entity for achieving the strategic goals of Beijing Municipality Committee and Beijing Municipal Government, the financing entity for capital operation in a market-oriented manner, the industry consolidation entity for promoting the reform and reorganization of state-owned enterprises and realizing an orderly advance and retreat of state-owned capital, the venture investment entity for promoting pioneering industry development and technological innovation of enterprises, the equity management entity holding the equity of enterprises which are listed as a whole or whose main businesses are listed, and the service entity for debt restructuring of enterprises and solving the historical problems. BSCOMC constitutes a PRC Government Body under the Hong Kong Listing Rules.

(II) Central Huijin

Central Huijin is a state-owned investment company established in accordance with the PRC Company Law. Central Huijin, which is headquartered in Beijing, was established in December 2003 and mandated to exercise the rights and the obligations as an investor in major state-owned financial enterprises, on behalf of the PRC Government. In September 2007, the Ministry of Finance issued special treasury bonds and acquired all the shares of Central Huijin from the People's Bank of China. The acquired shares were injected into China Investment Corporation ("CIC") as part of its initial capital contribution. However, Central Huijin's principal shareholder rights are exercised by the State Council. The members of the Board of Directors and Supervisory Committee of Central Huijin are appointed by, and are accountable to, the State Council. In accordance with authorization by the State Council, Central Huijin makes equity investments in major state-owned financial enterprises, and shall, to the extent of its capital contribution, exercise the rights and perform the obligations as an investor on behalf of the PRC Government in accordance with applicable laws, to achieve the goal of preserving and enhancing the value of state-owned financial assets. Central Huijin does not conduct any other business or commercial activities. In view of the fact that Central Huijin was established by the PRC Government as a state-owned investment company engaging in investments in the financial industry, its other affiliated enterprises are also engaged in or participate in securities business. Such business activities are all carried out under the principle of fair market competition, and Central Huijin does not intervene in the day-to-day business operations of the enterprises in which it invests.

V. DISCLOSURE OF INTERESTS

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company

To the knowledge of the Directors, as of December 31, 2018, the following Shareholders (except Directors, Supervisors and senior management) had interests or short positions in the Shares and underlying Shares of the Company required to be recorded in the register to be kept by the Company under Section 336 of the SFO:

	Name	Capacity	Number of Shares Directly or Indirectly Held	Class of Shares	Nature of Interest	Approximate Percentage of Shareholding in the Total Issued Ordinary Share Capital	Approximate Percentage of Shareholding in the Relevant Class of Shares
1.	BSCOMC (北京國管中心)	Beneficial owner	2,684,309,017	A Shares	Long positions	35.11%	42.04%
2.	Central Huijin (中央匯金)	Beneficial owner	2,386,052,459	A Shares	Long positions	31.21%	37.37%
3.	CITIC Securities (中信証券)	Beneficial owner	427,000,000	A Shares	Long positions	5.58%	6.69%
4.	Tengyun Investment (騰雲投資) *(Note 1)*	Beneficial owner	300,000,000	A Shares	Long positions	3.92%	4.70%
5.	Shanghai Shangyan Investment Center (Limited Partnership) (上海商言(有限合夥))	Beneficial owner	150,624,815	A Shares	Long positions	1.97%	2.36%
6	Century Jinyuan Investment Group Limited (世紀金源) *(Note 1)*	Beneficial owner	37,375,185	A Shares	Long positions	0.49%	0.59%
7.	Huang Tao (黃濤) *(Note 1)*	Interest of Controlled Corporation	337,375,185	A Shares	Long positions	4.41%	5.28%
8.	Huang Shiying (黃世熒) *(Note 1)*	Interest of Controlled Corporation	337,375,185	A Shares	Long positions	4.41%	5.28%
9.	Glasslake Holdings (鏡湖控股) *(Note 2)*	Beneficial owner	351,647,000	H Shares	Long positions	4.60%	27.89%
10.	Affluent East Investments Limited (東滿投資有限公司) *(Note 2)*	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.60%	27.89%
11.	CITIC Limited (中信股份) *(Note 2)*	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.60%	27.89%
12.	CITIC Group (中信集團) *(Note 2)*	Interest of Controlled Corporation	351,647,000	H Shares	Long positions	4.60%	27.89%
13.	CSRF (結構調整基金) *(Note 3)*	Beneficial owner	112,740,500	H Shares	Long positions	1.47%	8.94%
14.	CCB (Beijing) Investment Fund Management Co., Ltd. (建信(北京)投資基金管理有限責任公司) *(Note 3)*	Interest of Controlled Corporation	112,740,500	H Shares	Long positions	1.47%	8.94%

Notes:

(1) Tengyun Investment is owned indirectly by Mr. Huang Tao and Mr. Huang Shiying, as to 60% and 40%, respectively, while Century Jinyuan is owned by Mr. Huang Tao and Mr. Huang Shiying, as to 60% and 40%, respectively. Mr. Huang Tao and Mr. Huang Shiying are brothers. Therefore, each of Mr. Huang Tao and Mr. Huang Shiying is deemed to be interested in the A Shares held by Tengyun Investment and Century Jinyuan under the SFO.

(2) Glasslake Holdings is wholly-owned by Affluent East Investments Limited (東滿投資有限公司) ("Affluent East"), which is in turn a wholly-owned subsidiary by CITIC Limited. CITIC Group indirectly holds a majority of equity interest in CITIC Limited. Therefore, each of Affluent East, CITIC Limited and CITIC Group is deemed to be interested in the H Shares held by Glasslake Holdings under the SFO.

(3) CSRF is held as to 38.2% by CCB (Beijing) Investment Fund Management Co., Ltd. (建信(北京)投資基金管理有限責任公司) ("CCB"), which is in turn held as to 38.2% by China Investment Corporation (中國投資有限責任公司) ("CIC"). Therefore, each of CCB and CIC is deemed to be interested in the H Shares held by CSRF under the SFO.

Save as disclosed above, as of December 31, 2018, to the knowledge of the Directors, no other person (except Directors, Supervisors and senior management) had interests or short positions in the Shares and underlying Shares of the Company required to be recorded in the register to be kept by the Company under Section 336 of the SFO.

As of December 31, 2018, Directors did not hold any positions as directors or employees in companies which had interests or short positions in the Company that needed to be notified to the Company under division 2 and 3 of Part XV of the SFO.

VI. ISSUANCE OF SHARES OR CHANGES IN REGISTERED CAPITAL OF THE COMPANY OR ITS SUBSIDIARIES

On May 18, 2018, CSRC issued the Approval on the Reply on the Initial Public Offering of Shares of CSC Financial Co., Ltd. (Zheng Jian Xu Ke [2018] No. 828) (《關於核准中信建投証券股份有限公司首次公開發行股票的批覆》(證監許可[2018]828號)), and approved the public offering by the Company of no more than 400 million A Shares. On June 20, 2018, the Company was listed on the main board of the Shanghai Stock Exchange, and initially issued 400,000,000 A Shares (Stock Code: 601066.SH) at the issue price of RMB5.42 per Share. Upon the initial public offering and listing of A Shares of the Company, the total share capital of the Company was changed from 7,246,385,238 Shares to 7,646,385,238 Shares, of which 6,385,361,476 were A Shares and 1,261,023,762 were H Shares.

I. CHANGES IN SHAREHOLDING AND REMUNERATION

(I) Changes in Shareholding and Remuneration of Current and Former Directors, Supervisors and Senior Management during the Reporting Period

Name	Position *(Note)*	Gender	Age	Commencement date of term of office	Expiry date of term of office	Number of Shares held at the beginning of the year *(Share)*	Number of Shares held at the end of the year *(Share)*	Increase or decrease in the number of Shares during the year *(Share)*	Reasons for increase or decrease	Total remuneration before tax received from the Company during the Reporting Period *(RMB ten thousand)*	Whether remuneration is received from related parties of the Company
WANG Changqing	Chairman of the Board, Executive Director and Chairman of Executive Committee	Male	55	April 2018	April 2021	0	0	0	–	393.90	No
YU Zhongfu	Vice Chairman of the Board and Non-executive Director	Male	48	April 2018	April 2021	0	0	0	–	0	No
DONG Shi	Vice Chairman of the Board and Non-executive Director	Male	53	April 2018	April 2021	0	0	0	–	0	No
LI Geping	Executive Director, General Manager and Chief Financial Officer	Male	51	April 2018	April 2021	0	0	0	–	169.51	No
ZHANG Qin	Non-executive Director	Female	48	April 2018	April 2021	0	0	0	–	0	No
ZHU Jia	Non-executive Director	Female	36	April 2018	April 2021	0	0	0	–	0	No
WANG Hao	Non-executive Director	Male	50	April 2018	April 2021	0	0	0	–	0	No
WANG Bo	Non-executive Director	Male	55	April 2018	April 2021	0	0	0	–	0	No
XU Gang	Non-executive Director	Male	49	April 2018	April 2021	0	0	0	–	0	No

Name	Position *(Note)*	Gender	Age	Commencement date of term of office	Expiry date of term of office	Number of Shares held at the beginning of the year *(Share)*	Number of Shares held at the end of the year *(Share)*	Increase or decrease in the number of Shares during the year *(Share)*	Reasons for increase or decrease	Total remuneration before tax received from the Company during the Reporting Period *(RMB ten thousand)*	Whether remuneration is received from related parties of the Company
FENG Genfu	Independent Non-executive Director	Male	61	April 2018	April 2021	0	0	0	–	23.00	Yes
ZHU Shengqin	Independent Non-executive Director	Female	42	April 2018	April 2021	0	0	0	–	23.00	Yes
DAI Deming	Independent Non-executive Director	Male	56	April 2018	April 2021	0	0	0	–	23.00	Yes
BAI Jianjun	Independent Non-executive Director	Male	63	April 2018	April 2021	0	0	0	–	23.00	Yes
LIU Qiao	Independent Non-executive Director	Male	48	April 2018	April 2021	0	0	0	–	23.00	Yes
LI Shihua	Chairman of the Supervisory Committee	Male	59	April 2018	April 2021	0	0	0	–	338.18	No
AI Bo	Supervisor	Female	47	April 2018	April 2021	0	0	0	–	0	No
ZHAO Lijun	Supervisor	Female	55	April 2018	April 2021	0	0	0	–	0	No
LU Ya	Employee Representative Supervisor	Female	52	April 2018	April 2021	0	0	0	–	312.38	No
LIN Xuan	Employee Representative Supervisor	Female	46	April 2018	April 2021	0	0	0	–	402.94	No
ZHOU Zhigang	Member of Executive Committee, the Chief Compliance Officer and Chief Risk Officer	Male	54	April 2018	April 2021	0	0	0	–	350.23	No
YUAN Jianmin	Member of Executive Committee	Male	57	April 2018	April 2021	0	0	0	–	351.38	No

Name	Position *(Note)*	Gender	Age	Commencement date of term of office	Expiry date of term of office	Number of Shares held at the beginning of the year *(Share)*	Number of Shares held at the end of the year *(Share)*	Increase or decrease in the number of Shares during the year *(Share)*	Reasons for increase or decrease	Total remuneration before tax received from the Company during the Reporting Period *(RMB ten thousand)*	Whether remuneration is received from related parties of the Company
JIANG Yueqin	Member of Executive Committee	Male	52	April 2018	April 2021	0	0	0	–	346.10	No
ZHOU Xiaoyu	Member of Executive Committee	Male	54	April 2018	April 2021	0	0	0	–	338.18	No
LI Tiesheng	Member of Executive Committee	Male	47	April 2018	April 2021	0	0	0	–	237.06	No
WANG Guangxue	Member of Executive Committee and Secretary of the Board	Male	46	April 2018	April 2021	0	0	0	–	439.06	No
ZHANG Xinfan	Member of Executive Committee	Male	50	April 2018	April 2021	0	0	0	–	396.82	No
LIU Naisheng	Member of Executive Committee	Male	47	April 2018	April 2021	0	0	0	–	449.32	No
HUANG Ling	Member of Executive Committee	Male	42	April 2018	April 2021	0	0	0	–	413.38	No
HU Bin	Member of Executive Committee	Male	37	April 2018	April 2021	0	0	0	–	378.46	No
Qi Liang	Former Executive Director, General Manager and member of Executive Committee	Male	49	March 2012	April 2018	0	0	0	–	268.80	No

Name	Position *(Note)*	Gender	Age	Commencement date of term of office	Expiry date of term of office	Number of Shares held at the beginning of the year *(Share)*	Number of Shares held at the end of the year *(Share)*	Increase or decrease in the number of Shares during the year *(Share)*	Reasons for increase or decrease	Total remuneration before tax received from the Company during the Reporting Period *(RMB ten thousand)*	Whether remuneration is received from related parties of the Company
HU Donghui	Former Vice Chairman and Non-executive Director	Female	55	August 2016	April 2018	0	0	0	–	0	No
WANG Chenyang	Former Non-executive Director	Male	49	April 2015	April 2018	0	0	0	–	0	No
WANG Shouye	Former Non-executive Director	Male	48	August 2016	April 2018	0	0	0	–	0	No
WU Lili	Former Employee Representative Supervisor	Male	48	March 2011	April 2018	0	0	0	–	75.40	No
WANG Jing	Former Supervisor	Female	48	August 2016	April 2018	0	0	0	–	0	No
LIU Hui	Former Supervisor	Male	46	March 2011	April 2018	0	0	0	–	0	No
PENG Heng	Former member of Executive Committee and Chief Financial Officer	Male	46	January 2009	May 2018	0	0	0	–	404.18	No
Total	/	/	/	/	/	0	0	0	–	6,180.28	

Note: In 2018, the following persons received the 2013 deferred remuneration: Wang Changqing, RMB4 million; Li Shihua, RMB2 million; Zhou Zhigang, RMB1.5 million; Yuan Jianmin, RMB1.5 million; Jiang Yueqin, RMB2 million; Zhou Xiaoyu, RMB1.5 million; Li Tiesheng, RMB1 million; Wang Guangxue, RMB2 million; Zhang Xinfan, RMB2 million; Liu Naisheng, RMB2 million; Huang Ling, RMB1 million; Qi Liang, RMB4 million; and Peng Heng, RMB1.5 million.

The following persons received 2014 deferred remuneration: Lu Ya, RMB1.1 million; and Lin Xuan, RMB1.9 million (the above remuneration is denominated in RMB).

(II) Biographical Details of Current Directors, Supervisors and Senior Management of the Company

Mr. WANG Changqing (王常青), born in June 1963, is the Chairman of the Board, an Executive Director, the Party Committee Secretary and the Chairman of the Executive Committee. Mr. Wang joined our Company in November 2005, and has been serving as an executive Director since February 2007, the Chairman of the Board and Chairman of the Executive Committee since September 2011, and the Party Committee Secretary since September 2011. Mr. Wang has been serving concurrently as a director of China Securities International since July 2012, and concurrently as the Chairman of Zhong'an Huixin Investment Management Co., Ltd. (中安匯信投資管理有限公司) since July 2017. Mr. Wang is currently the part-time vice president of the Securities Association of China, the chairman of the investment banking committee of the Securities Association of China, the executive vice president of the Securities Association of Beijing, a member of the second session of the supervisory committee of the SSE.

Mr. Wang served as the deputy plant manager of the Copper Powder Plant in Beijing Smelting Factory from August 1984 to September 1986; the deputy director of production planning department in Beijing Non-Ferrous Metal Industry Corporation from October 1986 to November 1992; the director and deputy general manager of Beijing Kaibao Travel and Food Company from November 1992 to October 1993; the head of the equity underwriting department of the Beijing representative office of Daiwa Securities Group from October 1993 to September 1999; the general manager of investment banking department of the Shanghai branch, the deputy general manager of investment banking department, the administrative head and managing director of the investment banking business and vice-chairman of the corporate finance committee in CITIC Securities Co., Ltd. from October 1999 to November 2005; and the deputy general manager, general manager and member of the Executive Committee of the Company from November 2005 to September 2011.

Mr. Wang obtained a Bachelor degree of Engineering from Northeastern Institute of Technology (currently known as Northeastern University) in July 1984 and a Master's degree in Economics from Renmin University of China in January 2002.

Mr. YU Zhongfu (于仲福), born in November 1970, is the Vice Chairman of the Board and a Non-executive Director. Mr. Yu has been serving as a Director of the Company since March 2011, the Vice Chairman of the Board since August 2016, the deputy general manager of BSCOMC since May 2009. Mr. Yu has been serving as a director of Beijing Rural Commercial Bank Co., Ltd. since May 2010 and a director of Beijing Urban-Rural Commercial (Group) Co., Ltd. (a company listed on the SSE, stock code: 600861) since October 2017.

Mr. Yu served as a staff of Shijingshan District Political Consultative Conference, staff and deputy chief of industry section of Planned Economy Committee of Shijingshan District, Beijing from July 1992 to September 1996; a senior staff, principal staff, subsequently deputy director of department of small and medium enterprises of Beijing Municipality Commission of Economy from September 1996 to July 2003; the deputy director (in charge) of the division of enterprise reform of Beijing Municipality Commission of Economy from July 2003 to November 2003; the deputy director of division of reform and development (general office), deputy director and then director of division of enterprise reform of State-owned Assets Supervision and Administration Commission of Beijing Municipality from November 2003 to May 2009; and a director of Beiqi Foton Motor Co., Ltd. (a company listed on the SSE, stock code: 600166) from July 2013 to November 2015; a director of Wangfujing Group Co., Ltd. (a company listed on the SSE, stock code: 600859) from June 2011 to June 2018; a non-executive director of Beijing Jingneng Clean Energy Co., Limited (a company listed on the HKEX, stock code: 00579) from December 2011 to May 2018; and a director of BBMG Corporation (a company listed on the SSE, stock code: 601992) from December 2017 to August 2018.

Mr. Yu obtained a Bachelor of Engineering degree from North China University of Technology in the PRC in July 1992. He completed a post-graduate program in finance at Central University of Finance and Economics in the PRC and obtained a certificate of completion in July 2002. He also obtained a Master of Public Administration (MPA) degree from a joint program organized by Peking University and the National Institute of Administration in the PRC in July 2011.

Mr. DONG Shi (董轼), born in March 1965, is the Vice Chairman of the Board and a Non-executive Director. Mr. Dong has been serving as a Director of the Company since December 2017, the Vice Chairman of the Company since April 2018, a non-executive director of Industrial and Commercial Bank of China Limited (a company listed on the HKEX (stock code: 01398) and the SSE (stock code: 601398)) since September 2017, and has been serving as a designated director appointed by Central Huijin since October 2008.

Mr. Dong served as the deputy head of the Inspection and Supervision Bureau of the People's Bank of China from July 1988 to July 1998. He served as an assistant special inspector of the State Council, a director of the supervisory board of the Central Enterprises Working Commission, and deputy director-general of the Foreign Affairs Bureau under the State-owned Assets Supervision and Administration Commission of the State Council from August 1998 to September 2008. He served as a director of China Reinsurance (Group) Corporation and a director of China Reinsurance Asset Management Co., Ltd. from October 2008 to August 2011, and served as a non-executive director of China Construction Bank Corporation (a company listed on the HKEX (stock code: 00939) and the SSE (stock code: 601939)) from September 2011 to June 2017.

Mr. Dong obtained a bachelor degree in economics from Zhengzhou University in July 1988 and a Master's degree in Law from Renmin University of China in January 2003, majoring in Economic Law. He is a qualified senior economist.

Mr. LI Geping (李格平), born in November 1967, is an Executive Director, deputy secretary of the Party Committee, the General Manager and a member of the Executive Committee. Mr. Li joined the company in February 2018, and has been serving as the deputy secretary of the Party committee of the Company since February 2018 and an Executive Director, the General Manager and a member of the Executive Committee of the Company since April 2018, and the Chief Financial Officer of the Company since May 2018.

Mr. Li served as a lecturer in Zhongnan University of Finance and Economics from July 1987 to June 1992 (during the period he studied economics in Zhongnan University of Finance and Economics, obtaining the master's degree of economics). Mr. Li worked in the Hubei branch of People's Bank of China (中國人民銀行), and served as the secretary to the board of directors and deputy general manager of business department in Shanghai, the general manager of securities business department in Shenzhen of Hubei Securities, the manager of asset management department and deputy head of research institute of Huber Securities (湖北證券) from June 1992 to April 1996. Mr. Li successively served as the assistant to the general manager and the general manager of asset management service department, the assistant of the president and the general manager of international business department, the head of the research institute, the deputy president and the general manager of investment banking department of Hubei Securities from April 1996 to February 2000. Mr. Li successively served as a director, the vice president, the president, a member of the Party committee, the deputy secretary of the Party committee of Changjiang Securities Company Limited (長江證券有限責任公司), the chairman of the board of directors of Changjiang BNP Paribas Peregrine Securities Co. Limited (長江巴黎百富勤證券有限責任公司) (part-time), the chairman of the board of directors of Nuode Asset Management Co., Ltd. (諾德基金管理有限責任公司) (part-time) (during the period he studied in the financial department of the research institute in Chinese Academy of Social Sciences, obtaining a doctoral degree of economics) from February 2000 to December 2007. Mr. Li served as a member of the Party committee, the deputy secretary of the Party committee, a director, the president of Changjiang Securities Company Limited, the chairman of the board of directors of Nuode Asset Management Co., Ltd. (part-time), the chairman of the board of directors of Changjiang Securities Underwriting and Sponsorship Co., Ltd. (長江證券承銷保薦有限公司) (part-time), the chairman of the board of directors of Changjiang Growth Capital Investment Co., Ltd. (長江成長資本投資有限公司) (part-time) from December 2007 to June 2011. He served as the secretary general of the Securities Association of China (中國證券業協會) from June 2011 to April 2012, a member of Party committee and the secretary general of the Securities Association of China from April 2012 to February 2014, the deputy head of the regulatory department of securities and funds authority of the China Securities Regulatory Commission from February 2014 to December 2016, and the head of securities institution management department/insurance institution management department of Central Huijin from December 2016 to February 2018.

Mr. Li obtained a bachelor degree of economics and a master's degree of economics from Zhongnan University of Finance and Economics (now known as Zhongnan University of Economics and Law) in July 1987 and July 1992, respectively. He obtained a doctoral degree of economics from the financial department of the research institute in Chinese Academy of Social Sciences in July 2004, and has enjoyed government special subsidies issued by the State Council since 2005. Mr. Li is also a researcher.

Ms. ZHANG Qin (張沁), born in August 1970, is a Non-executive Director. She has been serving as a Director of the Company since April 2018, an assistant to the general manager and the general manager of audit and monitoring department of Beijing State-owned Capital Operation and Management Center (北京國有資本經營管理中心) since July 2016 and an assistant to the general manager and the general manager of legal and audit department of BSCOMC.

Ms. Zhang was engaged in fundamental accounting in Tianjin Huafeng Industrial Group Co., Ltd. (天津華豐工業集團公司) from August 1992 to September 1994, and served as an accountant in Beijing Capital Development Co., Ltd. (北京市房地產開發經營總公司) from July 1997 to July 1998. She served as an accountant and the deputy manager in Beijing Tianhong Group Co., Ltd. (北京天鴻集團公司) from July 1998 to March 2006, and served as the chief financial officer of property operation and service department in Beijing Capital Development Holding (Group) Co., Ltd. (北京首都開發控股集團有限公司) from March 2006 to April 2008. Ms. Zhang served as the deputy general manager of Beijing Shoukai Renxin Property Co., Ltd. (北京首開仁信置業有限公司) from April 2008 to May 2010, and has served as the deputy general management of financial management department of BSCOMC since May 2010.

Ms. Zhang obtained a bachelor of engineering from Beijing University of Chemical Technology in August 1992, and obtained a master's degree of economics from Capital University of Economics and Business in July 1997. Mr. Zhang obtained a title of senior accountant in October 2002.

Ms. ZHU Jia (朱佳), born in October 1982, is a Non-executive Director. She has been serving as a Director of the Company since April 2018, and served as the assistant to the general manager of investment management second division of BSCOMC since October 2016.

Ms. Zhu worked in the enterprise and syndicated loans department, public relation and resources management department and risk management department in the Beijing branch of the Bank of East Asia (Hong Kong) (東亞銀行(香港)北京分行) from November 2004 to January 2010. She joined BSCOMC in January 2010, successively serving as the business manager of investment management department, the business manager of investment management second division and other positions.

Ms. Zhu obtained a bachelor degree of accounting from Zhengzhou University in July 2003, and obtained a bachelor degree of business administration from Fort Hays State University in the US in July 2003. She obtained a master's degree of finance and investment from the University of Exeter in November 2004. Ms. Zhu was accredited with an intermediate level of finance and economics in November 2010.

Mr. WANG Hao (汪浩), born in December 1968, is a Non-executive Director. Mr. Wang has been serving as a Director of the Company since December 2017 and as the dispatched external director of Central Huijin Investment Limited from July 2018.

Mr. Wang served as a credit officer, deputy director, director of the credit department, assistant to president, vice president and director of credit management department, vice president (in charge of overall operation), president and party secretary of Liuzhou branch of Bank of China Limited (a company listed on the HKEX (stock code: 03988) and the SSE (stock code: 601988)) from July 1991 to April 2003. He served as the president and party secretary of Guilin branch of Bank of China from April 2003 to July 2004, an assistant to the president and a member of the Communist Party Committee of Guangxi Zhuang Autonomous Region branch of Bank of China from July 2004 to October 2008, a deputy general manager of Ho Chi Minh City branch of Bank of China from October 2008 to December 2009, and president of Ho Chi Minh City branch of Bank of China from December 2009 to January 2018, and as the president of Ho Chi Minh City branch of Bank of China (Hong Kong) Limited from January 2018 to July 2018.

Mr. Wang obtained a Bachelor's degree in Economics from Fudan University in July 1991 and a Master's degree in business administration from China Europe International Business School in September 2005.

Mr. WANG Bo (王波), born in May 1963, is a Non-executive Director. He has been serving as a Director of the Company since April 2018, and an external director of Central Huijin since September 2017 and a director of China Export & Credit Insurance Corporation (中國出口信用保險公司) since June 2017.

Mr. Wang worked for Mudanjiang branch of the People's Bank of China (中國人民銀行牡丹江分行) from December 1981 to April 1982, and served as a member and deputy head of credit department, the head of foreign trading credit department, the head of sales department, the deputy president, a member of Party committee, deputy secretary of the Party committee (in charge of work), the president and the secretary of the Party committee in Mudanjiang branch, Heilongjiang of the Bank of China (中國銀行黑龍江省牡丹江分行) from April 1982 to May 2005. He served as the general manager in loan administration department in Heilongjiang branch of the Bank of China (中國銀行黑龍江省分行) from May 2005 to July 2006, and served as the president and the secretary of the general branch of party in Zhaolin sub-branch in Harbin, Heilongjiang of the Bank of China (中國銀行黑龍江省哈爾濱市兆麟支行) from July 2006 to January 2009. He served as the general manager of human resources department in Heilongjiang branch of the Bank of China from January 2009 to May 2011, and served as the assistant of president and a member of the Party committee in Jilin branch of the Bank of China (中國銀行吉林省分行) from May 2011 to October 2014. Mr. Wang served as a member of Party committee and the secretary of the disciplinary committee of the Inner Mongolia Autonomous Region branch of the Bank of China (中國銀行內蒙古自治區分行) from October 2014 to August 2017.

Mr. Wang obtained a bachelor degree of economics from Heilongjiang University in December 2003, and obtained a master's degree in business administration of senior management personnel from Jilin University in December 2013. Mr. Wang was accredited as an economist in December 1990.

Mr. XU Gang (徐剛), born in November 1969, is a Non-executive Director. Mr. Xu Gang has been serving as a Director of the Company since June 2017, the vice chairman and deputy general manager of CITIC Industrial Investment Group Corp., Ltd. (中興業投資集團有限公司) since March 2018, a director of Qianhai Equity Exchange (Shenzhen) Co., Ltd. (前海股權交易中心(深圳)有限公司) since December 2012 and a director of Xiamen Cross-strait Equity Exchange Limited (廈門兩岸股權交易中心有限公司) since October 2013.

Mr. Xu served as a cadre of the corporate management department of China Geological Machinery and Instrument Industry Corporation (中國地質機械儀器工業總公司) from July 1991 to December 1995; a deputy project manager of Hainan Haihua High-tech Engineering Company (海南海華高技術工程公司) from January 1996 to July 1997; a project manager of investment banking department of Huaxia Securities Co., Ltd. (華夏證券股份有限公司) from September 1997 to December 1997; a research manager of the research consultation department, senior manager of the asset management department, deputy head and head of the financial product development team, deputy general manager of research consultation department, head and general manager of the finance team, executive head of the research department, executive head of the stock sales and trading department, director of the economic development management committee, member of the executive committee and other positions of CITIC Securities Co., Ltd. (中信證券股份有限公司) from February 1998 to January 2016, a director of CITIC Futures Company Limited (中信期貨有限公司) from May 2011 to October 2016, a director of CITIC Wantong Securities Co., Ltd (中信萬通證券有限責任公司) (currently known as CITIC Securities (Shandong) Co., Ltd. (中信證券(山東)有限責任公司)) from November 2011 to October 2016, a director of China Asset Management Co., Ltd. from May 2012 to November 2016, a director of Qingdao Blue Ocean Equity Exchange Limited. (青島藍海股權交易中心有限責任公司) from December 2013 to March 2017; a director of E-Capital Transfer Co., Ltd. (證通股份有限公司) from January 2015 to June 2016; and the chief researcher of the strategic development department of CITIC Group Limited (中信集團有限公司) from March 2017 to March 2018.

Mr. Xu obtained a master's degree and a Ph.D. degree in economics from Nankai University in July 1996 and July 2000, respectively.

Mr. FENG Genfu (馮根福), born in June 1957, is an Independent Non-executive Director. Mr. Feng has been serving as an Independent Director of the Company since April 2015; a professor and doctoral supervisor of the School of Finance and Economics of Xi'an Jiaotong University since May 2000; an independent non-executive director of Datang International Power Generation Co., Ltd. (a company listed on the HKEX, stock code: 00991 and the SSE, stock code: 601991) since August 2014; and an independent director of Changchai Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000570) since October 2016.

Mr. Feng served as the director and chief editor of the editorial department of university journal as well as the dean of the Business School and the doctoral supervisor of Shaanxi Institute of Finance and Economics from July 1982 to April 2000; the dean of the School of Finance and Economics of Xi'an Jiaotong University from May 2000 to February 2016; an independent director of China Kejian Corporation Limited (a company listed on the Shenzhen Stock Exchange, stock code: 000035) from May 2002 to May 2004; an independent director of Shaanxi Jinye Science Technology and Education Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000812) from April 2002 to April 2006; an independent director of Shaanxi Fenghuo Electronics Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000561) from March 2010 to June 2015; an independent director of AVIC Aircraft Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000768) from April 2008 to April 2014; an independent director of China Non-ferrous Metal Industry's Foreign Engineering and Construction Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000758) from April 2008 to May 2014; an independent director of Shaanxi Broadcast & TV Network Intermediary Co., Ltd. (a company listed on the SSE, stock code: 600831) from May 2008 to December 2014; an independent director of Shaanxi Aerospace Power Hi-Tech. Co., Ltd. (a company listed on the SSE, stock code: 600343) from March 2007 to September 2014; an independent director of Bode Energy Equipment Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300023) from August 2015 to March 2017; and an independent director of Hubei Biocause Pharmaceutical Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000627) from May 2016 to August 2018.

Mr. Feng obtained a Bachelor's degree in Economics from Shaanxi Institute of Finance and Economics in the PRC in July 1982, a Master's degree from Shaanxi Institute of Finance and Economics in July 1988, a Doctor's degree from Shaanxi Institute of Finance and Economics in July 1997, and has been enjoying special governmental allowance from the State Council since 1993.

Ms. ZHU Shengqin (朱聖琴), born in December 1976, is an Independent Non-executive Director. Ms. Zhu has been serving as an Independent Director of the Company since April 2015; an executive director of China Huiyuan Juice Group Limited (a company listed on the HKEX, stock code: 01886) since August 2014; the vice chairman of Beijing Huiyuan Holdings Limited since August 2016; and an independent director of Bona Film Group Limited since August 2017.

Ms. Zhu joined China Huiyuan Juice Group Limited in 1996. She has held various positions, including the marketing manager, deputy general manager of the investment division, director of the office of the board, officer of operation teams, and a vice president of the group.

Ms. Zhu obtained an MBA degree from Cheung Kong Graduate School of Business in the PRC in September 2007 and an EMBA degree from PBC School of Finance, Tsinghua University in the PRC in January 2016.

Mr. DAI Deming (戴德明), born in October 1962, is an Independent Non-executive Director. Mr. Dai has been serving as an Independent Director of the Company since August 2016; a professor and doctoral supervisor of the department of accounting of Renmin University of China since July 1996 and January 1997, respectively; an independent director of China Zheshang Bank Co., Ltd. (a company listed on the HKEX, stock code: 02016) since February 2015; a director of Qingdao Haier Co., Ltd. (a company listed on the SSE, stock code: 600690) since June 2015; an independent director of BOC Aviation Limited (a company listed on the HKEX, stock code: 02588) since May 2016; and an independent director of Power Construction Corp of China Ltd. (a company listed on the SSE, stock code: 601669) since March 2018. He is also the vice chairman of the Accounting Society of China, and an independent director of Poly Developments and Holdings Group Co., Ltd. (a company listed on the SSE, stock code: 600048) since September 2018.

Mr. Dai served as an independent director of Shanxi Taigang Stainless Steel Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000825) from May 2011 to October 2016; and an independent director of Beijing Xinwei Telecom Technology Group Co., Ltd. (a company listed on the SSE, stock code: 600485) from September 2014 to August 2016; and an independent director of Beijing Capital Development Co., Ltd. (a company listed on the SSE, stock code: 600376) since September 2015.

Mr. Dai obtained a Bachelor's degree in Economics, majoring in Industry Finance and Accounting from Hunan College of Finance and Economics (currently known as Hunan University) in the PRC in July 1983, a Master's degree in Economics, majoring in Professional Accounting from Zhongnan University of Economics in the PRC in October 1986, and a Doctor's degree in Economics from Renmin University of China in June 1991.

Mr. BAI Jianjun (白建軍), born in July 1955, is an Independent Non-executive Director. Mr. Bai has been serving as an Independent Director of the Company since August 2016; an external supervisor of China Construction Bank Corporation since June 2013, an independent director of Sichuan Xinwang Bank Co., Ltd. (四川新網銀行股份有限公司) since December 2016; Mr. Bai has been teaching in Peking University since July 1987 and serves as a professor and doctoral supervisor at the Law School, director of the Research Institute of Empirical Legal Affairs and deputy director of the Financial Law Research Center.

Mr. Bai pursued his visiting research at New York University in United States from September 1991 to October 1992 and had been a visiting professor at Niigata University in Japan from October 1996 to October 1997. He served as an independent director of Boyayingjie Science Technology Co., Ltd. (a company listed on the NEEQ, stock code: 430082) from November 2010 to February 2017.

Mr. Bai obtained a Master's degree in Law from Peking University in the PRC in July 1987 and the Juris Doctor degree from Peking University in the PRC in June 2003.

Mr. LIU Qiao (劉俏), born in May 1970, is an Independent Non-executive Director. Mr. Liu has been serving as an Independent Director of the Company since August 2016; a member of the expert panel of the Shenzhen Stock Exchange since March 2006; a supervisor of the post-doctoral station of Shenzhen Stock Exchange since September 2007; the professor of finance and economics, doctoral supervisor, associate dean and director of EMBA Center at the Guanghua School of Management of Peking University since December 2010; a supervisor of the post-doctoral station of CSRC since September 2011; a supervisor of the post-doctoral station of China Minsheng Bank Corp., Ltd since September 2011; a supervisor of the post-doctoral station of China Financial Futures Exchange since September 2012; an independent director of ZH International Holdings Limited (a company listed on the HKEX, stock code: 00185) since July 2015; and an independent director of Beijing Capital Co., Limited (a company listed on the SSE, stock code: 600008) since December 2017; and an independent director of China Merchants Bank Co., Ltd. (a company listed on the SSE (stock code: 600036)) since November 30, 2018. Mr. Liu currently also serves as a member of the 17th issuance audit committee of CSRC.

Mr. Liu served as an assistant professor at School of Economics and Finance of the University of Hong Kong from September 2000 to November 2001; a consultant of the Asia-Pacific Corporate Finance & Strategy Practice of McKinsey & Company from December 2001 to July 2003; an assistant professor and associate professor (with tenure) at the Faculty of Business and Economics of the University of Hong Kong from August 2003 to December 2010; and an independent director of Hexie Health Insurance Co., Ltd. from October 2014 to July 2017.

Mr. Liu obtained a Bachelor of Science degree in Economics and Mathematics from Renmin University of China in July 1991, a Master's degree in International Finance and Economics from the Institute of Finance of PBOC (currently known as PBC School of Finance, Tsinghua University in China) in April 1994 and a Ph.D. in Economics from University of California, Los Angeles in the United States in June 2000. Mr. Liu was granted the Outstanding Youth Award of National Natural Science Foundation of China (國家自然科學基金傑出青年獎) in December 2013 and awarded the title of distinguished professor (特聘教授) of Changjiang Scholars Program by Ministry of Education in December 2014.

Mr. LI Shihua (李士華), born in November 1959, is the Chairman of the Supervisory Committee and the Deputy Secretary of the Party Committee. Mr. Li joined our Company in November 2005 and has been serving as the Chairman of the Supervisory Committee since April 2014; and the Deputy Secretary of the Party Committee since June 2014. Mr. Li has been serving as the chairman of the supervisory committee of China Securities Futures since May 2011. Mr. Li currently also serves as a member of the self-regulation oversight committee of the Securities Association of China.

Mr. Li served as the deputy director and director (section level) of the business department of Hengshui branch and deputy chief of technology reform division of Hebei provincial branch of Industrial and Commercial Bank of China from December 1985 to September 1997; the director of the board office and general manager of the administration department of Huaxia Securities from September 1997 to November 2005; the general manager of the Administration Department, the administrative head of the President's Office, the member of Executive Committee, the secretary of the Board and the secretary of the Disciplinary Committee of the Company from November 2005 to April 2014.

Mr. Li graduated from the undergraduate school of Hebei Institute of Education in the PRC in June 1995 and from the post graduate school of Chinese Academy of Social Sciences in April 1998.

Ms. AI Bo (艾波), born in February 1971, is a Supervisor. Ms. Ai has been serving as a Supervisor of the Company since August 2016; and the senior manager of the department of discipline inspection and supervision of China Investment Corporation since June 2010; and the secretary of the discipline supervisory committee of China Investment Corporation since November 2017.

Ms. Ai worked for the secretariat for confidential matters of the general office of the Ministry of Supervision, the general supervision office of supervision department under the Central Commission for Discipline Inspection and the second discipline inspection office under the Central Commission for Discipline Inspection from July 1991 to May 2008, and served as the deputy director of the second discipline inspection office under the Central Commission for Discipline Inspection from September 2005 to May 2008. Ms. Ai has worked for China Investment Corporation since June 2008. Ms. Ai also served as the designated supervisor of Central Huijin Investment Limited (designated to work for New China Life Insurance Company Ltd.) from January 2010 to March 2016.

Ms. Ai obtained a Master's degree in Management from Kunming University of Science and Technology in the PRC in June 2015 and obtained a certificate of certified enterprise risk manager in June 2014.

Ms. ZHAO Lijun (趙麗君), born in October 1963, is a Supervisor. Ms. Zhao has been serving as a Supervisor of the Company since April 2018; the deputy director of the office of China Investment Co., Ltd. since January 2017.

Ms. Zhao successively served as a teaching assistant of the academic department, teaching assistant of social science and lecturer of Harbin Ship Engineering Institute from July 1986 to November 1996. She successively served as vice minister of the propaganda department (named as associate professor in September 1997), director of information centre (part-time since January 2001), vice principal of party school and deputy secretary of Party committee (named as professor in September 2004 of Harbin Engineering University) from November 1996 to December 2006; as researcher of National Commission of Science and Technology Policy and Regulation Division from December 2006 to July 2008; as researcher of Party committee directly under State Administration of Science, Technology and Industry for National Defense, head of Party committee office form July 2008 to March 2010; as senior manager of human resources department, head of management team of party affairs, senior manager of office/board office/Party committee office, and team leader of working group for party construction/Party committee office of China Investment Co., Ltd. from March 2010 to January 2017. During such time Ms. Zhao also served as an external supervisor of Central Huijin Investment Ltd from January 2012 to January 2017 (seconded to China Everbright Industrial (Group) Company Ltd.).

Ms. Zhao obtained a bachelor's degree in law from the Department of Law of Heilongjiang University in July 1986, a master's degree in law (economics) from Harbin Engineering University in March 2006. Ms. Zhao obtained the PRC bar qualification in September 1989.

Ms. LU Ya (陸亞), born in February 1966, is an employee representative Supervisor and Administrative Head of the Risk Management Department. Ms. Lu joined our Company in November 2005, and has been serving as an Administrative Head of the Risk Management Department since January 2008, an employee representative Supervisor since March 2011, a supervisor of China Capital Management Limited since August 2009, and a supervisor of China Securities Investment Limited since November 2017. Ms. Lu has been serving as the Chief Risk Officer of the Company since August 2018.

Ms. Lu worked in Renmin University of China from August 1988 to August 1990. Ms. Lu served as the accounting head of the securities department of Beijing Real Estate Trust and Investment Company from July 1993 to December 1993; the analyst of the research and development department of China Securities Market Research and Design Centre from January 1994 to June 1994; the Certified Public Accountant of Beijing Jing Du Certified Public Accountants from July 1994 to August 1995; the senior auditor of the audit department, the head of the securities investment department and the assistant general manager of the risk management department of Huaxia Securities Co., Ltd. (華夏證券股份有限公司) from September 1995 to November 2005; and the assistant to general manager of the Risk Management Department of the Company from November 2005 to December 2007.

Ms. Lu obtained a Bachelor's degree in Economics from the School of Accounting of Renmin University of China in July 1988 and a Master's degree in Economics from the School of Accounting of Renmin University of China in June 1993. She was qualified as a Certified Public Accountant in 1993 and obtained a certificate of senior accountant in 1999.

Ms. LIN Xuan (林煊), born in February 1972, is an employee representative Supervisor and the administrative head of Internal Audit Department of the Company. Ms. Lin joined the Company in November 2005. She has served as an employee representative Supervisor since April 2018 and the administrative head of Internal Audit Department of the Company since July 2018. Ms. Lin currently serves as a member of Beijing Financial Staff Union.

Ms. Lin worked for Huaxia Securities Co., Ltd. (華夏證券股份有限公司) from April 1997 to November 2005 and served as business director and assistant to general manager of the investment banking department and the acquisitions department; and has served as assistant to general manager, director, executive director and managing director of investment banking department from November 2005 to July 2018.

Ms. Lin obtained a bachelor's degree in Economics from Renmin University of China in July 1994, a master's degree in Economics from the Graduate School of the Research Institute of Finance at the People's Bank of China in June 1997, a PhD degree in Economics from Chinese Academy of Social Sciences (in-service study) in July 2009, and A-share sponsor representative qualification in 2004.

Mr. ZHOU Zhigang (周志鋼), born in May 1964, is a member of the Executive Committee, the Chief Compliance Officer and Chief Risk Officer. Mr. Zhou joined our Company in November 2005. He has been serving as a member of the Executive Committee since February 2009, the Chief Compliance Officer and Chief Risk Officer since April 2016, and a member of Party Committee since December 2005. Mr. Zhou has been serving as a director of China Securities Futures since August 2006. Mr. Zhou currently also serves as a member of the compliance management committee of the Securities Association of China.

Mr. Zhou served as the assistant director of the application software chamber of Institute of Computer Technology of East China from September 1988 to May 1992; the deputy director of computer center, deputy director and director of the research and development center of Shanghai Wanguo Holdings Ltd. from May 1992 to May 1996; the chief engineer and the general manager of the E-commerce department of Huaxia Securities from May 1996 to November 2005; and deputy general manager and chairman of Brokerage Business Management Committee of the Company from November 2005 to April 2014.

Mr. Zhou obtained a Bachelor of Science degree from Fudan University in the PRC in July 1985 and obtained a Master of Science degree from Fudan University in the PRC in July 1988. He obtained a certificate of senior engineer in September 1999.

Mr. YUAN Jianmin (袁建民), born in May 1961, is a member of the Executive Committee. Mr. Yuan joined our Company in November 2005 and has been serving as a member of the Executive Committee since February 2009 and a member of Party Committee since February 2007. Mr. Yuan has been serving as a director of China Securities Futures since August 2006. Mr. Yuan also serves as a member of the margin financing and securities lending committee of the Securities Association of China.

Mr. Yuan served as the deputy director of the real estate credit department under the construction and economy department of the head office, the deputy director of computer management department of the computing center, a director of the planning and finance division of science department, the senior manager of the finance and business department of Beijing development center of information technology department of China Construction Bank from August 1982 to January 2005; the deputy general manager of Jianyin Science Development Center of China Jianyin from February 2005 to October 2005; and the deputy general manager, administrative head of the Treasury Operation Department and administrative head of the Securities and Financing Department of our Company from November 2005 to January 2016.

Mr. Yuan obtained a Bachelor's degree in Economics from Liaoning Institute of Finance and Economics in the PRC in August 1982 and a Master's degree in Economics from Dongbei University of Finance and Economics in the PRC in November 1999. He obtained a certificate of senior economist in December 1993.

Mr. JIANG Yueqin (蔣月勤), born in December 1966, a member of the Executive Committee. Mr. Jiang joined our Company in January 2007 and has been serving as a member of the Executive Committee since May 2009 and a member of Party Committee since December 2007. He has been serving as the chairman of the board of directors of China Securities Funds since September 2013. Currently, Mr. Jiang also serves as a vice chairman of the AMAC and a member of the asset management business committee of the Securities Association of China.

Mr. Jiang served as a programmer of Shenzhen Shekou Xinxin Software Company from May 1992 to March 1993; the deputy general manager of Shenzhen branch, and general manager of trading department and chief dealer of CITIC Securities from March 1993 to December 2001; the general manager of Changsheng Fund Management Co., Ltd. from 2001 to 2006; the assistant to general manager, administrative head of Institutional Business Department and administrative head of Asset Management Department of our Company from January 2007 to January 2016.

Mr. Jiang obtained a Bachelor of Engineering degree from University of Electronic Science and Technology in the PRC in July 1989 and a Master of Engineering degree from University of Electronic Science and Technology in the PRC in March 1992.

Mr. ZHOU Xiaoyu (周笑予), born in June 1964, is a member of the Executive Committee, the administrative head of the Human Resources Department, and director of Party Committee Office. Mr. Zhou joined our Company in November 2005 and has been serving as the Administrative Head of the Human Resources Department since November 2011, a member of the Executive Committee since January 2016, and a member of Party Committee since July 2013. Mr. Zhou has been a director of China Securities Futures since August 2012. Mr. Zhou currently serves as a member of the human resources committee of the Securities Association of China.

Mr. Zhou served as an assistant engineer and engineer in Guangzhou Design Institute of Ministry of Light Industry from August 1985 to August 1988 and from August 1991 to February 1993, respectively; the executive deputy general manager in Shenzhen branch, the general manager of the business department in Dalian branch, the general manager of Shenyang Branch and the general manager of the brokerage business management of Huaxia Securities from February 1993 to November 2005; and the general manager of the Brokerage Business Management Department, the administrative head of the Treasury Operation Department and the administrative head of the Margin Financing and Securities Lending Department of our Company from November 2005 to November 2011.

Mr. Zhou obtained a Bachelor of Engineering degree from Tianjin Institute of Light Industry in the PRC in July 1985 and Master of Engineering degree from South China University of Technology in the PRC in July 1991.

Mr. LI Tiesheng (李鐵生), born in July 1971, is a member of the Executive Committee. Mr. Li joined our Company in June 2013 and has been serving as a member of the Executive Committee since June 2013 and a director of China Securities Investment Limited since November 2017.

Mr. Li served as the business manager of the securities department and the futures department as well as the deputy general manager and general manager of Shenzhen Zhongbaoxin Financial Consultant Co. Ltd in China People's Insurance Trust and Investment Company from August 1993 to March 2000; the deputy manager of Hong Kong Jiangnan Finance Company Limited, deputy director of Great Wall Securities Co., Ltd., general manager of New Jiangnan Investment Company Limited, a member of party committee and the vice-president of Beijing Branch of China Merchants Bank Co., Ltd. from March 2000 to July 2013.

Mr. Li obtained a Bachelor of Engineering degree from Beijing Institute of Technology in the PRC in July 1993 and completed the postgraduate course in Renmin University of China in October 1997.

Mr. WANG Guangxue (王廣學), born in June 1972, is a member of the Executive Committee, the Secretary of the Board and the Administrative Head of the Executive Office of our Company. Mr. Wang joined our Company in November 2005 and has been serving as the Administrative Head of the Executive Office of our Company since November 2011. He has been serving as a member of the Executive Committee and the Secretary of the Board since January 2014.

Mr. Wang served as a staff of the foreign economic relations department of planning committee of Liyang City, Jiangsu Province (now known as the development and reform commission of Liyang City) from August 1992 to September 1995; the business manager, senior business director and assistant to general manager of the investment banking department of Huaxia Securities from July 1998 to November 2005; and the assistant to general manager and deputy general manager of the Investment Banking Department of our Company from November 2005 to November 2011.

Mr. Wang obtained a Bachelor of Science degree from Qingdao Ocean University (currently known as Ocean University of China) in the PRC in July 1992 and a Master's degree in Economics from Fudan University in the PRC in June 1998. He also obtained a Ph.D. in Economics (in-service study) from Fudan University in the PRC in July 2002. He obtained a certificate of sponsor representative of A Shares in April 2004.

Mr. ZHANG Xinfan (張昕帆), born in December 1968, is a member of the Executive Committee, Chairman of the Brokerage Business Management Committee and the Co-Chairman of the Institutional Business Committee. Mr. Zhang joined our Company in November 2005 and has been serving as a member of the Executive Committee since January 2014 and the Chairman of the Brokerage Business Management Committee since April 2014. Mr. Zhang has been serving as a director of China Securities International since June 2014 and the Co-Chairman of the Institutional Business Committee since September 2018.

Mr. Zhang served as a loan officer, the director of the securities branch of Dalian branch of Industrial and Commercial Bank of China from August 1991 to October 1994; the manager of Dalian securities branch, the deputy general manager of Shenyang branch and the deputy general manager of the corporate brokerage business management head office of Huaxia Securities from November 1994 to November 2005; and the deputy general manager of the Brokerage Business Management Department, the manager of the securities branch of Beijing Dongzhimen South Street, administrative head of the Wealth Management Department of the Brokerage Business Management committee and the vice-chairman of the Brokerage Business Management Committee of our Company from November 2005 to September 2016.

Mr. Zhang obtained a Bachelor's degree in Economics from Dongbei University of Finance and Economics in the PRC in July 1991 and an EMBA degree from Guanghua School of Management, Peking University in the PRC in April 2001. He obtained a certificate of senior economist in August 1999.

Mr. LIU Naisheng (劉乃生), born in February 1971, is a member of the Executive Committee, the Administrative Head of the Investment Banking Department. Mr. Liu joined our Company in March 2006 and has been serving as the Administrative Head of the Investment Banking Department since April 2011. He has been serving as a member of the Executive Committee since January 2014 and the Administrative Head of the Investment Banking Department since September 2018. Mr. Liu has been serving as a member of the Fourth Session of Listing Committee of Shanghai Stock Exchange since August 2017.

Mr. Liu worked in China Xinxing Corporation (Group) from July 1995 to October 1997. He worked in China Science and Technology International Trust and Investment Co., Ltd. from October 1997 to October 2002. He was engaged in investment banking business in China Science and Technology Securities Co., Ltd. from October 2002 to March 2006. He served as the deputy general manager of the Investment Banking Department of our Company from March 2006 to April 2011.

Mr. Liu obtained a Bachelor of Engineering degree from the Beijing Institute of Machinery (currently known as Beijing Information Science & Technology University) in the PRC in July 1995 and an MBA degree (in-service study) from School of Economics and Management, Tsinghua University in the PRC in July 2007. He obtained a certificate of sponsor representative of A Shares in February 2005. He was awarded as the "Best Investment Banker of the Year 2012" by Securities Times in May 2013, and the "Best Investment Banker of the Year 2014" by New Fortune in March 2015.

Mr. HUANG Ling (黃凌), born in October 1976, is a member of the Executive Committee, Chairman of the Institutional Business Committee and Co-Chairman of the Investment Banking Committee. Mr. Huang joined our Company in November 2005 and has been serving as the Administrative Head of the Debt Underwriting Department since May 2008. He has been serving as a member of the Executive Committee from January 2014, and Chairman of the Institutional Business Committee and Co-Chairman of the Investment Banking Committee from September 2018.

Mr. Huang served as a senior business director of the administration department of Huaxia Securities from July 2000 to November 2005; and the senior business director and the assistant to general manager of the debt business department of our Company from November 2005 to May 2008.

Mr. Huang obtained a Bachelor's degree in Economics, majoring in International Finance, from China Institute of Finance in June 1998 and a Master's degree in Economics, majoring in Finance from the Graduate School of the PBOC in October 2000. He obtained a Ph.D. in Economics majoring in Finance from Hunan University in the PRC in June 2005. He obtained a certificate of senior economist in November 2007.

Mr. HU Bin (胡斌), born in July 1981, is a member of the Executive Committee. Mr. Hu joined our Company in June 2014 and has been serving as a member of the Executive Committee since January 2016, an executive director and the general manager of China Securities International since January 2016.

Mr. Hu served as a trader in the treasury operation department of Huaxia Bank Co., Ltd. from September 2004 to November 2006; the vice president of the capital markets department of CITIC Securities from November 2006 to January 2010; secretary of the general office of China CITIC Group Limited from January 2010 to June 2014; and the secretary of the disciplinary committee of the Company from June 2014 to January 2016; and an administration manager of the International Business Department of the Company from January 2016 to May 2018.

Mr. Hu obtained a Bachelor's degree in Economics majoring in Business Management and Economics, and Finance from the Business School of Edinburgh Napier University in United Kingdom and Shandong University of Finance and Economics in the PRC in July 2003, respectively. He obtained a Master's degree in Investment from Business School, University of Birmingham in December 2004. He obtained a Ph.D. in Finance from School of Finance, Renmin University of China in June 2012. He completed the postdoctoral research in Applied Economics in Tehua Investment Holding Co., Ltd. in February 2015. Mr. Hu obtained a certificate of associate research fellow of finance in November 2015.

II. POSITIONS HELD BY CURRENT AND FORMER DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN THE SHAREHOLDERS DURING THE REPORTING PERIOD

(I) Positions in the Shareholders

Name	Shareholder	Position	Appointment Date	Termination Date of Term of Office
YU Zhongfu	BSCOMC	Deputy General Manager	May 2009	Until expiry
ZHANG Qin	BSCOMC	Assistant to General Manager, General Manager of Legal and Audit Department	July 2016	Until expiry
ZHU Jia	BSCOMC	Assistant to General Manager of Investment Management Department II	October 2016	Until expiry
DONG Shi	Central Huijin	Specially Dispatched Director	October 2008	Until expiry
WANG Hao	Central Huijin	Specially Dispatched Director	July 2018	Until expiry
WANG Bo	Central Huijin	Specially Dispatched Director	September 2017	Until expiry
AI Bo	CIC	Secretary to the Discipline Inspection Committee	November 2017	Until expiry
ZHAO Lijun	CIC	Deputy Director of the Office	January 2017	Until expiry
HU Donghui	Central Huijin	Deputy Director of Securities Institution Management Department and Insurance Institution Management Department	February 2012 July 2014	November 2018
WANG Chenyang	BSCOMC	Deputy General Manager	November 2014	Until expiry
WANG Shouye	BSCOMC	Chief Financial Officer	June 2010	Until expiry
WANG Jing	BSCOMC	Deputy General Manager	January 2014	Until expiry
LIU Hui	Central Huijin	Director of the Management Department I of the Banking Institution	November 2011	Until expiry

Explanations on positions in the Shareholders Nil

(II) Positions in Other Entities

Name	Entity	Position	Appointment Date	Termination Date of Term of Office
XU Gang	CITIC Industrial Investment Group Corp., Ltd.	Vice Chairman and General Manager	March 2018	Until expiry
FENG Genfu	School of Finance and Economics of Xi'an Jiaotong University	Professor and Doctoral Supervisor	May 2000	Until expiry
ZHU Shengqin	China Huiyuan Juice Group Limited	Executive Director	August 2014	Until expiry
DAI Deming	Accounting Department of Renmin University of China	Professor Doctoral Supervisor	July 1996 January 1997	Until expiry
BAI Jianjun	Law School of Peking University	Professor and Doctoral Supervisor	July 1987	Until expiry
LIU Qiao	Guanghua School of Management of Peking University	Professor, Doctoral Supervisor and Dean	December 2010	Until expiry

Explanations on positions in other units	Nil

III. RELATIONSHIPS AMONG DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

There is no relationship among the Directors, Supervisors or senior management including relationships in terms of finance, business, family or other significant relationships.

IV. PERFORMANCE OF DUTIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(I) Performance of Duties of Directors and Supervisors

In 2018, the Directors of the Company strictly complied with domestic and overseas laws, regulations, regulatory requirements and the Articles of Association and diligently and responsibly performed their responsibilities and obligations in reviewing the issues of the Board and Board Committees, providing valuable opinions and recommendations on strategic and development planning, corporate governance, business development, risk management and compliance management and other aspects, safeguarding the interests of Shareholders and promoting sustainable and healthy development of the Company.

During the year, the executive Directors earnestly performed their dual duties in decision-making and execution, actively implemented the resolutions of Shareholders' general meetings and Board meetings, and conducted in-depth study of the development and operating strategies of the Company to boost its outstanding operating results. The non-executive Directors attended the meetings of the Board and Board Committees pursuant to the requirements and made scientific and prudent decisions by considering meeting documents, receiving special reports, conducting research and analysis, and reviewing reports on the Company's operation to keep abreast of the Company's operational status. The independent non-executive Directors consistently expressed their personal opinions in an independent and objective manner, offered advice and recommendations on the Company's development based on their professional strengths, and faithfully performed their duties so as to safeguard the interests of the Company and its Shareholders, especially the legitimate interests of minority Shareholders.

In 2018, the Supervisors of the Company strictly complied with the requirements of the Company Law and the Company's Articles of Association, earnestly performed their duties of supervision, participated in the approval of significant decisions of the Company, regularly investigated the operating status of the Company and its business operations, and effectively supervised the performance of duties by the Directors and the executive management of the Company, so as to actively safeguard the interests of Shareholders.

Details of the performance of duties of Directors and Supervisors have been set forth in the "Section 9 Corporate Governance Report – IV. Directors and Board of Directors" and "– Supervisors and the Supervisory Committee" section of this annual report.

(II) Performance of Duties of Senior Management

In 2018, the executive management of the Company comprehensively implemented all resolutions and requirements of the Board. In accordance with industry trends and changes in operating environment, the executive management proposed a strategy of balanced development of light and heavy asset businesses, online and offline businesses, domestic and overseas businesses, as well as conventional and innovative businesses to continue to utilize the synergy among businesses and further strengthen the business layout. They proactively made suggestions for improvement and optimization in relation to certain major issues affecting the development of the Company, eventually achieving positive results.

Given a complicated and dynamic market environment, the executive management of the Company has continuously optimized its internal control system and risk management mechanism to raise the compliance level of risk control, while ensuring the seizing of opportunities and promoting innovation in compliance with laws and regulations. The Company was rated “Class A Grade AA” for nine consecutive years.

The executive management of the Company played an important role in achieving satisfactory operating results despite a severe market environment and intense competition in the industry, and accomplished the mission of operation and management assigned to it by the Board.

V. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making procedures in relation to remuneration of Directors, Supervisors and senior management	The Board of the Company established the Remuneration and Nomination Committee, which is responsible for formulating and reviewing the remuneration policies and plans for Directors and senior management of the Company. The Remuneration and Nomination Committee considers and conducts resolutions and decision-making in accordance with the Articles of Association and the "Rules of Procedures of Remuneration and Nomination Committee of the Board of CSC Financial Co., Ltd.". In addition, the Company also formulated the "Management Measures of Remuneration in the Headquarter of CSC Financial Co., Ltd." (《中信建投証券股份有限公司總部薪酬管理辦法》) and the "Incentive Measures of Remuneration of Staff in Brokerage Business System of CSC Financial Co., Ltd." (《中信建投証券股份有限公司經紀業務系統員工薪酬激勵辦法》) to be the basic remuneration policy of the Company so as to regulate procedures such as decision-making of remuneration. Currently, Independent Non-Executive Directors of the Company receive remuneration from the Company with reference to industry practice, while other Non-Executive Directors do not receive remuneration from the Company; the remuneration of executive Directors, Supervisors and senior management of the Company is determined according to the remuneration evaluation system of the Company.
Basis of determination of the remuneration of Directors, Supervisors and senior management	It is executed in strict accordance with the Remuneration Management System (《薪酬管理制度》), and is related to positions and performance.
Actual payment of the remuneration of Directors, Supervisors and senior management	Please refer to "Section 8 Directors, Supervisors, Senior Management and Employees – I. Changes in Shareholding and Remuneration" in this section of this annual report. Subsidies to independent Directors are calculated annually and accrued and issued monthly.
Aggregate remuneration received by all Directors, Supervisors and senior management as of the end of the Reporting Period	Approximately RMB90.80 million

VI. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Change	Reason
LI Geping	Executive Director, General Manager and Chief Financial Officer	Election	Newly appointed
ZHANG Qin	Non-executive Director	Election	Newly appointed
ZHU Jia	Non-executive Director	Election	Newly appointed
WANG Bo	Non-executive Director	Election	Newly appointed
QI Liang	Former Executive Director, General Manager and Member of Executive Committee	Resignation	Resigned
HU Donghui	Former Vice Chairman, Non-executive Director	Resignation	Resigned
WANG Chenyang	Former Non-executive Director	Resignation	Resigned
WANG Shouye	Former Non-executive Director	Resignation	Resigned
LIN Xuan	Employee Representative Supervisor	Election	Newly appointed
ZHAO Lijun	Supervisor	Election	Newly appointed
WU Lili	Former Employee Representative Supervisor	Resignation	Resigned
WANG Jing	Former Employee Representative Supervisor	Resignation	Resigned
LIU Hui	Former Supervisor	Resignation	Resigned
PENG Heng	Former Member of Executive Committee and Chief Financial Officer	Resignation	Resigned

Subsequent Events:

1. On March 16, 2019, Mr. Zhao Ming was elected as an employee representative Supervisor of the second session of the Supervisory Committee of the Company at the meeting of employee representatives of the Company. Ms. Lu Ya will cease to serve as employee representative Supervisor of the Company upon the qualification of Mr. Zhao is approved by CSRC. The Company issued an announcement on March 17, 2019 in this regard.

2. On March 18, 2019, the Resolution on Addition of Members of the Executive Committee of the Company and Adjustment to Chief Compliance Officer and Chief Risk Officer was considered and approved at the eleventh meeting of the second session of the Board, appointing Mr. Ding Jianqiang, Ms. Lu Ya and Mr. Xiao Gang as members of the Executive Committee of the Company, and appointing Mr. Ding Jianqiang as Chief Compliance Officer of the Company and Ms. Lu Ya as Chief Risk Officer of the Company. The appointment of Mr. Ding Jianqiang, Ms. Lu Ya and Mr. Xiao Gang will take effect from the date on which the resolutions on their appointment are considered and approved by the Board and the date on which the their appointment qualification is approved by CSRC, and their terms of office shall terminate on the date on which the term of the second session of the Board is expired. Mr. Zhou Zhigang, member of the Executive Committee of the Company, ceased to serve as Chief Compliance Officer and Chief Risk Officer. Before Mr. Ding Jianqiang officially takes office as the Chief Compliance Officer and Ms. Lu Ya officially takes office as the Chief Risk Officer, Mr. Zhou Zhigang will continue to perform as the Chief Compliance Officer and the Chief Risk Officer.

VII. EMPLOYEES OF THE PARENT COMPANY AND MAJOR SUBSIDIARIES

(I) Employees

Number of incumbent employees of the parent company	8,638
Number of incumbent employees of major subsidiaries	956
Total number of incumbent employees	9,594
Number of resigned and retired employees for whom the parent company and major subsidiaries undertook costs	134

Professional Structure

Items	Number of employees
Brokerage business	6,416
Investment banking	1,025
Information technology	460
Financial planning	323
Administration	54
Research	193
Fixed income business	118
Asset management business	234
Margin financing and securities lending businesses	43
Security investment	74
Settlement	124
Legal compliance/audit	107
Risk management	75
Others	348
Total	9,594

Education Level

Education level	Number of employees *(person)*
Doctorate degree	87
Master's degree	3,154
Bachelor's degree	5,484
College or below	869
Total	9,594

The Company believes that excellent talented teams are the cornerstone of sustainable development and has devoted enormous resources to the development of human resources. The Company engaged and nurtured leading professionals through a series of human resources management techniques or practices such as: stringent hiring and selection processes, a competitive remuneration and benefits, sound training and cultivation plans, scientific and effective performance management policies and long-term employee development plans, to create the core competitiveness of the Company.

(II) Remuneration Policies

The Company established a sound human resources management system in compliance with the requirements of the PRC laws in relation to labor contracts and labor protections, formulated various regulations and policies in relation to remuneration, position and grade, performance assessments, benefits and holidays, etc., and stringently implemented such policies. The Company effectively protected staff's interest in various aspects such as labor protection, working environment, payment of wages, social insurance, healthcare and vacation. The Company consistently carried out the principle of marketization to determine the remuneration standard. Remuneration for employees includes fixed salary, performance-related bonuses and insurance benefits. Fixed salary is determined according to the position and grade, and the standard of position and grade integrates the factors of experience, capability, professional knowledge and experience, while performance-related bonuses are associated with the completion of results and assessment results in the corresponding year. The total amount of annual bonuses is withdrawn from total amount of profit in accordance with the ratio determined by the Board. The Company established a comprehensive benefit protection system, and the statutory benefits are paid in accordance with the contents and standards as stipulated by the PRC government. Benefits of the Company covered various aspects, including replenishment of medical insurance, enterprise annuity, paid leave and medical examination.

(III) Training Program

The Company continues to promote and implement staff training programs with comprehensive layout, overall planning, implementation by levels and clear purposes and constantly strengthens the development of a team with talents. The Company proactively improves its multi-level training system which focuses on the "ladder of training for the growth of employees" against different career development paths of employees of its headquarters and branches. Utilizing E-learning systems and mobile learning APP as carriers for learning resources and face-to-face teaching as the major training medium, the Company creates room for learning and growth for employees and comprehensively improves the professional skills and professionalism of the employees through multi-channel, multi-way and multi-means training which broadens the scope and depth of training.

1. The Company enhanced the training of senior employees on leadership and management skills, broadened their innovative idea and international view, improved their reform management capability, strategic analysis capability, executive management capability, business synergy capability, risk prevention capability and integrated humanity quality, and nurtured quality leaders for enterprise operation and management.

2. The Company strengthened the training of mid-level staff on implementation, competence and professional skills, and strived to improve their professional knowledge, project implementation capability, business development and innovation capability as well as team management capability.

3. The Company popularized vocational training and common skills training for employees at the basic level, strengthened the education of its corporate culture, professional compliance, business operation, workflow, regulations and system, and enhanced their communication and presentation capability, customer service capability, team coordination capability and office operation capability.

4. The Company attached high importance to recruitment at university campuses, and commenced a series of enrollment and trainee cultivation program to recruit outstanding graduates and students with working and placement opportunities.

(IV) Information of Securities Brokers

As of December 31, 2018, a total of 191 securities branches of the Company implemented the system of securities brokers. There were a total of 1,718 brokers who obtained professional brokerage qualifications as reviewed and approved by the Securities Association of China.

I. OVERVIEW OF CORPORATE GOVERNANCE

In accordance with the provisions of relevant laws, regulations and regulatory documents, including the Company Law, the Securities Law, the Regulation on the Supervision and Administration of Securities Companies and the Rules for Governance of Securities Companies, the Company has established a solid and comprehensive corporate governance structure comprising the general meeting, the Board, the Supervisory Committee and the management of the Company, and formed a complete corporate governance system in standard operation covering consideration, resolution, mandate and execution with clearly defined responsibilities among the organ of power, the decision-making body, the supervision body and the management.

In accordance with the provisions of relevant laws, regulations and regulatory documents, the Company has formulated relevant corporate governance systems, including the Articles of Association, the Rules of Procedures for Shareholders' General Meeting of the Company, the Rules of Procedures for Board Meetings and the Rules of Procedures for Supervisory Committee Meetings, the Working System for Independent Directors and the Working Rules for Secretary to the Board. Such systems defined the scope of responsibilities and working procedures of the general meeting, the Board, the Supervisory Committee, the General Manager and the Secretary to the Board and provided an institutional guarantee to the standard operation of the Company. In addition, the Board established the Development Strategy Committee, the Risk Management Committee, the Audit Committee and the Remuneration and Nomination Committee, and also developed rules of procedures for these committees and clearly defined their respective responsibilities and rules of procedures.

During the Reporting Period, the Company strictly complied with the Corporate Governance Code, followed all code provisions and met the requirements of part of the recommended best practices set out in the Corporate Governance Code.

II. DEALING IN SECURITIES BY DIRECTORS AND SUPERVISORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Hong Kong Listing Rules (the "Model Code") in respect of the securities transactions entered into by the Directors and Supervisors. The Company has made specific inquiries to all Directors and Supervisors on any incompliance with the Model Code. All the Directors and Supervisors have confirmed that they have completely complied with the provisions and standards of the Model Code during the Reporting Period and up to the date of this annual report.

III. SHAREHOLDERS AND GENERAL MEETINGS

(I) Rights of Shareholders' General Meetings and Shareholders

The Shareholders' general meeting is the body exercising the authority of the Company and shall exercise the duties and powers in accordance with the law, the Articles of Association and the Rules of Procedures for Shareholders' General Meeting of the Company. The Company convened the Shareholders' general meetings in strict compliance with the relevant rules and procedures such that all Shareholders are treated equally and can fully exercise their rights. During the Reporting Period, the Company convened five general meetings to engage in dialogue with the Shareholders so as to understand their concerns, suggestions and opinions regarding the Company's development.

(II) Overview of General Meetings

During the Reporting Period, the Company convened five Shareholders' general meetings, the details and resolutions of which are as follows:

Session	Date of convening	Query index of the designated website for publishing resolutions	Date of disclosure for publishing resolutions
2018 First Extraordinary General Meeting	April 16, 2018	www.hkexnews.hk www.csc108.com	April 16, 2018
2017 Annual General Meeting	June 7, 2018	www.hkexnews.hk www.csc108.com	June 7, 2018
First Domestic Shareholders' Class Meeting in 2018	June 7, 2018	www.hkexnews.hk www.csc108.com	June 7, 2018
First H Shareholders' Class Meeting in 2018	June 7, 2018	www.hkexnews.hk www.csc108.com	June 7, 2018
2018 Second Extraordinary General Meeting	October 30, 2018	www.sse.com.cn www.hkexnews.hk www.csc108.com	October 30, 2018

On April 16, 2018, 2018 first extraordinary general meeting considered and approved the Resolution on Proposed Amendments to the Articles of Association, the Resolution on the General Mandate to Issue Onshore and Offshore Debt Financing Instruments, the Resolution on Election of Directors of the Second Session of the Board of the Company, the Resolution on Election of Supervisors of the Second Session of the Supervisory Committee of the Company, the Resolution on the 2017 Profit Distribution Plan of the Company and the Resolution on the Report of Use of Proceeds Previously Raised.

On June 7, 2018, 2017 annual general meeting of the Company considered/reviewed and approved the 2017 Work Report of the Board of the Company, the 2017 Work Report of the Supervisory Committee of the Company, the Resolution on 2017 Final Financial Accounts Plan of the Company, the Resolution on 2017 Annual Report of the Company, the Resolution on Related Party Transaction Agreement with Industrial and Commercial Bank of China Limited, the Resolution on Expected Related Party Transactions in 2018, the Resolution on Proposed Extension of the Validity Period of the Resolution for the A Share Offering and Listing, the Resolution on the Proposed Extension of the Validity Period of the Resolution for the Authorization to the Board and Persons Authorized by the Board to Deal with matters Relating to the A Share Offering and Listing, the Resolution on Re-appointment of 2018 External Auditors of the Company and 2017 Work Report of the Independent Non-executive Directors of the Company.

On June 7, 2018, the first domestic Shareholders' class meeting of the Company in 2018 considered and approved the Resolution on the Proposed Extension of the Validity Period of the Resolution for the A Share Offering and Listing and the Resolution on the Proposed Extension of the Validity Period of the Resolution for the Authorization to the Board and Persons Authorized by the Board to Deal with Matters Relating to the A Share Offering and Listing.

On June 7, 2018, the first H Shareholders' class meeting of the Company in 2018 considered and approved the Resolution on the Proposed Extension of the Validity Period of the Resolution for the A Share Offering and Listing and the Resolution on the Proposed Extension of the Validity Period of the Resolution for the Authorization to the Board and Persons Authorized by the Board to Deal with Matters relating to the A Share Offering and Listing.

On October 30, 2018, 2018 second extraordinary general meeting of the Company considered and approved the Resolution on the Change of Registered Capital and the Amendments to the Articles of Association, the Resolution on Implementation of Profit Distribution of the Company in the Mid-term of 2018 and the Resolution on the Budget of Investment Amount for Proprietary Business of the Company for 2018.

(III) Attendances of Shareholders' General Meetings by Directors of the Company

Name of Director	Actual attendance/ On-site Shareholders' general meetings held during the term of office
WANG Changqing	5/5
YU Zhongfu	5/5
DONG Shi	3/5
LI Geping	4/4
ZHANG Qin	3/4
ZHU Jia	4/4
WANG Hao	5/5
WANG Bo	3/4
XU Gang	0/5
FENG Genfu	4/5
ZHU Shengqin	0/5
DAI Deming	1/5
BAI Jianjun	5/5
LIU Qiao	0/5
HU Donghui (former Non-executive Director)	0/1
QI Liang (former Executive Director)	0/1
WANG Chenyang (former Non-executive Director)	0/1
WANG Shouye (former Non-executive Director)	0/1
Shareholders' general meetings convened during the year	5

IV. BOARD AND BOARD MEETINGS

1. Composition of the Board

The Company has a Board which is accountable to the Shareholders' general meeting. In accordance with the provisions of the Articles of Association, at the end of the Reporting Period, the Board consists of 14 members, two of whom are Executive Directors (WANG Changqing and LI Geping), seven of whom are Non-executive Directors (YU Zhongfu, DONG Shi, ZHANG Qin, ZHU Jia, WANG Hao, WANG Bo and XU Gang), five of whom are Independent Non-executive Directors (FENG Genfu, ZHU Shengqin, DAI Deming, BAI Jianjun and LIU Qiao); the number of internal Directors in the Board shall not exceed one-half of the total number of Directors. The Board shall have one chairman and two vice chairmen who shall be elected and removed by more than one half of all the Directors. The chairman and vice chairman shall serve a term of three years and may be re-elected upon the expiry of their terms. WANG Changqing served as the Chairman of the Board. The General Manager is LI Geping, who is responsible for overseeing the day-to-day operations of the Group.

Directors are appointed at the Shareholders' general meeting to serve a term of three years and are eligible for re-election upon the expiration of their term. Independent Non-executive Directors shall not hold office for more than six consecutive years. The Company confirms that the Company has received the annual confirmation of independence from each of the independent non-executive Directors pursuant to Rule 3.13 of the Listing Rules. Therefore, the Company believes that each independent non-executive Director is independent as specified in the Listing Rules. Independent non-executive Directors are able to exercise independent and objective judgments and protect the interests of minority Shareholders.

The biographies of all Directors are set out in "Section 8 Directors, Supervisors, Senior Management and Employees" in this annual report.

2. Powers and Duties of the Board

In accordance with the Articles of Association, the Board shall exercise the following powers and duties: (1) to convene the Shareholders' general meetings and submit work report to such meetings; (2) to implement the resolutions of the Shareholders' general meetings; (3) to decide on the operation plan and investment scheme of the Company; (4) to determine the objectives of the Company's compliance management, assume responsibility for the effectiveness of compliance management of the Company and perform the corresponding duties of compliance management; (5) to prepare the draft annual budget and final accounts of the Company; (6) to prepare the profit distribution plan and the loss recovery plan of the Company; (7) to prepare the plan for the Company to increase or reduce its registered capital, issuance of corporate bonds and other securities and listing plans; (8)

to prepare plans of the Company with respect to mergers, divisions, dissolution or changes of the form of the Company; (9) to prepare plans of the Company with respect to material acquisitions and acquisition of the Company shares; (10) to appoint or remove the General Manager, the Chief Compliance Officer, the Chief Risk Officer and the Secretary of the Board nominated by the Chairman of the Board and decide the remunerations and rewards and punishments thereof; to appoint or remove the Chief Financial Officer, members of the Executive Committee and other senior management members nominated by the Chairman of the Board or the General Manager, and decide the remunerations and rewards and punishments thereof; (11) to decide on the establishment of the internal management organizations of the Company; (12) to determine the composition of special committees under the Board, and the chairman (convener) of each special committee; (13) to establish a basic management system of the Company; (14) to prepare plans to amend the Articles of Association; (15) to file an application for bankruptcy on behalf of the Company; (16) to prepare plans of the Company with respect to material external investments, material assets acquisition and disposal, material guarantees and material connected transactions; (17) to consider and approve the external investment matters that do not require approval by the Shareholders' general meeting as prescribed in the Articles of Association; (18) to consider and approve the assets acquisition and disposal matters that do not require approval by the Shareholders' general meeting as prescribed in the Articles of Association; (19) to consider and approve the connected transactions that should be considered and approved by the Board pursuant to laws, regulations and the listing rules of the place where the Company shares are listed; (20) to consider and approve the external donation matters of the Company with the accumulated donation amount below RMB10 million within one financial year; (21) to decide on the Company's external investments, acquisition and disposal of assets, pledge of assets, external guarantees, trust management, connected transactions and other matters within the scope of authorization by the Shareholders' general meeting; (22) to decide on mergers, divisions, establishments or revocations of domestic branches; (23) to manage the disclosure of information by the Company; (24) to propose to the Shareholders' general meeting with respect to the engagement or replacement of the audit firm of the Company; (25) to receive the work report of the General Manager of the Company and examine such work; (26) to determine the policy for the corporate governance of the Company; (27) to develop and review the Company's policies and practices on corporate governance; (28) to review and monitor the training and continuous professional development of Directors and senior management of the Company; (29) to develop, review and monitor the code of conduct and compliance policy applicable to the employees and Directors of the Company; (30) to review the Company's compliance with the code of conduct and disclosure in the Corporate Governance Report; and (31) to exercise any other duties and powers specified in relevant laws, administrative regulations, departmental rules, normative documents, the listing rules of the place where the Company shares are listed or authorized by the Articles of Association. The management of the Company is responsible for carrying out the resolutions or decisions of the Board and other duties specified in the Articles of Association.

3. Operation of the Board

As of December 31, 2018, the Board of the Company comprised 14 Directors, including WANG Changqing, YU Zhongfu, DONG Shi, LI Geping, ZHANG Qin, ZHU Jia, WANG Hao, WANG Bo, XU Gang, FENG Genfu, ZHU Shengqin, DAI Deming, BAI Jianjun and LIU Qiao. Among them, WANG Changqing was the Chairman, YU Zhongfu was the Vice Chairman, and DONG Shi was the Vice Chairman. Five of these 14 Directors, including FENG Genfu, ZHU Shengqin, DAI Deming, BAI Jianjun and LIU Qiao, were Independent Non-executive Directors.

Since the establishment of the Company, the Board of the Company has always strictly complied with the provisions of relevant laws and regulations, the Articles of Association and the Rules of Procedures for Board Meetings. Convening and holding procedures and voting procedures of the Board meetings have complied with the provisions of the Company Law and the Articles of Association, and all resolutions made are legal and valid.

The second session of the Board of the Company was established on April 16, 2018, with a term of office of three years. In 2018, the Company held a total of 11 Board meetings.

4. Convening of Board Meetings

On January 24, 2018, the 69th meeting of the first session of the Board was convened, which considered and approved the Resolution on the Adjustment to Members of Board Committees of the Company.

On February 27, 2018, the 70th meeting of the first session of the Board was convened, which considered and approved the Resolution on the Nomination of Candidates of Directors of the Second Session of the Board, the Resolution on 2017 Profit Distribution Plan, the Resolution on 2017 Annual Results Announcement of the Company, the Resolution on Confirmation of Connected Transactions in the Most Recent Year, the Resolution on 2017 Self-evaluation Report of Internal Control, the Resolution on Supplemental Financial and Accounting Documents for Application for Initial Public Offering of A Shares and Listing of the Company, the Resolution on the Report of the Use of Proceeds Previously Raised, the Resolution on Confirmation of Amendments to the Articles of Association of CSC Financial Co., Ltd. (applicable to A Share issuance), the Resolution on Proposed General Mandate to Issue Onshore and Offshore Debt Financing Instruments and the Resolution on Convening of 2018 First Extraordinary General Meeting.

On April 16, 2018, the first meeting of the second session of the Board was convened, which considered and approved the Resolution on the Election of the Chairman of the Company, the Resolution on Election of Vice Chairman of the Company and the Resolution on Members of the Second Session of the Board Committees.

On April 16, 2018, the second meeting of the second session of the Board was convened, which considered and approved the Resolution on the Appointment of the General Manager of the Company, the Resolution on Appointment of the Senior Management of the Company, the Resolution on Change of Authorized Person and Authorized Representative of the Board, the 2017 Work Report of the Board of the Company, the 2017 Work Report of the Independent Non-executive Directors, the Resolution on 2017 Final Financial Accounts Plan of the Company, the Resolution on 2017 Net Capital and Other Risk control Indicators of the Company, the Resolution on 2017 Annual Report (for Listed Company) of the Company, the Resolution on 2017 Annual Report (for Securities Company) of the Company, the Resolution on 2017 Compliance Report of the Company, the Resolution on 2017 Environmental, Social and Governance Report of the Company, the Resolution on 2018 Risk Management Policies of the Company, the Resolution on Related Party Transaction Agreement with Industrial and Commercial Bank of China Limited, the Resolution on Expected Related Party Transactions in 2018, the Resolution on Application for Renewed Mandate for Establishing Securities Branches, the Resolution on Extension of the Validity Period in Relation to the Initial Public Offering of A Shares and Listing of the Company, the Resolution on Extension of the Validity Period of Authorization to the Board and Persons Authorized by the Board to Deal with Matters Relating to the Initial Public Offering of A Shares and Listing, the Resolution on Re-appointment of External Auditors of the Company for 2018, and the Resolution on Convening of the 2017 Annual General Meeting and the Shareholders' Class Meetings.

On April 26, 2018, the third meeting of the second session of the Board was convened, which considered and approved the Resolution on the Report of Input Indicators for the Development of Special Information System for 2017.

On May 2, 2018, the fourth meeting of the second session of the Board was convened, which considered and approved the Resolution on the Financial Report for the First Quarter of 2018 of the Company.

On May 27, 2018, the fifth meeting of the second session of the Board was convened, which considered and approved the Resolution on the Adjustment to the Chief Financial Officer of the Company.

On June 30, 2018, the sixth meeting of the second session of the Board was convened, which considered and approved the Resolution on the Establishment of Internal Audit Department.

On August 24, 2018, the seventh meeting of the second session of the Board was convened, which considered and approved the Resolution on the Amendments to the Major Accounting Policies and Accounting Estimates of the Company, the Resolution on 2018 Interim Report of the Company (A Shares), the Resolution on 2018 Interim Results Announcement and Interim Report of the Company (H Shares), the Resolution on Change of Registered Capital and Amendments to the Articles of Association, the Resolution on Implementation of Profit Distribution of the Company in the Mid-term of 2018, the Resolution on Special Report on the Deposit and Use of the Proceeds Raised in the First Half of 2018, the Resolution on the Budget of Investment Amount for Proprietary Business of the Company for 2018, and the Resolution on Convening of the 2018 Second Extraordinary General Meeting of the Company.

On October 30, 2018, the eighth meeting of the second session of the Board was convened, which considered and approved the Resolution on the 2018 Third Quarterly Results Report of the Company, the Resolution on Establishment of Institutional Business Department, the Resolution on Establishment of Internet Securities Branch and the Resolution on Basic Management System of the Company.

On December 28, 2018, the ninth meeting of the second session of the Board was convened, which considered and approved the Resolution on the Application for Continuing the Issuance of Perpetual Subordinated Bonds, the Resolution on Adjustment to the Setting of the Organizational Structure of Investment Banking Business of the Company, and the Resolution on Convening of the 2019 First Extraordinary General Meeting.

5. Attendances of Board Meetings by Directors of the Company

Name of Director	Whether Independent Non-executive Director or not	Scheduled attendance at Board meetings held for the year	Attendance in person	Board Meetings Attendance by way of telecommunication	Attendance by proxy	Absence	Whether the Director failed to attend two consecutive meetings in person or not
WANG Changqing	No	11	11	7	0	0	No
YU Zhongfu	No	11	11	7	0	0	No
DONG Shi	No	11	9	7	2	0	No
LI Geping	No	9	9	6	0	0	No
ZHANG Qin	No	9	9	6	0	0	No
ZHU Jia	No	9	9	6	0	0	No
WANG Hao	No	11	11	7	0	0	No
WANG Bo	No	9	9	6	0	0	No
XU Gang	No	11	9	7	2	0	No
FENG Genfu	Yes	11	11	7	0	0	No
ZHU Shengqin	Yes	11	11	7	0	0	No
DAI Deming	Yes	11	11	7	0	0	No
BAI Jianjun	Yes	11	11	7	0	0	No
LIU Qiao	Yes	11	11	7	0	0	No
HU Donghui	No	2	2	1	0	0	No
QI Liang	No	2	2	1	0	0	No
WANG Chenyang	No	2	1	1	1	0	No
WANG Shouye	No	2	1	1	1	0	No

Board meetings convened during the year	11
Including: on-site meetings	4
Meetings convened by way of telecommunication	7
On-site meetings with telecommunication	4

6. Training of Directors

In November 2018, the Company organized Directors to participate in the Seventh Special Training of Directors and Supervisors of Listed Companies under the Jurisdiction of Beijing in 2018 organized by the Listed Companies Association of Beijing.

In December 2018, the Board of the Company arranged a sponsorship institution to conduct a training program on 2018 Continuous Supervisory Training materials participated by the Directors, Supervisors, the management above middle level, the Shareholders holding more than 5% shares and other relevant persons. All Directors, including Wang Changqing, Yu Zhongfu, Dong Shi, Li Geping, Zhang Qin, Zhu Jia, Wang Hao, Wang Bo, Xu Gang, Feng Genfu, Zhu Shengqin, Dai Deming, Bai Jianjun and Liu Qiao, attended the abovementioned relevant trainings organized by the Company.

7. Board Diversity Policy

The Remuneration and Nomination Committee has adopted a board diversity policy concerning the diversity of Board members (the "Board Diversity Policy") pursuant to paragraph A.5.6 of the Corporate Governance Code. The Company regards the increasing of diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and sustainable development. In designing the composition of the Board, diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience and other factors. All appointments of the Board will be based on merits, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, the ultimate decision will be based on merit and contribution that the selected candidates can make to the Board. The composition of the Board will be disclosed in the Corporate Governance Report annually.

V. BOARD COMMITTEES UNDER THE BOARD OF THE COMPANY

(I) Development Strategy Committee

1. Duties of the Committee

The Development Strategy Committee is responsible for researching and forecasting the Company's long-term development strategy and establishing the Company's development strategy plans. The Development Strategy Committee comprises eight Directors, namely WANG Changqing, YU Zhongfu, DONG Shi, LI Geping, ZHU Jia, WANG Hao, XU Gang and FENG Genfu. WANG Changqing is the current Chairman of the Development Strategy Committee.

As specified in the Articles of Association, the primary duties of the Development Strategy Committee include, but are not limited to, the following: (1) understanding and mastering the overall operations of the Company; (2) understanding, analyzing and mastering the current conditions of international and domestic markets; (3) understanding and mastering relevant policies of the State; (4) studying the short, medium and long-term development strategies of the Company or the relevant issues; (5) providing consultancy advice on the Company's major decisions on long-term development strategy and major investments, reform etc.; (6) reviewing and approving research reports on development strategies; (7) issuing routine research reports regularly or from time to time; and (8) performing such other duties determined by the Board and required by the listing rules or regulatory requirement of the place where the Shares of the Company are listed.

2. *Work Summaries and Meetings of the Committee*

During the Reporting Period, the Development Strategy Committee has convened one meeting. Details of the meeting of the Development Strategy Committee are set out below:

Date of meeting	Subject matters
April 16, 2018	The 2017 Work Report of the Board of the Company and the Resolution on 2017 Final Financial Accounts of the Company were considered and approved.

3. *Attendance of Meetings of the Development Strategy Committee*

Name of Committee Member	Position	Actual attendance/ Scheduled attendance
WANG Changqing	Chairman of the Development Strategy Committee, Chairman and Executive Director	1/1
YU Zhongfu	Vice Chairman and Non-executive Director	1/1
DONG Shi	Vice Chairman and Non-executive Director	1/1
LI Geping	Executive Director and General Manager	1/1
ZHU Jia	Non-executive Director	1/1
WANG Hao	Non-executive Director	1/1
XU Gang	Non-executive Director	1/1
FENG Genfu	Independent Non-executive Director	1/1

(II) Risk Management Committee

1. Duties of the Committee

The Risk Management Committee shall be mainly responsible to monitor the overall risk management of the Company and control such risks within reasonable limits, so as to ensure that the Company may implement effective risk management plans with respect to various risks in the business related activities of the Company. The Risk Management Committee comprises seven Directors, namely WANG Hao, LI Geping, ZHANG Qin, WANG Bo, XU Gang, BAI Jianjun and LIU Qiao. WANG Hao is the current Chairman of the Risk Management Committee.

As specified in the Articles of Association, the primary duties of the Risk Management Committee are as follows: (1) to review and advise on the general objectives and basic policies of compliance management and risk management; (2) to determine strategic structures and resources for the risk management of the Company, and to ensure that they are compatible with the internal risk management policies of the Company; (3) to review and advise on the establishment and duties of the institution for compliance management and risk management; (4) to evaluate the risks relating to major decisions to be considered and approved by the Board and the solutions for such major risks, and to provide advice in this regard; (5) to define the limits of major risks; (6) to supervise, examine and make recommendation to the Board on relevant risk management policies; (7) to review and approve the compliance reports and risk evaluation reports required to be considered and approved by the Board, and providing advice in this regard; and (8) other duties to be determined by the Board of Directors and other duties required by the listing rules or regulatory requirements of the places where the Company's shares are listed.

2. *Work Summaries and Meetings of the Committee*

During the Reporting Period, the Risk Management Committee has convened three meetings. Details of the meetings of the Risk Management Committee are set out below:

Date of meeting	Subject matters
February 27, 2018	The Resolution on the 2017 Self-evaluation Report of Internal Control of CSC Financial Co., Ltd. was reviewed
April 16, 2018	The Resolution on 2017 Net Capital and Other Risk Control Indicators of the Company, the Resolution on 2017 Compliance Report of the Company, the Resolution on 2018 Risk Management Policies and the 2017 Risk Report of the Company were reviewed
August 16, 2018	The Resolution on the Budget of Investment Amount for Proprietary Business of the Company for 2018 was reviewed

3. *Attendance of Meetings of the Risk Management Committee*

Name of Committee Member	Position	Actual attendance/ Scheduled attendance
WANG Hao	Chairman of the Risk Management Committee and Non-executive Director	3/3
LI Geping	Executive Director and General Manager	2/2
ZHANG Qin	Non-executive Director	2/2
WANG Bo	Non-executive Director	1/2
XU Gang	Non-executive Director	2/3
BAI Jianjun	Independent Non-executive Director	3/3
LIU Qiao	Independent Non-executive Director	2/3
HU Donghui	Former Vice Chairman and Non-executive Director	1/1
QI Liang	Former Executive Director and General Manager	1/1
WANG Chenyang	Former Non-executive Director	0/1

(III) Audit Committee

1. Duties of the Committee

The Audit Committee is responsible for the compliance control of the operating management and investment business of the Company and the review and supervision of the internal auditing works and results of the Company. The Audit Committee comprises five Directors, namely DAI Deming, ZHANG Qin, WANG Bo, FENG Genfu and ZHU Shengqin. DAI Deming currently serves as the Chairman of the Audit Committee.

As specified in the Articles of Association, the primary duties of the Audit Committee are as follows: (1) to supervise the annual audit and make judgment on the truthfulness, accuracy and completeness of the audited information contained in the financial reports before submitting the reports to the Board; (2) to propose to engage or dismiss the external auditor of the Company, and to supervise the practice of external auditors; (3) to supervise the internal audit system and its implementation; (4) to be responsible for the communications between the internal audit and the external audit; (5) to review and approve the financial information of the Company and its disclosure; (6) to examine the internal control system of the Company; and (7) other duties determined by the Board of Directors and other duties required by the listing rules or regulatory requirements of the places where the Company's shares are listed.

2. *Work Summaries and Meetings of the Committee*

During the Reporting Period, the Audit Committee has convened four meetings. Details of the meetings of the Audit Committee are set out below:

Date of meeting	Subject matters
February 27, 2018	The 2017 Report on External Audit Related Work of the Company, the 2017 Annual Results Announcement of the Company, the Resolution on Confirmation of Connected Transactions in the Most Recent Year, the Resolution on 2017 Self-evaluation Report of Internal Control of CSC Financial Co., Ltd. and the Resolution on Supplemental Financial and Accounting Documents for Application for Initial Public Offering of A Shares and Listing of the Company were reviewed
April 16, 2018	The Report on 2017 Work Performance and 2018 Work Plan of Internal Audit of the Company, the Resolution on 2017 Annual Report (for Listed Company) of the Company, the Resolution on 2017 Annual Report (for Securities Company) of the Company, the Resolution on Related Party Transaction Agreement with Industrial and Commercial Bank of China Limited, the Resolution on Expected Related Party Transactions in 2018, and the Resolution on Re-appointment of External Auditors for 2018 were reviewed
August 22, 2018	The Resolution on the Amendments to the Major Accounting Policies and Accounting Estimates of the Company, the Resolution on 2018 Interim Report of the Company (A Shares), the Resolution on 2018 Interim Results Announcement and Interim Report of the Company (H Shares) were reviewed
October 29, 2018	The Resolution on the 2018 Third Quarterly Results Report of the Company was reviewed

3. Attendance of Meetings of the Audit Committee

Name of Committee Member	Position	Actual attendance/ Scheduled attendance
DAI Deming	Independent Non-executive Director	4/4
ZHANG Qin	Non-executive Director	3/3
WANG Bo	Non-executive Director	3/3
FENG Genfu	Independent Non-executive Director	4/4
ZHU Shengqin	Independent Non-executive Director	4/4
DONG Shi	Vice Chairman and Non-executive Director	1/1
WANG Chenyang	Former Non-executive Director	0/1

(IV) Remuneration and Nomination Committee

1. Duties of the Committee

The Remuneration and Nomination Committee is mainly responsible for approving the terms of Executive Directors' service contracts; determining, with delegated responsibility, the remuneration packages of individual executive directors and senior management; formulation of the appraisal standards of the Company's Directors and the senior management, as well as conducting appraisal; formulation and examination of remuneration policy and proposal for the Directors and the senior management (including but not limited to performance evaluation standards, procedures and major evaluation systems, major programs and systems of incentives and penalties); researching the selection standard of Directors and the senior management and making suggestions of the candidates. The Remuneration and Nomination Committee comprises seven Directors, namely BAI Jianjun, WANG Changqing, YU Zhongfu, DONG Shi, ZHU Shengqin, DAI Deming and LIU Qiao. BAI Jianjun currently serves as the Chairman of the Remuneration and Nomination Committee.

As specified in the Articles of Association, the primary duties of the Remuneration and Nomination Committee are as follows: (1) to formulate and implement a performance evaluation system responsive to the changing market conditions, competitive remuneration package and the incentive measures for awards and punishments related to operating results, in accordance with the features of the financial and securities industry, the respective scope, responsibilities, significance of the Directors and senior management and remuneration levels of similar positions in other relevant enterprises; (2) to assess the fulfillment of duties of the Directors and senior management of the Company and to appraise their annual performance; (3) to review and advise on the appraisal and remuneration system for the Directors and senior management; (4) to monitor the implementation of the remuneration system for the Directors and senior management; (5) to review and advise on the election standards and procedures of the Directors and senior management; to search for eligible candidates for Directors and senior management; to review and provide opinions on the qualification criteria of candidates for Directors and senior management; and (6) other duties determined by the Board of Directors and other duties required by the listing rules or regulatory requirements of the places where the Company's shares are listed. For details, please refer to the Terms of Reference of the Remuneration and Nomination Committee of the Board of the Company which is available on the websites of the Company and the HKEX.

2. Work Summaries and Meetings of the Committee

During the Reporting Period, the Remuneration and Nomination Committee has convened two meetings. Details of the meetings of the Remuneration and Nomination Committee are set out below:

Date of meeting	Subject matters
April 16, 2018	The Resolution on the Appointment of the General Manager of the Company and the Resolution on the Appointment of the Senior Management of the Company were considered and approved
August 24, 2018	The Resolution on the 2017 Bonus for the Executive Management of the Company was considered and approved

In the two meetings, the Remuneration and Nomination Committee reviewed the structure, size, composition and diversity (including the skills, knowledge, experience, gender, age, cultural and educational background, ethnicity, professional experience and length of service) of the Board to ensure that the Board has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company, to assess the independence of the Independent Non-executive Directors and recommend the appointment of senior management of the Company. Where vacancies on the Board arise, the Remuneration and Nomination Committee will carry out the selection process in accordance with the Board Diversity Policy of the Company and by making reference to a range of diversity perspectives, including but not limited to the skills, professional experience, knowledge and length of service of the proposed candidates, cultural and educational background, the Company's needs and other relevant statutory requirements and regulations.

3. Attendance of Meetings of the Remuneration and Nomination Committee

Name of Committee Member	Position	Actual attendance/ Scheduled attendance
BAI Jianjun	Chairman of the Remuneration and Nomination Committee and Independent Non-executive Director	2/2
WANG Changqing	Chairman and Executive Director	2/2
YU Zhongfu	Vice Chairman and Non-executive Director	2/2
DONG Shi	Vice Chairman and Non-executive Director	1/2
ZHU Shengqin	Independent Non-executive Director	2/2
DAI Deming	Independent Non-executive Director	2/2
LIU Qiao	Independent Non-executive Director	1/2

VI. SUPERVISORS AND THE SUPERVISORY COMMITTEE

1. Powers and Duties of the Supervisory Committee

In accordance with the provisions of the Articles of Association, the Supervisory Committee shall exercise the following duties and powers: (1) examining the financial affairs of the Company; (2) supervising the Directors and senior management in their performance of duties and proposing the dismissal of Directors and senior management who contravenes laws, administrative regulations, the Articles of Association or Shareholders' resolutions; (3) demanding any Director and senior management who acts in a manner which is detrimental to the interests of the Company to rectify such behavior, and report to the Shareholders' general meeting or relevant competent authorities of the State when necessary; (4) to propose the convening of an extraordinary general meeting, and to convene and preside over the general meeting when the Board fails to perform such duties as specified by the Company Law; (5) to put forward proposals to the Shareholders' general meetings; (6) to attend the Board meetings, and put forward queries or suggestions regarding resolutions at Board Meetings; (7) to arrange exit audit on senior management members; (8) to initiate litigations against Directors and senior management members in accordance with provisions of the Company Law; (9) to review financial information such as financial reports, business reports, and profit distribution plans as proposed by the Board to the general meetings, and to engage certified public accountants and practicing auditors in the name of the Company to assist with further examination if there are any queries; (10) other duties and powers conferred by the laws, administrative regulations, departmental rules, normative documents, listing rules of the place where the Company is listed and Articles of Association.

2. Operation of the Supervisory Committee

In accordance with the provisions of the Articles of Association, the Supervisory Committee of the Company shall comprise six Supervisors. As of December 31, 2018, the Supervisory Committee of the Company comprised five current Supervisors, namely Li Shihua, Ai Bo, Zhao Lijun, Lu Ya And Lin Xuan. Li Shihua is the current Chairman of the Supervisory Committee, and Lu Ya and Lin Xuan are Employee Representative Supervisors; one vacant Shareholder Representative Supervisor will be appointed separately by performing relevant nomination and election procedures.

During the Reporting Period, the Supervisory Committee of the Company had operated in strict compliance with the provisions of relevant laws, regulations and regulatory documents, the Articles of Association and the Rules of Procedures for Supervisory Committee Meetings. Convening and holding procedures as well as voting procedures of Supervisory Committee meetings complied with the provisions of the Company Law and the Articles of Association, and resolutions made were legal and valid.

In 2018, the Supervisory Committee of the Company convened four meetings, the details of which are as follows:

On February 27, 2018, the 18th meeting of the first session of the Supervisory Committee was convened, which considered and approved the Resolution on the Nomination of Candidates for Shareholder Representative Supervisors of the Second Session of the Supervisory Committee of the Company.

On April 16, 2018, the first meeting of the second session of the Supervisory Committee was convened, which considered and approved the Resolution on the Election of Chairman of the Supervisory Committee of the Company, the 2017 Work Report of the Supervisory Committee of the Company, the Report on 2017 Work Performance and 2018 Work Plan of Internal Audit of the Company, the Resolution on 2017 Annual Report (for Listed Company) of the Company and the Resolution on 2017 Annual Report (for Securities Company) of the Company.

On August 24, 2018, the second meeting of the second session of the Supervisory Committee was convened, which considered and approved the Resolution on the Amendments to the Major Accounting Policies and Accounting Estimates of the Company, the Resolution on 2018 Interim Report of the Company (A Shares), the Resolution on 2018 Interim Results Announcement and Interim Report of the Company (H Shares), the Resolution on Implementation of Profit Distribution of the Company in the Mid-term of 2018, and the Resolution on Special Report on the Deposit and Use of the Proceeds Raised in the First Half of 2018.

On October 30, 2018, the third meeting of the second session of the Supervisory Committee was convened, which considered and approved the Resolution on the 2018 Third Quarterly Results Report of the Company.

3. Attendance of Meetings of the Supervisory Committee by Supervisors

	Number of meetings	Attendance in person	Attendance by proxy	Absence
LI Shihua	4	4	0	0
AI Bo	4	3	1	0
ZHAO Lijun	4	4	0	0
LU Ya	4	4	0	0
LIN Xuan	4	4	0	0

VII. COMPANY SECRETARIES

Mr. WANG Guangxue, the secretary to the Board and a joint company secretary of the Company, is responsible for making recommendations and proposals to the Board on issues related to corporate governance, and ensuring that Board policies and procedures as well as applicable laws, rules and regulations are strictly followed.

In order to maintain sound corporate governance and to ensure compliance with the Listing Rules and applicable Hong Kong laws, the Company also appointed Ms. WONG Wai Ling of SWCS Corporate Services Group (Hong Kong) Limited, as the Company's joint company secretary, to assist Mr. WANG Guangxue in discharging the duties of a company secretary. Mr. WANG Guangxue has attended trainings on, among other things, laws and regulations, Listing Rules, director and Board secretaries' duties, rules on information disclosure, rules on connected transactions, notifiable transactions, directors' and supervisors' securities dealings, disclosure of interests, market misconduct and the implementation of relevant internal policies. Meanwhile, Mr. Wang Guangxue participated in and passed relevant trainings and tests organized by Shanghai Stock Exchange and obtained the appointment qualification as Secretary of the Board.

Both Mr. WANG Guangxue and Ms. WONG Wai Ling have confirmed that they received not less than 15 hours of relevant professional training during the year ended December 31, 2018.

VIII. INVESTOR RELATIONS

The Company emphasizes the importance of protecting the interest of investors and endeavors to provide comprehensive and effective investor relations services. The Company has actively performed the duties of a listed company. The Company established an investor relations service and management system, formed an investor relations service team led by the secretary to the Board, set up a hotline and mail box for investor relations services and created an investor relations sector on the official website of the Company, to ensure the true, effective and timely communication of corporate information to investors, endeavoring to safeguard the interest of Shareholders and ensure their rights to information.

The Company was visited by domestic and overseas institutional investors and analysts, and remains in close communication with investors to address their concerns through various channels including teleconferences, video conferences and e-mails, to help investors better understand the latest developments in the market, securities industry as well as the strategies and operations of the Company, subject to the relevant regulatory requirements for information disclosure.

During the Reporting Period, the Articles of Association was amended two times. Please refer to the circulars of the Company dated March 16, 2018 and September 14, 2018 for details. The Company has completed the filing formalities of the Articles of Association at the Hong Kong Companies Registry.

IX. RISK MANAGEMENT, COMPLIANCE MANAGEMENT AND INTERNAL CONTROL

(I) Risk Management

For the objectives and policies of risk management of the Company, please refer to the "Section 4 Management Discussion and Analysis – XIII. Risk Management" of this annual report.

The Board confirms its responsibility for the risk management and internal control systems and reviews the effectiveness of such systems. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

(II) Compliance Management

The Company has established a four-level compliance management structural system comprising the Board, Chief Compliance Officer, Legal and Compliance Department and the persons in charge of compliance management across business departments, branches and subsidiaries at all levels. The compliance management system with the Chief Compliance Officer as the core is independent from the operations management system of the Company, and has the right to independently issue compliance reports.

The Board of the Company determines the objectives of compliance management and is responsible for the effectiveness of compliance management of the Company; the operating management is responsible for implementing the targets of compliance management and is responsible for compliance operation of the Company; all departments, all branches and all subsidiaries at all levels are responsible for implementing the targets of compliance management of the entity and are responsible for compliance operation of the entity.

The Chief Compliance Officer, a senior management personnel of the Company, is in charge of the Company's compliance management, directly accountable to the Board, and responsible for reviewing, supervising and examining the compliance of the operations, management and business activities carried out by the Company and its employees.

The Company established the Legal and Compliance Department as a specific department of compliance management under the leadership of the Chief Compliance Officer, and independently carried out the compliance management work of the Company. The main responsibilities of the Legal and Compliance Department are to assist the Chief Compliance Officer in formulating and amending the compliance management system of the Company and facilitate its implementation; to provide compliance suggestions, compliance consultation, compliance training, and to guide the staff of the Company to accurately understand the laws, regulations and rules; to provide compliance advice on review of new products and new businesses of the Company to identify and evaluate compliance risks; to conduct compliance inspection, compliance accountability and compliance report, and rationalize and evaluate the compliance of the system and procedures of the Company; to conduct compliance monitoring in terms of suspicious transactions and employees' behaviors, and to be responsible for specific compliance management such as anti-money laundering, management of compliance personnel, information isolation and conflicts of interests; to initiate and facilitate compliance cultural construction, and cultivate the compliance awareness of all staff.

The Company has appointed compliance management personnel conforming to regulatory requirements in all business departments and all branches. The compliance management personnel are responsible for daily monitoring, inspection, management and training in relation to compliance in the entities. The full time and part-time compliance management personnel are under the leadership of the Legal and Compliance Department in accordance with regulatory requirements.

The compliance management of subsidiaries at all levels have been integrated into the unified system by the Company. The Company has specified compliance management matters of the subsidiaries subject to reporting to the Company and conducted reviews on the compliance management system of subsidiaries, supervised and inspected the compliance of behaviors of subsidiaries' management to ensure that the compliance management of the subsidiaries was in compliance with the requirements of the Company.

(III) Internal Control

1. Self-evaluation of Internal Control

The internal control evaluation of the Company was carried out according to the Guidance for the Internal Control of Securities Firms of CSRC, the Guidance for the Internal Control of Companies Listed on Shanghai Stock Exchange and Compilation Rule for Information Disclosure by Companies Offering Securities to the Public No. 21 – General Rules on Annual Internal Control Evaluation Report and other rules and regulations. The internal control requirements for specific business were implemented based on various systems, measures, procedures and rules formulated by the Company. The appraisal also referred to the Basic Norms of Internal Control for Enterprises and 18 ancillary guidelines on application and appraisal jointly issued by the Ministry of Finance, the CSRC, the Audit Commission, the CBRC and the CIRC. For details, please refer to the 2018 Self-evaluation Report of Internal Control of CSC Financial Co., Ltd.

2. Internal Auditing

During the Reporting Period, the Audit Department, as required by the Supervisory Committee of the Company and based on the completion of auditing items required in regulatory documents, has focused on business risks, prevented violations and corrupt conducts, and has improved the level of internal control and independently performed the responsibility of auditing and supervision.

During the Reporting Period, the Audit Department implemented a total of 140 audit projects. Among these projects, 14 were audit projects for headquarters, one was audit project for subsidiaries and 125 were audit projects for branches, the details of which are as follows:

Departments involved in the 14 audit projects for headquarters included: Debt Underwriting Department, Brokerage Business Management Committee, Trading Department, Fixed Income Department, Asset Management Department, Custodian Department, IT Department, Research and Development Department, Financial Planning Department, Treasury Operation Department and Administration Department. 15 departments and four subsidiaries were involved in this evaluation of compliance effectiveness, including Investment Banking Department, Capital Market Department, Derivatives Trading Department and Risk Management Department; the subsidiary audited was China Securities (International) Finance Holding Company Limited. 125 audits for branches included eight audits on resignation for persons in charge of branch offices, 75 audits on resignation for persons in charge of securities branches, and 42 compulsory audits on resignation for persons in charge of securities branches.

Through the abovementioned audits, the Audit Department of the Company examined and evaluated the integrity and effectiveness of the compliance management, risk management and internal control of audited units, and revealed the existing major risks, which played a proactive role in promoting the improvement of awareness of risk prevention and risk management level and other aspects in all departments, subsidiaries and branches of the Company.

X. OTHER MATTERS ON CORPORATE GOVERNANCE

(I) Appointment of Auditors

Please refer to the "Section 6 Other Significant Events – II. Appointment or Termination of Auditors" of this annual report for information about the appointment of auditors.

The Directors are responsible for the preparation of the accounts, and the auditors are responsible for the issuance of audit opinions on the financial statements based on their audit work.

1. Non-audit Work

During the Reporting Period, the Company engaged PricewaterhouseCoopers network members to conduct non-audit work, please refer to Note 10 to the consolidated financial statements of this annual report for the charge.

2. Responsibilities of Directors for the 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 annual report. Each responsibility statement shall be interpreted separately.

All Directors of the Company acknowledge and confirm their responsibilities in preparing the financial statements which truly reflects the business and operating results of the Company for each financial year. To the best knowledge of all Directors, there are no events or situations which may cause material adverse impacts on the ongoing operations of the Company.

3. Basis for Establishment of Internal Control System of Financial Report

During the Reporting Period, the Company continued to comply with the requirements under the Basic Norms of Internal Control for Enterprises and its ancillary guidelines, Guidance for the Internal Control of Securities Firms and other laws, regulations and rules, as well as the actual situation of the Company, therefore a sound internal control system of Financial Report was further established.

During the Reporting Period, the Company strictly complied with the requirements under the Company Law, Accounting Law, Accounting Standards for Business Enterprises, Standardization of Basic Work of Accounting, Basic Norms of Internal Control for Enterprises and other relevant laws and regulations, as well as the characteristics of the industry and the actual condition of the Company, so as to formulate, revise or improve the financial and accounting management systems and other internal control systems, such as the Implementation Rules for Financial Asset Appraisal of CSC Financial Co., Ltd.《中信建投証券股份有限公司金融資產估值實施細則》, the Accounting Rules for Interest Rate Swap of CSC Financial Co., Ltd.《中信建投証券股份有限公司利率互換會計核算細則》, the Accounting Rules for Structured Notes of CSC Financial Co., Ltd.《中信建投証券股份有限公司收益憑證會計核算細則》, the Accounting Rules for Individual Stock Options of CSC Financial Co., Ltd.《中信建投証券股份有限公司個股期權會計核算細則》, the Accounting Rules for Treasury Futures of CSC Financial Co., Ltd.《中信建投証券股份有限公司國債期貨會計核算細則》, the Accounting Rules for Stock Index Futures of CSC Financial Co., Ltd.《中信建投証券股份有限公司股指期貨會計核算細則》, the Accounting Rules for Spot Gold Contracts of CSC Financial Co., Ltd.《中信建投証券股份有限公司黃金現貨合約會計核算細則》, the Accounting Rules for Over-the-Counter Trading of Financial Derivatives of CSC Financial Co., Ltd.《中信建投証券股份有限公司金融衍生品櫃檯交易會計核算細則》, and the Accounting Measures for Securities Investment and Trading Business of CSC Financial Co., Ltd《中信建投証券股份有限公司證券投資及交易業務會計核算辦法》. The Company sets up a scientific financial and accounting organization structure, engages qualified financial and accounting professionals, uses stricter standardized financial and accounting management system, implements proper accounting policies and reasonable accounting estimates, in order to ensure the financial reports prepared by the Company comply with the requirements of accounting standards, and can reflect the financial position, operating results, cash flow and other information of the Company truthfully, accurately and completely. The Supervisory Committee of the Company and external auditors conduct effective examination and supervision over the finance of the Company, and provide professional audit opinions on the financial reports of the Company pursuant to the Articles of Association and the relevant regulations.

During the Reporting Period, since the internal control system relating to the Company's financial report was integrated and operated smoothly, the quality of the financial report can be safeguarded and the reliability of the financial information can be assured. During the Reporting Period, there is no material defect in the internal control system relating to the financial report, and the information set out in the Company's annual financial report are true, accurate and complete.

(II) Procedures for Processing and Releasing Inside Information

With approval from the Board and pursuant to the requirements of domestic and overseas laws and regulations, Listing Rules and Articles of Association, as well as the actual conditions of the Company, the "Policy on Information Disclosure Management of CSC Financial Co., Ltd." has been formulated by the Company to determine the division of duties and responsibilities on information disclosure, the procedures for processing and releasing inside information and other information required to be disclosed. Pursuant to this policy, the Company must, as soon as reasonably practicable after any inside information has come to its knowledge or a false market may be formed, disclose such information to the public.

During the Reporting Period, the Company has truthfully, accurately, legally and timely disclosed information strictly in compliance with the requirements of domestic and overseas laws and regulations, Listing Rules, Articles of Association and the Policy on Information Disclosure Management of the Company without any false statements, misleading statements or material omissions, to ensure investors will be able to receive the disclosed information in a fair, timely and effective manner.

(III) Communication with Shareholders

The Shareholders' general meeting is the body exercising the authority of the Company and shall exercise the duties and powers in accordance with the law, the Articles of Association and the Rules of Procedures for the Shareholders' General Meeting of the Company.

The rights of the Shareholders are clearly specified in the Articles of Association. The Company convened the Shareholders' general meetings in strict compliance with the relevant rules and procedures such that all Shareholders are treated equally and can fully exercise their rights. Shareholders may propose to convene an extraordinary general meeting or Shareholders' class meeting or put forward proposals pursuant to the Articles of Association. Shareholder(s) that hold, individually or collectively, ten percent (10%) or more of the Shares in the Company shall have the right to request in writing the Board to hold an extraordinary general meeting or Shareholders' class meeting. The Board, the Supervisory Committee and Shareholder(s) that hold, individually or collectively, three percent (3%) or more of the Shares in the Company shall have the right to propose motions to the Company at the general meeting. The Shareholders may attend and vote at general meetings in person or by proxy. The resolutions together with the attendance records signed by the attending Shareholders and proxy statements shall be kept at the Company's principal address. Shareholders may inspect the copy of the resolutions of the meetings during the Company's business hours free of charge. The Articles of Association is set out on the websites of the Company, SSE and the HKEX.

The Shareholders' general meeting provides opportunities for constructive communications between the Company and its Shareholders. Shareholders are encouraged to attend general meetings in person, or if they fail to attend such meetings, appoint proxies to attend and vote at the meetings for and on their behalf. The Company highly values the opinions, suggestions and concerns of the Shareholders and has assigned dedicated persons to proactively and ethically carry out various types of investor relation activities to keep in contact with Shareholders and timely meet their reasonable demands.

The Company's website (www.csc108.com) provides Shareholders with corporate information, such as major business activities and the latest development of the Group, the Group's corporate governance, the structure and functions of the Board and each of the committees of the Company. To serve as a channel promoting effective communication with Shareholders, the Company also publishes announcements, circulars, notices of general meeting, financial data and other information of the Company required to be disclosed under the Listing Rules from time to time through the "Investor Relations" section on the Company's website. Shareholders are encouraged to make enquiries by phone, by email or write directly to the office address of the Company, which will be dealt with appropriately in a timely manner. Please refer to the "Section 2 Company Information" section of this annual report for the contact details.

The Company welcomes all Shareholders to attend the Shareholders' general meetings and makes appropriate arrangement for general meetings to encourage Shareholders' participation. The Company's Directors, Supervisors and senior management will attend the Shareholders' general meetings. In accordance with paragraph E.1.2 of the Corporate Governance Code, the Chairman of the Board and chairmen of the Development Strategy Committee, the Risk Management Committee, the Audit Committee and the Remuneration and Nomination Committee under the Board shall be available to answer questions at the annual general meeting and shall also ensure that the external auditors will attend the annual general meeting to answer the relevant questions raised by Shareholders.

The Company shall arrange the Board to answer questions raised by Shareholders during the 2018 annual general meeting. Detailed procedures of voting and resolutions to be voted by way of poll will be contained in the circular to be dispatched to the Shareholders.

SECTION 10 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

Devoted to its mission of "bringing together talents, serving customers, creating value and contributing to the society," CSC Financial Co., Ltd. (hereinafter referred to as "CSC" or "the Company" or "we") values quality and quantity equally, ensures healthy development and incorporates the concept of benefiting the society, caring for life and protecting the environment into its business management.

This report is to present CSC's environment, social and governance (hereinafter referred to as "ESG") performance for the financial year of 2018, and is in compliance with ESG Reporting Guidelines of Appendix 27 to the Hong Kong Listing Rules. Unless otherwise stated, the scope of this report includes CSC and its related branches, China Securities Funds Management Limited, China Futures Co., Ltd., China Capital Management Limited, China Securities (International) Finance Holding Company Limited and China Securities Investment Limited. This report should be read in conjunction with the section of Corporate Governance Report in 2018 annual report of CSC, so that readers will have a more comprehensive understanding of the Company.

1. ESG MANAGEMENT

CSC has been devoted to its mission of "bringing together talents, serving customers, creating value and contributing to the society." We stick to the operation model that highlights coordinated development of light capital and heavy capital businesses, and continuously realize synergies between business lines. Meanwhile, we optimize the market-oriented incentive mechanism, support the real economy and improve the efficiency of wealth accumulation and management. While creating economic benefits for shareholders and the society, we actively fulfil social responsibilities and incorporate ESG concepts into corporate system and routine works via continuously improving ESG management and strictly implementing related work.

In 2018, the Company established a three-level (decision-making, management and implementation) ESG responsibility management structure to manage and promote ESG related work. CSC's senior leadership constitutes the decision-making level of its ESG management structure. It is responsible for setting overall ESG strategy and goals. The responsible team for CSC's ESG work constitutes the management level, whose duties include coordinating the implementation of ESG strategy and goals, managing ESG performance of the implementation level, and reporting and making recommendation to the decision-making level. Relevant divisions, branches and subsidiaries constitute the implementation level, which is responsible for the execution of ESG strategies and goals and cooperates with the management level to accomplish ESG related work.

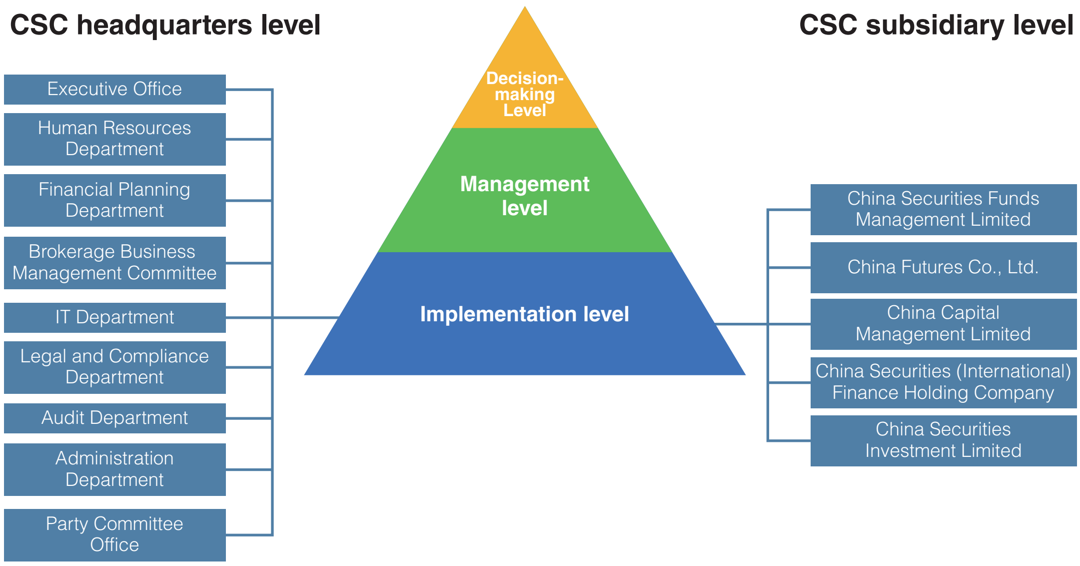


Figure 1: ESG Management Organization Structure of CSC

Based on CSC's normal course of business and work, we proactively maintain communication with stakeholders including investors, government and regulatory authorities, employees, suppliers, customers, partners, communities and the public. By establishing a communication mechanism which configurates real-time communication with regular communication and special-purpose communication with opinion exchange, we ensure the normalization of communication among all stakeholders. In the meantime, we make effective use of new media platforms and encourage stakeholders' participation and interaction.

Summary of Communication Channels and Issues Concerned of Stakeholders of CSC

Stakeholders	Communication channels	Issues concerned
Investors	Shareholders meeting and periodic report of the Company	• Profitability • Operation strategy • Transparency of information disclosure

Summary of Communication Channels and Issues Concerned of Stakeholders of CSC		
Stakeholders	Communication channels	Issues concerned
Government and regulatory authorities	Major conference, policy inquiry, event reporting, regulator inspection, official correspondence and information disclosure	• Compliance operation • Corporate governance • Environmental protection management
Customers	Customers' visit, satisfaction survey, customer service hotline and investor education activity	• Service quality • Privacy protection
Employees	Employee satisfaction survey, employee activity, employee training and internal training of the Company	• Salary and welfare of employees • Opportunities of development and training • Healthy working environment
Suppliers	Suppliers' inspection and communication meeting	• Fair cooperation • Good-faith contract performance
Partners	Strategic cooperation and negotiation, exchange and interaction	• Fair cooperation • Good-faith contract performance • Joint development
Community and the public	Charitable activities, community interaction, recruitment seminar and internship opportunity	• Corporate social responsibility • Community relation • Promoting employment • Community investment and charitable activities

Chart 1: Summary of Communication Channels and Issues Concerned of Stakeholders of CSC

When promoting ESG work in 2018, the Company summarizes and establishes an ESG issue materiality matrix after conducting benchmark study on both domestic and overseas peers, considering industry policy focuses and communicating with stakeholders for expert opinions and taking account of business development strategies. The matrix clarifies key fields in the Company's environmental, social and governance practice, which include product responsibility, employment, health and safety, anti-corruption, supply chain management, resource utilization, community investment and other material issues. This report will elaborate above material issues.

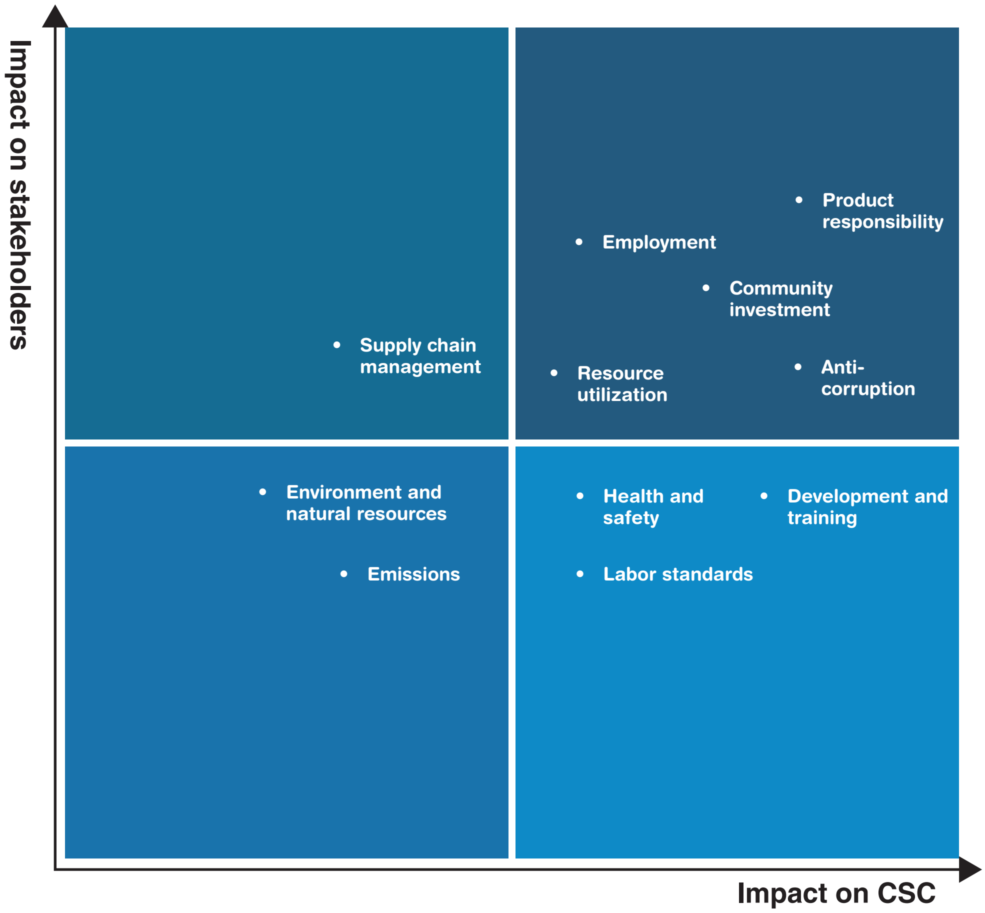


Figure 2: Materiality Matrix for CSC ESG Material Issues

2. PRODUCT RESPONSIBILITY

CSC has always been dedicated to improving customer service quality and continued to optimize customers' experiences, so as to provide customers with considerate and high-quality services. The Company consistently follows laws and regulations related to the securities industry, including Securities Law of the People's Republic of China (《中華人民共和國證券法》), Guidelines for the Internal Control of Securities Companies (《證券公司內部控制指引》), Regulation on the Supervision and Administration of Securities Companies (《證券公司監督管理條例》), and Measures for the Administration of the Suitability of Securities and Futures Investors (《證券期貨投資者適當性管理辦法》). In 2018, in order to further improve compliance management of the Company and product and service quality, the Company amended a series of rules and regulations including Management Measures of CSC about Conflict of Interest (《中信建投証券股份有限公司利益衝突管理辦法》), Measures of CSC for Managing Individual Investment (《中信建投証券股份有限公司個人投資行為管理辦法》), Measures of CSC for Managing Compliance Personnel of All Branches (《中信建投証券股份有限公司分支機構合規人員管理辦法》), the Rules of Procedures for Anti-money Laundering Commission of CSC (《中信建投証券股份有限公司反洗錢管理委員會議事規則》) and Implementation Rules of CSC for the Administration of Suitability of Investors of Securities Investment Advisory Business (《中信建投証券股份有限公司證券投資顧問業務投資者適當性管理實施細則》).

In 2018, the Legal and Compliance Department established a secondary sub-division, the Compliance Management Department, which is responsible for managing compliance risk of branches, performing compliance management over branches and conducting vertical management over compliance personnel of branches. During the year, the Legal and Compliance Department made comprehensive amendment and improvement to the letters of compliance commitment for business lines of both headquarters and branches, incorporated them into the new compliance management system, and delivered notice to require all employees of our branches to re-sign the revised letters of compliance commitment.

The Company has been doing its utmost to provide customers with high-quality, efficient and professional financial services and more specialized, diverse and considerate products to cater for customers' diversified investment demands. The Company realizes overall improvement in service quality and better fulfils the product responsibility by improving product and service quality, protecting customers' information security, reinforcing protection of intellectual property rights and enhancing investor education.

During the reporting period of 2018, no material illegalities occurred in the business service unit of CSC.

2.1 Improvement of Product and Service Quality

While devoting itself to offering high-quality services, CSC aims to fulfil its social responsibility based on better business service. In 2018, the Company actively promoted centralized operation and management for the brokerage business and separated the business acceptance post from the business handling post via standardizing online system and streamlining business conducting procedures. Furthermore, for the purpose of providing consistent service quality and standard, the Company developed a series of business standards and procedures for conducting centralized business, including One-counter-through Business Conducting and Operation of CSC (Trial) (《中信建投証券股份有限公司一櫃通業務辦理操作(試行)》) and One-counter-through System Operation Manual of CSC (Trial) (《中信建投証券股份有限公司一櫃通系統操作手冊(試行)》). The Company also established a centralized business conducting team for the brokerage business, which is responsible for assessing and conducting business, responding to questions, establishing regular quality system, tracking business demand in respect of the one-counter-through system. As of the end of 2018, all of the 302 securities business divisions across the country have put the one-counter-through system into operation, laying a foundation for centralized operation of the brokerage business.

In 2018, the Company offered diverse channels for customers to express opinions or complaints (including the headquarters hotline, customer service hotline and CSRC hotline), which were coupled with the continuous promotion of Standardization Rules on the Administration of Customers' Complaint Letters or Visits and Disputes of Business Division of CSC to collect opinions and suggestions in an all-round way.

When receiving customer feedback through the headquarters hotline, we will communicate with customers and listen to the recording of customer complaints in time to confirm the feasibility of customer appeals, and then make timely arrangement to review, confirm and resolve issues raised by customers. In respect of handling complaints received through the CSRC hotline, we check the CSRC hotline system at a set time each day to ensure that customer complaints will be handled in a timely manner and issues will be addressed promptly, so as to improve customer satisfaction. In addition, issues collected will be analyzed, and reasonable advice will be proposed in the form of monthly report.

In order to offer customers highly efficient services, we have strict control on the time limit for handling customer complaints. We require that the time limit for handling customer complaints shall be no longer than three working days to prevent undue delay. If it is necessary to extend the handling time under certain circumstances, an application for extension shall be submitted to the relevant divisions, and the reason for extension shall be provided.

2.2 Protection of Customer Information Security

CSC attaches great importance to customer' privacy information protection and strictly complies with laws and regulations, which include the Measures on the Administration of Client Identity Identification and Client ID Information and Transaction Recording of Financial Institutions. In 2018, the Company not only revised regulations including the Regulations on Management of Information System User and Password of CSC (《中信建投証券股份有限公司信息系統用戶及口令管理條例》), the Regulations on Access Control of CSC Headquarter (《中信建投証券股份有限公司總公司門禁權限管理條例》) and the Regulations on Computer Room Management of CSC (《中信建投証券股份有限公司機房管理條例》), but also issued regulations including the Regulations on Management of Business Permission for Application Information System of CSC (《中信建投証券股份有限公司應用信息系統業務權限管理條例》) and the Regulations on Key Management of CSC (《中信建投証券股份有限公司密鑰管理條例》). By strengthening authority management, the Company further improved the management system of customer information and data confidentiality.

In addition, in 2018, on the basis of strict implementation of data and information confidentiality requirements, the Company strengthened the management of a series of control measures to ensure the continuous and effective operation of information security.

- System security management: to perform security scans on mobile APPs and servers of entrusted computer room to check whether there is any virus and security risk;
- Data security and information outflow restriction: to adopt virtual desktop management so that data will only be displayed in daily work while data export and process are not available;

- Customer information query: to set corresponding authority for employees based on their job duties and to shield important customer information including account number, telephone number and ID number;

- Customer service information delivery: to modify the content of the messages sent to customers with their names shielded to reduce the risk of information leak.

2.3 Reinforcement of Intellectual Property Protection

CSC is an advocate of technology innovation and respects intellectual property rights and innovation achievements. The Company realize how valuable intellectual property is to a company and how important protection of intellectual property is to maintaining competitiveness. Therefore, we develop a range of rules, including Rules on Software Management of CSC (《中信建投証券股份有限公司軟件管理條例》), Measures on New Media Management of CSC (《中信建投証券股份有限公司新媒體管理辦法》) and Management Rules on Use of Pictures of CSC (《中信建投証券股份有限公司圖片使用管理規範》). In 2018, the risk measurement and management system of the Company, CSC Qingting Dianjin APP, and the central process engine management system were accredited by the "Computer Copyright Registration Certificate" of the National Copyright Administration of the People's Republic of China. As at the end of the reporting period of 2018, the intellectual property of the Company was not subject to material infringement or infringement allegations by any third party.

In addition, the Company has standardized the use of intellectual property and business information of customers and third parties in daily management and work, and has made clear the requirements of protecting intellectual property of the Company in the letter of compliance commitment for new employees. In the process of business cooperation and customer service, customers and third parties are also required to use the Company's assets (including physical assets and intellectual property) in an appropriate way.

2.4 Enhancement of Investor Education

Attaching great importance to investor education, CSC establishes an investor education working group consisting of management members of the Company, who are responsible for overall management of investor education, including development of investor education scheme, system and implementation plan, organization of investor education activities and inspection and assessment of investor education. In addition, an investor education leading group at the business division level is established to take on a wider range of basic investor education work.

The Company has been making continuous achievements and breakthroughs in investor education. On September 22, 2017, CSRC proposed to name CSC Investor Education Base as national securities and futures investor education base. On January 16, 2018, Yan Qingmin, vice chairman of CSRC, visited CSC Investor Education Base and attended the awarding ceremony for second batch of national investor education base. CSC Investor Education Base is the only one in Beijing that has been named as national securities and futures investor education base.

Figure 3: Yan Qingmin, vice chairman of CSRC, visited the CSC Investor Education Base and attended the awarding ceremony

In 2018, the Company launched a series of investor education activities, including “Belt and Road” (「一帶一路」), “Investor Education Campus Tour” (「投資者教育校園活動」), “Weekend Lecture” (「週末大講堂」) and “I am a Shareholder – Minority Shareholders to Know about Listed Companies” (「我是股東–中小投資者走進上市公司」), to promote financial literacy of the society, enable investors to have a deeper understanding of the investment market and help them build up the concept of rational investing and value investing. In the meantime, the Company made new investor education attempts on the mobile terminal to fulfil its social responsibility on the basis of better service, launching “5-minitue Investment Lecture” (「5分鐘投資課」) mobile APP to promote the concept of rational investing and value investing.

Investor Education Base Activity 1: "Belt and Road" Activity

On November 27, 2018, a special delegation comprising 35 diplomatic officials from economic and trade departments of 15 "Belt and Road" countries, including Azerbaijan, Egypt, Papua New Guinea, Samoa and Suriname, visited CSC Investor Education Base. These international officials visited China and attended the 2018 Seminar on Economic Diplomacy sponsored by the Ministry of Commerce and organized by University of International Business and Economics, with an aim to learn about China's economic development and how the capital market serves as an engine for China's development, and strengthen economic and trade ties with China and promote the "Belt and Road" strategy.

Figure 4: "Belt and Road" activity held at the Investor Education Base

Investor Education Base Activity 2: Professional Training Courses

In order to promote financial literacy in the society, CSC Investor Education Base offered professional training courses. Among the college students who attended the courses, many of them majored in finance and economics who were eager to learn about business practice of securities companies, raised a range of specific issues, such as what preparation college students should make for future development in investment banking business, how the underwriting price of bonds is determined, how securities companies conduct derivative transactions and what scope the investment advisory business covers. Employees from Investment Banking Department, Fixed Income Department, Capital Market Department and Individual Financing Department who were appointed to give lectures to students, met students' needs and brought them great benefit. In 2018, the Company organized a total of six professional training courses, attracting 276 teachers and students.

Figure 5: Employees from the Investment Banking Department and the Capital Market Department were giving lectures

Investor Education Base Activity 3: Investor Education Campus Tour

In 2018, with the support of branches in Beijing, CSC Investor Education Base joined hands with 27 colleges and universities, one advanced vocational school and two high schools to launch investor education campus tour, and a total of 5,723 persons visited the Investor Education Base. Students visiting the Investor Education Base enriched their knowledge by learning about the securities development history and the business of securities companies. On September 21, 2018, 368 freshmen of Grade 2018 from School of Finance of Beijing Wuzi University visited the Investor Education Base, which set a new record of single-day visits at the Investor Education Base.

Figure 6: Investor Education Campus Tour

Investor Education Base Activity 4: Weekend Lecture

CSC made great efforts to promote investor education and helped investors to learn about the securities market, relevant laws and regulations, and characteristics and risks of various securities investment products. The Company launched investor weekend lectures in 2017. As of 2018, investor weekend lectures were held on Saturday every two weeks, and a total of 21 lectures were held across the nation. Approximately 40,000 persons participated in these lectures through live broadcast or attending in person at the main venues, with an average customer satisfaction of 89%. Number of lectures was increased by 50% as compared with the same period of last year; number of participants was increased by 60% and customer satisfaction was increased by 2%.

Figure 7: Investor Weekend Lecture

3. DEVELOPMENT OF EMPLOYEE

CSC always believes that first-class talents make the first-class enterprises and consistently attaches great importance to the recruitment and development of talents. As a national integrated securities company, the Company advocates the diversity of talents. Based on the sound recruitment and training system of the Company, all the employees are closely united, which is of vital importance to improving our work efficiency as well as strengthening innovation and implementation.

Employee management is always the focus of our management work. We have strictly complied with relevant laws and regulations, including Labor Law of the People's Republic of China (《中華人民共和國勞動法》), Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》), Law of the People's Republic of China on the Protection of Minors (《中華人民共和國未成年人保護法》) and Law of the People's Republic of China on the Protection of Rights and Interests of Women and Children (《中華人民共和國婦女兒童權益保護法》). In 2018, for the purpose of further improving human resources management system, enhancing human resources management, standardizing management operations and increasing work efficiency and hence realizing the institutionalization, standardization and conventionalization of human resources management work and guaranteeing successful implementation of various work, the Company actively promoted the update of many internal rules and regulations, including Recruitment Management Measures of CSC (《中信建投証券招聘管理辦法》), MD Grade Management Measures of CSC (《中信建投証券MD職級管理辦法》), Performance Evaluation Measures of CSC (《中信建投証券績效考核辦法》), Employee Handbook of CSC (《中信建投証券員工手冊》), Salary Management Measures of CSC (《中信建投証券薪酬管理辦法》) and Employee Training Management Measures of CSC (《中信建投証券股份有限公司員工培訓管理法》), which expressly stipulated recruitment, employment, salaries, welfare, promotion, dismissal, working hour management, equal opportunities, diversity, anti-discrimination, benefits of employees and other aspects.

3.1 Employee Recruitment and Labor Standards

Based on the principle that "talent is the primary productive force", the Company has strictly complied with recruitment procedures and regulations of the Company. In the process of recruitment, following the principle of mutual respect, justice and equity, we treat all candidates equally without gender discrimination, racial discrimination or discrimination in any form. Recruitment of the Company is mainly carried out through internal competition, on-line recruitment, employee referrals and other channels, so as to find excellent talents who agree with the Company's philosophy and satisfy future development needs. In the process of recruitment, the Company strictly reviewed the information of new employees, and deal with procedures in relation to employment and resignation of employees as required by laws and regulations. We strictly prohibit child labor. Meanwhile, the Company implemented flexible working hour system or standard working hour system in accordance with the working characteristics of different positions and business needs. Labor phenomenon was avoided through strengthening working hour management.

During the Reporting Period of 2018, the Company had no material violations of laws and regulations on human resources management.

Employees of the Company categorized by age and gender:

Age	Number of employees	Proportion (%)
34 or under	6,848	71.38
35 to 50	2,339	24.38
51 or above	407	4.24
Total	9,594	100

Gender	Number of employees	Proportion (%)
Male	5,413	56.42
Female	4,181	43.58
Total	9,594	100

Chart 2: Employees of the Company

3.2 Promotion and Development of Employee

CSC attaches great importance to career development of our employees, and has provided our employees with promising career paths. The Company kept improving grade management and performance assessment mechanism, and revised the Employee Handbook of CSC, in addition to actively implementing MD Grade Management Measures of CSC, Performance Assessment Management Measures of CSC and Salary Management Measures of CSC, for the purpose of providing the employees with equal opportunities. We have provided competitive salaries in the industry to the employees. Moreover, yearly performance assessment, promotion and selection provide outstanding employees with the opportunities for grade promotion. In addition, we encourage the employees to make actively innovations, effectively utilize their individual talent and realize individual development in addition to making greater contributions to the Company.

3.3 Employee Training and Culture

Talents are the core resources of the Company. The Company created a positive corporate culture that is people-orientated, established a scientific and efficient training system, developed a powerful career development platform, allowing the employees to grow together with the Company.

3.3.1 Employee Training

In 2018, CSC improved the training system, kept promoting and implementing a training program with both overall arrangements and key focuses, and aligned the training program with the Company's strategies, business strategies, process system and cultural disciplines through multi-channel, multi-form and multi-means trainings. In the meantime, CSC continuously strengthened the building of cadre and employee talent pool, thereby supporting the Company's business development targets.

The Company continued to improve the talent cultivation system centering on "training ladder for the growth of employees" against different career development paths of employees of its headquarters and branches. In addition, the Company developed learning maps for employees at each grade, continued to advance multi-level competence training and organized a series of targeted face-to-face training, on-line learning and on-line tests, in order to improve employees' learning efficiency and facilitate individual growth.

- "Online Lectures for New Employees", "Induction Training for New Employees through Campus Recruitment/Social Recruitment" and "Business Workshop" and other training programs were offered for the purpose of vocational training and common skills training for employees at the entry level, in particular new employees, to strengthen the education of our corporate culture, professional compliance, office skills, business knowledge, professional quality and rules and procedures, and enhance the new employees' communication and presentation capability, customer service capability, team coordination capability, and etc.;

- "Training Project for Team Leaders at the Headquarters" aimed to cultivate and improve the execution, competence and professional skills of mid-level employees at the headquarters and focused on improving their project execution ability, creative thinking ability and team management ability;

- "Special Study and Training Project for Senior and Middle-level Employees" aimed to strengthen training for senior and middle-level employee on leadership and professional skills, expand their international vision, and improve their creative thinking ability, strategic analysis ability, operation management ability, business collaboration ability, risk prevention ability and comprehensive humanistic quality, and cultivate high quality business managers;

- "Sailing Program for Managers of Brokerage Business Line" provided incumbent branch heads with advanced on-the-job competence training, such as "Trainings for New Business Department Manager" and "Continued Development Program for Business Department Manager";

- "Torch Program for Outstanding Young Managers of Brokerage Business Line" featured multi-step, continuous and systematic selection and cultivation of outstanding young managers in branches with "Torch Class" and "Flame Class", aiming to build a continuous and sustainable talent training mechanism for young managers of branches;

- "Follow-up Vocational Training on Qualification" aimed to promote follow-up education to system-wide practitioners on their qualifications, allowing them to follow the latest regulatory provisions, keep up with new market policies and know about business development trends.

In order to further promote the implementation of the training system, the Company actively updated the online learning platform, introduced brand new E-learning suppliers to match the E-learning system and face-to-face teaching management system with E-HR system, established an all-around and systematic talent training data base which are closely related to employees' individual career development, competence and performance assessment, and provided an important reference basis for future talent training, development and employment of the Company.

During the Reporting Period, the detailed information on training is set out as follows:

Target	Average Training Hours	Number of Trainees for Face-to-face Teaching	Proportion (%)
Senior management	30	105	1.40%
Middle management	26.6	892	11.80%
Entry-level employees	33.5	6,559	86.80%
Total	30	7,556	100%

Chart 3: Training of the Company

Training 1: 2018 "Continued Development Program for Business Department Manager"

Figure 8: 2018 "Continued Development Program for Business Department Manager"

Training 2: 2018 "Pilot Program for Senior Management of Brokerage Business Line"

Figure 9: 2018 "Pilot Program for Senior Management of Brokerage Business Line"

Training 3: "Sailing Cup" Quiz Bowl

"Sailing Cup" Business Quiz Bowl is a brand activity of CSC and the year 2018 marked its eighth year. On September 16, 2018, the final of eighth "Sailing Cup" Business Quiz Bowl was held in Wuhan as scheduled. The launch of "Sailing Cup" Business Quiz Bowl greatly aroused the enthusiasm of all the employees to learn financial knowledge from their daily work, and practically improved the business skills and professional skills of the employees. The activity is in line with the corporate culture of the Company – "recognition for achievement, ability and status", and has become a shining name card of CSC.

Figure 10: The Eighth "Sailing Cup" Business Quiz Bowl

3.3.2 Corporate Culture

Insisting on people-oriented corporate culture, the Company encouraged and organized a variety of employee activities accordingly. Such activities not only provided employees with a favorable working atmosphere, but also significantly improved employees' satisfaction and happiness. For festivals, birthday greetings, summer comfort-extending activities and brisk walking, the Company sending presents in innovative ways, such as scanning QR code and selecting presents on line. In addition, the Company kept improving verification mode and increasing product package categories, so as to allow employees to experience the convenience of present sending and enjoy more intimate services.

Employee Activity 1: "Women's Day" Series Activities

In March 2018, the Labor Union for Organs of CSC celebrated International Women's Day with a series of activities. For the first activity, the Company engaged a health expert to offer a "Women's Health and Disease Prevention" seminar based on the big data of medical examinations of female employees. The second and the third activities were floral design activities themed "Floral CSC." Professional florist introduced the characteristics of flowers and floral techniques. Then, female employees created their own "floral life" with colorful and fragrant flowers.

Figure 11: "Women's Health and Disease Prevention" Seminar and "Floral CSC" Floral Design Activity

Employee Activity 2: "6•1" Family Activity

In May 2018, the Labor Union for Organs of CSC launched four "6•1" Happy Baking Family Activities in two days. A total of more than 380 employees at the headquarters and their family members in Beijing participated in these activities. The family baking activity created a valuable opportunity for interaction and a communication platform for busy parents and their children, promoted the development of the "people-oriented" corporate culture of the Company, and also further increased employees' sense of belonging and cohesion.

Figure 12: Happy Baking Family Activity

Employee Activity 3: "Starting a New Journey & Creating New Glory" Brisk Walking

On October 20, 2018, CSC held a promotion activity, "Starting a New Journey & Creating New Glory" Brisk Walking & "Social Welfare Day of the Company," at the main venue of the Beijing Olympic Park. Approximately 10,000 employees from more than 300 branches located in 30 provinces, regions and cities across the nation participated in the activities in various regions at the same time. This activity united all the employees together and received a positive response. This brisk walking activity was the largest activity organized by the Labor Union of the Company in the year with the most participants and the greatest social impact, inspired the employees' confidence and morale, effectively inspired employees' sense of mission, responsibility and honor, and called on employees to make contributions to the development of the Company and the society at a more aggressive pace.

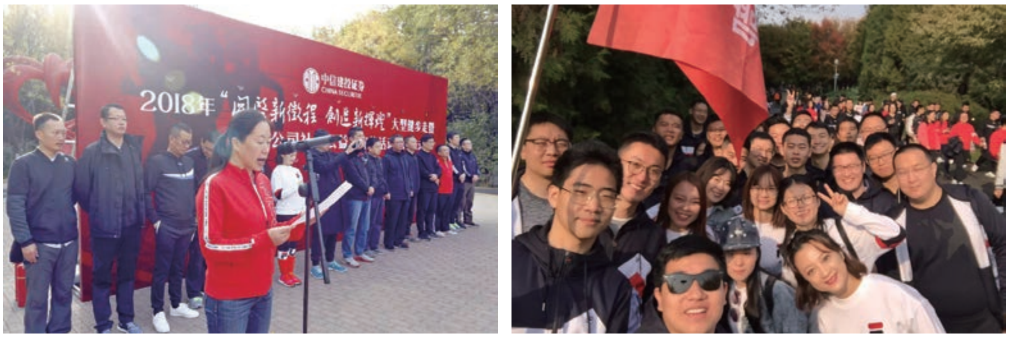


Figure 13: "Starting a New Journey & Creating New Glory" Brisk Walking

3.4 Health and Safety of Employees

Physical and mental health of employees guarantee the sustainable development of the Company. As required by Labor Law of the People's Republic of China (《中華人民共和國勞動法》), Regulation on Work-related Injury Insurances (《工傷保險條例》), Fire Law of the People's Republic of China (《中華人民共和國消防法》) and Internal Public Security Regulations of Enterprises and Institutions (《企業事業單位內部治安保護條例》), and the guidelines of "Safety First, Prevention-oriented and Comprehensive Treatment", CSC has established multi-level security systems to ensure the safety in work environment. For the purpose of better implementing safety management work, the Company offered safety trainings to new employees, to ensure full coverage of accountable safety work. The Company attaches great importance to safety work, and has promoted the development of physical protection, technical protection and fire protection, organized various contingency plan and fire drills, enhanced accountability system, normalized safety inspection work, conducted safety inspections on fire and electric power in office areas and business areas monthly, removed sundries on firefighting access to keep the access unobstructed, and organized the property management company, security guards and fire station personnel to carry out fire emergency drills.

The Company provides all the employees with free medical examination annually. Moreover, in order to improve medical security level of employees, the Company also buys replenishment of medical insurance for employees in addition to social insurance as required by law. In light of hazy weather, the Company has sent anti-haze masks to employees from time to time.

Moreover, the Company has actively held health training seminars for employees, which cover a wide range of subjects including preserving health with traditional Chinese medicine, female health care, infant health care, prevention and treatment of diseases of middle-aged and elderly people, mental health knowledge training and self-rescue in emergency situations, to help employees understand their physical conditions, improve working habits and enhance their ability to resist diseases.

In 2018, in light of infectious disease epidemic condition in Beijing urban areas in previous years, CSC actively cooperated with epidemic prevention department and help employees vaccinate against measles in succession over three consecutive months and hence effectively prevented the epidemic and spread of the infectious disease inside and outside the Company.

4. ANTI-CORRUPTION

4.1 Anti-money Laundering

CSC has actively performed its responsibilities for anti-money laundering as a financial institution, and has strictly complied with relevant laws and regulations, including Law of the People's Republic of China on Anti-money Laundering (《中華人民共和國反洗錢法》), Rules for Anti-money Laundering by Financial Institutions (《金融機構反洗錢規定》) and Administration Measures for Financial Institutions' Reporting of High-Value Transactions and Suspicious Transactions (《金融機構大額交易和可疑交易報告管理辦法》). In 2018, the Company further improved internal control over anti-money laundering, and developed several anti-money laundering systems, including the Measures on the Administration of Client Identity Identification and Client ID Information and Transaction Recording of CSC (中信建投証券股份有限公司客戶身份識別和客戶身份資料及交易記錄留存管理辦法》), the Measures on Implementation for Anti-money Laundering and Anti-terrorism Financing in Precious Metal Spot Business of CSC (《中信建投証券股份有限公司貴金屬現貨業務反洗錢和反恐怖融資工作實施辦法》), the Measures on the Administration of Due Diligence of Tax-related Information in Non-resident Financial Accounts of CSC (《中信建投証券股份有限公司非居民金融帳戶涉稅資訊盡職調查管理辦法》) and the Rules of Procedures for Anti-money Laundering Commission of CSC (《中信建投証券股份有限公司反洗錢管理委員會議事規則》).

In 2018, in order to strengthen centralized and unified leadership of the Company over anti-money laundering work and clarify related responsibilities undertaken by the management of the Company, the Company changed the former leading group for anti-money laundering into an anti-money laundering commission. The anti-money laundering commission executes various resolutions of the Board on anti-money laundering on behalf of the management of the Company, and assumes the specific decision-making and decision execution responsibilities of the Company in respect of anti-money laundering. In addition, as the legal and compliance division under the anti-money laundering department of the Company, anti-money laundering commission has developed recommendations on improvement of functions of anti-money laundering system, covering client identity identification, client money laundering risk classification, anti-money laundering personnel management, enterprise equity information query and reporting and analysis of suspicious transactions and other functional modules, optimized business process and further improved the efficiency of anti-money laundering work.

In 2018, the Company inspected the anti-money laundering work carried out by all branches. Anti-money laundering compliance inspections against branches included a total of 29 inspection points in eight aspects, covering all aspects of anti-money laundering work in business divisions. Moreover, the Company also enhanced anti-money laundering business training to different audiences and offered a total of nine anti-money laundering training programs. Trainees included personnel in anti-money laundering positions of the Company, compliance managers in branches, heads of compliance management in relevant department of the headquarters, all the employees in branches and personnel in relevant management positions. Such training covered beneficiary owner identity identification, anti-money laundering work in business divisions, anti-money laundering work at the headquarters, treatment methods for clients with expired ID cards, anti-money laundering compliance inspections and other relevant contents.

4.2 Integrity Construction

As a securities enterprise, CSC attaches great importance to the integrity construction of employees. By strictly complying with relevant laws and regulations, including Audit Law of the People's Republic of China (《中華人民共和國審計法》), Several Provisions on Honest Business Conduct for Leaders of State-owned Enterprises (《國有企業領導人員廉潔從業若干規定》) and Provisions on the Relevant Matters of Leading Cadres in Reporting Individual Cases (《關於領導幹部報告個人有關事項的規定》), CSC implemented relevant systems, including Management Regulations on Anti-malpractice of CSC (《中信建投証券股份有限公司反舞弊管理制度》) and Implementation Rules on Discipline Inspection & Supervision and Letters & Visits of CSC (《中信建投証券股份有限公司紀檢監察信訪舉報工作實施條例》). Such systems expressly stipulated acceptance and processing routines for violation report, established management measures for circumstances before, during and after relevant events and maintained unobstructed reporting channels. Relevant provisions were immediately implemented and executed upon the discovery of corruption and violation cases. Meanwhile, the Company kept strengthening supervision and inspection on violation of regulations and disciplines by employees through establishing a multi-channel and multi-form supervision mechanism and enhancing accountability for discipline execution, and required employees to sign undertaking of compliance, thereby effectively preventing employees from corruption, bribery, blackmail, fraud, malpractice and other unlawful acts.

In 2018, the Company enhanced education on integrity and discipline and created an honest business atmosphere in the Company in many ways, including organizing special Party lecture, holding warning and education conference and organizing Party spirit cultivation training. During the Reporting Period of 2018, the Company found no material violation and corruption.

5. SUPPLY CHAIN MANAGEMENT

Procurement work of CSC mainly consists of office supplies and IT procurement. In the process of procurement, the Company incorporated green concept into procurement management system. Green access requirement and evaluation criteria for relevant products and services were adopted in the process of procurement bidding. At the stage of access, all product suppliers are required to pass ISO14001 Environmental Management System certification, in order to ensure suppliers to satisfy relevant requirements in relation to pollutant control in production. As for major goods, such as office furniture and IT products, all suppliers are required to hold the highest-grade China Environmental Labelling Product Certificate. The Company held suppliers exchange meeting on a regular basis and invited representatives of major suppliers to attend these meetings for in-depth exchange and discussion on effective fulfilment of environmental and social responsibilities in procurement project cooperation.

For the purpose of refining information system procurement, CSC specially set up an information system procurement committee, and strictly complied with relevant systems, including the Administrative Regulations on Information System Procurement of CSC (《中信建投証券股份有限公司信息系統採購管理條例》), the Work Procedures of Information System Procurement Management Committee of CSC (中信建投証券股份有限公司信息系統採購管理委員會工作規程》), the Administrative Regulations on Evaluation of Information System Suppliers of CSC (《中信建投証券股份有限公司信息系統供應商評價管理條例》). Through the centralized procurement management system, the Company strictly managed supplier access, contract signing with suppliers, assessment of suppliers and other aspects to ensure that all shortlisted suppliers were legal, compliant and qualified suppliers. Moreover, in practical procurement work, suppliers were required to provide quality, safety and environmental qualification certificates. Environmental protection factors, including green and energy preservation, were considered in procurement of servers, computers, UPS and UPS batteries.

6. ENVIRONMENTAL PROTECTION

CSC has been following the operation motto of "green office and environment friendliness", and complying with important laws and regulations such as the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》), and Energy Conservation and Emission Reduction Plan for the 13th Five-Year Plan Period (《「十三五」節能減排綜合工作方案》) issued by the State Council, while being supervised by environmental authorities and the society. Environmental impacts produced by CSC mainly come from electricity consumption and usage of water and paper in the office; emissions are mainly from greenhouse gases directly generated by auto-fuels and indirectly produced in the course of electricity consumption. The Company fully acknowledged the environmental responsibility it is supposed to assume, and implemented a series of measures to reduce emissions and resource consumption in daily operation.

6.1 Green Office

CSC advocates low-carbon operation and work style, promotes green and energy-saving management and encourages its employees to incorporate green concept into their work and life.

To cut the paper waste, CSC optimizes paper management and introduces cloud printing devices in 2018, realizing systematic paper management. When printing, copying and scanning, our employees can only complete the process with their staff identification cards. Unless there is a special requirement, the printer adopts two-sided printing automatically.

Meanwhile, in respect of business mode, the Company has realized paperless review via one-counter-through system, utilized e-signature in counter business and off-site verification business and significantly reduced paper consumption. As at the end of 2018, over 300 business divisions across the country put the one-counter-through system into operation, with its functions covering 80% of account service, and therefore realized centralized paperless review.

To reduce electricity consumption, all computer rooms in Beijing data center have been equipped with water-cooled air-conditioning systems. To improve the coefficient of performance of the air-conditioning system, increase the cooling per unit, we close part of the cold aisles of high-power cabinets. In daily operation, we appoint dedicated personnel to manage the use of electricity in office, conduct regular inspections and maintenance and power off electrical devices in idle areas in a timely manner, so as to prevent any potential waste. When purchasing drinking water, we limit the purchase quantity of each order to prevent waste due to expiration of bottled drinking water. At the same time, automatic sensor taps are installed in public areas to control the tap water consumption. In respect of electronic waste disposal, the Company requires qualified suppliers to recycle Class 1 hazardous waste such as toner cartridges and ink cartridges.

Environmental Performance

The scope of 2018 environmental information in this report includes the headquarters of CSC and its 16 branches (Shanghai, Shandong, Shenyang, Sichuan, Tianjin, Jiangsu, Jiangxi, Henan, Hubei, Hunan, Fujian, the Northwest, Chongqing, Zhejiang, Guangdong and Shenzhen, excluding business divisions), China Securities Funds Management Limited, China Futures Co., Ltd., China Capital Management Limited, China Securities (International) Finance Holding Company Limited and China Securities Investment Limited.

1. *Emissions*

Indicators	2018 Data
Total GHG emissions (Scope I and II) *(tons)*	**5,166.64**
Total GHG emissions per floor area *(tons/sq.m.)*	0.087
Direct emissions (Scope I) *(tons)*	230.30
Gasoline *(tons)*	230.30
Indirect emissions (Scope II) *(tons)*	4,936.34
Electricity *(tons)*	4,936.34
Hazardous waste *(tons)*	**2.18**
Non-hazardous waste *(tons)*	**7.80**

Notes:

1 Due to the business nature of CSC, major gas emission is GHG emission, which is mainly due to the consumption of electricity and fuels converted from fossil fuels.

2 The GHG inventory of CSC includes CO_2, methane and nitrous oxide, which are mainly due to the consumption of electricity and fuels. Greenhouse gas emission data is presented in carbon dioxide equivalent and is calculated based on the 2015 Baseline Emission Factors for Regional Power Grids in China (《2015中國區域電網基準線排放因子》) issued by the National Development and Reform Commission of the PRC and the 2006 IPCC Guidelines for National Greenhouse Gas Inventories (《2006年IPCC 國家溫室氣體清單指南》) issued by the Intergovernmental Panel on Climate Change (IPCC).

3 Hazardous waste produced in the course of CSC's business operation mainly includes toner cartridges, ink cartridges and lead-acid batteries. Hazardous waste such as toner cartridges, ink cartridges and lead-acid batteries are reclaimed by suppliers for further disposal.

4 Non-hazardous waste produced in the course of CSC's business operation mainly includes office waste and waste electronic equipment. Office waste is dealt with by the property management company, and waste electronic equipment is dealt with by the supplier for reclaiming upon the approval for its retirement.

2. *Consumption of Energy and Resources*

Indicators	2018 Data
Total energy consumption *(MWh)*	**7,561.55**
Consumption of energy per floor area *(MWh/sq.m.)*	0.13
Direct energy consumption *(MWh)*	875.75
Gasoline	875.75
Indirect energy consumption *(MWh)*	6,685.79
Electricity	6,685.79
Total consumption of water	**12,192.13**
Total consumption of water per floor area *(m^3/sq.m.)*	0.21
Consumption of packaging *(tons)*	**214**

Notes:

1 Total energy consumption is calculated by the data of electricity and fuel with reference to factors in the General Principles for Calculation of the Comprehensive Energy Consumption (GB/T 2589–2008) published by General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China, and the Standardization Administration of the People's Republic of China.

2 Energy consumption per floor area refers to electricity consumption per floor area.

3 Consumption of packaging refers to the amount of envelopes and paper bags used by the customers.

6.2 Management of Official Business Vehicles

In terms of the management of official business vehicles, CSC continues with deepening and implementing the Temporary Provisions on the Management of Official Business Vehicles of CSC, Temporary Provisions on the Setup and Management of Business Vehicles of CSC, and complied with relevant regulations in Guiding Opinions on Comprehensively Promoting the Reform of Official Business Vehicles (《關於全面推進公務用車制度改革的指導意見》) issued by the General Office of Central Party Committee the Central Committee and the General Office of the State Council, according to the eight-point frugality code of the Central Party Committee Politburo.

The Company has established management archives for vehicles and made only one archive for each vehicle. The vehicle management archives record mileage, fuel statistics, inspection date and other information. The environment impact has been less after checking the maintenance and repair of vehicles and scrapping vehicles in time, and annual inspection of vehicles are recorded each year to ensure that vehicle exhaust emission standards meet the requirements of national regulations. In addition, to prevent continuing resource waste, the relevant management department of the Company records the fuel consumption of vehicles and analyzes reasons when the fuel consumption is higher than the standard.

7 COMMUNITY INVOLVEMENT

CSC has always taken the fulfilment of social responsibility as its important duty since its establishment and kept its mission of "bringing together talents, serving customers, creating value and contributing to society" firmly in mind. While answering the call of the country and following industry guidelines, the Company consistently carries out policies of the Central Party Committee, the State Council and the CSRC about poverty alleviation. Apart from executing all deployments of the CSRC and Securities Association of China, the Company plays its role in poverty alleviation with its advantages in the financial sector and the concept of "comprehensiveness, multi-form, multi-level", and helps pair-up assistance counties to accomplish poverty alleviation tasks as soon as possible by utilizing all resources available in the Company and deploying integrated policies.

We promote "one enterprise in one county (一縣一企)" pair-up assistance through financial aid, governance improvement and advisory services to facilitate better development of enterprises in poverty-stricken counties. While relying on professional and resource advantages in the financial sector to help characteristic industries of poverty-stricken counties develop, we actively meet the needs of recorded poor households, made more donations and provide greater industrial assistance to help the locals overcome difficulties and poverty as soon as possible. In addition, we mobilize the support of Party Committee, Labor Union and Youth League and appoint young cadres to take temporary posts in pair-up assistance counties, therefore raising cadres' awareness of social responsibility.

In 2018, there were two more pair-up assistance counties, Jinggangshan City of Jiangxi Province and Huayuan County of Hunan Province, on top of the three original ones, namely Jixian County in Shanxi Province, Lixian County in Gansu Province, and Anyuan County in Jiangxi Province as a part of "one company to one poverty county (一司一縣)" pair-up assistance. In such counties, we accelerated in-depth targeted poverty alleviation and promoted the cause of public welfare via donation, financial assistance, industrial assistance, educational assistance, consumption-driven poverty alleviation and training on capital market.

7.1 Donation

Committed to the cause of public welfare, CSC sets October 17 (the National Poverty Day) as its "Public Welfare Day (社會公益日)" for the purpose of better fulfilling corporate social responsibility and raising employees' awareness of social responsibility. In 2018, the Company organized a series of donation activities to support local unique industries, elderly care and education, and the total charitable expenses amounted to RMB5.77 million. Apart from donation, the senior officers of the Company led a delegation to visit Xianjun Third Kindergarten in Tongren County, Huangnan Tibetan Area, Qinghai Province in November 2018, providing kids with financial aids and bringing them food, books, winter clothes and toys, which were worth over RMB200,000.

7.2 Targeted Poverty Alleviation

7.2.1 Financial Assistance

CSC visits poverty-stricken counties for enterprise investigation gave full play to its financial expertise to help local enterprises standardize governance practice and realizing targeted poverty alleviation.

In 2018, the Company acted as a sponsor for Yunnan Jinggu Bailong Tea Co., Ltd. (雲南景谷白龍茶葉股份有限公司) (registered at a national poverty-stricken county, Jinggu Dai and Yi Autonomous County, Pu'er City, Yunnan Province) to list on the National Equities Exchange and Quotations. The Company also acted as a sponsor for Shaanxi Shiyang Agriculture Technology Co., Ltd. (陝西石羊農業科技股份有限公司) (registered at a national poverty-stricken county, Pucheng County, Weinan City, Shaanxi Province) and Guangxi Jinsui Science Holdings Limited (廣西金穗生態科技股份有限公司) (registered at a national poverty-stricken region, Nanning City, Guangxi) to complete private placement on the National Equities Exchange and Quotations. Such listings and share issuances helped these enterprises optimize their capital structures, enhance capital strength and expand business scale, thereby improving their competitiveness.

In March 2018, the Company acted as the sponsor and lead underwriter to assist Tibet Tourism Co., Ltd. (西藏旅游股份有限公司) to raise funds for non-public issuance of shares. Such proceeds were invested in tourism projects in poverty-stricken areas of Tibet, with an aim to boost local economic development and stimulate employment of herdsmen.

In June 2018, CSC acted as scheme manager to issue "Jing Lan Mu He PPP Project ABS (京藍沐禾PPP項目ABS產品)" on Shanghai Stock Exchange, which were all invested in sustainable development projects, including poverty alleviation, green irrigation and programs supporting agriculture and benefiting farmers. The product was the first special PPP related scheme backed by sustainable development assets in the country, which made a breakthrough by incorporating the "poverty alleviation + green" sustainable development concept into PPP project and asset-backed securitization. As the first special PPP related scheme backed by sustainable development assets in the country, the product showed an aggressive exploration in combining targeted poverty alleviation with PPP project, and also represented a good practice of financing innovation in respect of targeted poverty alleviation.

In December 2018, the Company received No-action Letter regarding CSC-CD Finance No. 1–4 Special Scheme Backed by Public Small Loans (中信建投－中和農信1–4號公益小額貸款資產支持專項計劃), of which, CD Finance Company Limited (中和農信項目管理有限公司), a subsidiary of China Foundation for Poverty Alleviation, was the issuer. Most of the underlying assets of this special scheme were related to small business loans of poverty-stricken households.

7.2.2 Industrial Assistance

CSC has fully recognized the positive role of industrial development and poverty alleviation to local economic development, therefore making full use of its own advantage to coordinate resources of all parties and open up industrial supply channels for pair-up enterprises.

In March 2018, the Company made coordination to facilitate the signing of cooperation agreement between Jiangxi Shiguohui Agriculture Co., Ltd. (江西世果匯農業科技有限公司) (a "one enterprise in one county" pair-up enterprise) and Anyuan County Government. Under this agreement, a 1,000 Mu sweet potato planting base was developed, with the participation of poverty-stricken households of Anyuan County and an estimated annual capacity of RMB5.2 million. In addition, the Company offered assistance to Gaoyunshan Township, a pair-up town in respect of targeted poverty alleviation, to sign a 305 Mu sweet potato planting agreement, which involved a total of 186 poverty-stricken households (732 persons).

In May 2018, China Futures Co., Ltd., a subsidiary of the Company, launched a 1,000-ton natural rubber "insurance + futures" project in Mengla County, Yunnan Province. 389 rubber farmers participated in the project, and 263 of them were from recorded poor households. The insurance amount was RMB11.517 million; the Company offered rubber farmers RMB800,000 of premium subsidies and made RMB1.08 million of payment of insurance claims.

In November 2018, China Futures Co., Ltd. launched an apple "insurance + futures" project in Jixian County, Linfen, Shandong Province. Under the project, 1,500 tons of apples and over 500 farmers were insured, of whom more than 20 were from recorded poor households. The risk guarantee was RMB16.80 million, and the total premium amounted to RMB315,000. China Futures Co., Ltd. funded the premium with RMB215,000, while a local fruit company assumed the remaining RMB100,000 of premium, so that farmers were exempted from paying the premium.

In December 2018, the Company made a donation of RMB1 million to Anyuan County, Jiangxi province to support the development of local tea tourism. China Futures Co., Ltd., a subsidiary of the Company launched a "insurance + futures" pilot program for 6,000-ton sugar price at a national poverty-stricken county, Longling County, Baoshan City, Yunnan Province. The participants of the pilot program included sugarcane growers in Longling County and a large local sugar factory, involving three townships and 19 villages. 2,175 sugarcane growers were covered, of whom 446 were from recorded poor households, and the sugarcane planting area covered 13,000 Mu.

7.3 Educational Assistance

There is a saying that it takes ten years to grow a tree, but it takes a hundred years to rear a man. Education is the root of social progress. The educational resources and facilities in poverty-stricken areas are rare. CSC is concerned about the development of education in these pair-up regions and doing its utmost to provide a better learning environment for local students.

In January 2018, the Company signed a memorandum of cooperation on educational assistance with Lixian County, Gansu Province. The company offered greater education assistance, by which, recorded poor households received stronger support, and college students of these recorded poor households were offered internship opportunities in local branches of the Company during vacations. Relieving poverty-stricken households from economic difficulties helped college students from these families enhance their competitiveness.

From March to November 2018, China Futures Co., Ltd., a subsidiary of the Company, visited Songtao National Middle School in Songtao Miao Autonomous County, Tongren City, Guizhou Province, and donated RMB30,000 to 30 poor students of Senior Grade One. The Jiangxi Branch of CSC donated RMB48,800, of which, RMB30,000 was used to help Gaoyunshan School in Anyuan County to install water heaters, refit bathrooms and add disinfection cabinets to improve school facilities. Fujian Branch of CSC donated RMB50,000 to the Jiange County Health Center of Sichuan Province for the purchase of medical facilities, and donated RMB39,000 to Malipo County, Yunnan Province for the purchase of local primary school table and chair, the runway construction and other projects.

In December 2018, the Company contributed RMB2 million and established CSC (Lixian County) Education Foundation and CSC (Jixian County) Education Foundation to help junior high and senior high school students from recorded poor households to receive better education.

7.4 Consumption-driven Poverty Alleviation

CSC also actively assisted farmers and enterprises of these five pair-up assistance counties to sell characteristic products through “consumption-driven poverty alleviation.” In 2018, the Company and China Futures Co., Ltd., a subsidiary of the Company, carried out property alleviation by making a consumption of RMB1.3 million in a national poverty-stricken county to support the development of local enterprises and increase farmers' income. At the same time, the Company also actively contacted local production and sales enterprises of characteristic products, and recommended that high-quality products be put on the “CSI Connect” consumption-driven poverty alleviation module, promoting sales of characteristic products both online and offline.

7.5 Training about Capital Market

In 2018, the Company and its subsidiary China Futures Co., Ltd. organized over 10 training sessions on capital market in Lixian County, Anyuan County, Jinggangshan City, Jixian County, Huayuan County, Yunlong Town, Jianyang City, Tongren City, Luotian Town, Wanzhou District, and Kaizhou, covering macroeconomic trends, basic capital market introduction, corporate financing alternatives, corporate governance and management, and accounting. Through these lectures on the capital market, the financial awareness of local cadres and entrepreneurs was further improved, and the development of local enterprises and industries was promoted.

Independent Auditor's Report

To the Shareholders of CSC Financial Co., Ltd.
(Incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of CSC Financial Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 233 to 416, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarized as follows:

- Consolidation of structured entities

- Expected credit impairment allowance of Financial assets at amortized costs, Margin accounts, Financial assets held under resale agreements and Financial assets at fair value through other comprehensive income (debt instruments)

Key Audit Matter	How our audit addressed the Key Audit Matter
Consolidation of structured entities	
Refer to Note 53 to the consolidated financial statements. The Group acted as asset manager for, or invested in, a number of investment funds and asset management plans which were structured entities. Management made significant judgements when concluding on whether the Group controlled, and therefore should consolidate, these structured entities. Management has determined that the Group had control of certain structured entities based on their assessment of: i) the Group's power over the entities; ii) its exposure to variable returns from its involvement with those entities; and iii) its ability to use its power to affect the amount of its returns from these structured entities. Those structured entities over which Management has concluded the Group had control have been consolidated and their aggregated total assets were RMB11,855.90 million as at 31 December 2018. The significant judgements exercised by Management in assessing whether the Group had control over the structured entities and the amount of such structured entities on the consolidated statement of financial position of the Group resulted in this matter being identified as a key audit matter.	We read a sample of the contracts from the Group's asset management and investment portfolio to assess: i) the extent of power the Group had over its structured entities; ii) the Group's exposure or rights to variable returns from its involvement with those structured entities; and iii) the relationship between the Group's power and returns with respect to the structured entities. We selected a sample of Management's calculations of the Group's exposure or rights to variable returns from its involvement with the structured entities. We then traced the data used in these calculations back to the related contracts and re-performed the calculations to test their accuracy. Based on the audit procedures performed above, the judgements made by Management when concluding whether to consolidate or not the structured entities appear to be acceptable.

Key Audit Matter	How our audit addressed the Key Audit Matter
Expected credit impairment allowance of Financial assets at amortized costs, Margin accounts, Financial assets held under resale agreements and Financial assets at fair value through other comprehensive income (debt instruments)	
Refer to Notes 3.1 (5), 14, 23, 25, 26, 30 and 58.1 to the consolidated financial statements As at 31 December 2018, the Group recognized the following financial assets in its consolidated statement of financial position: Financial assets at amortized cost amounted to RMB192.12 million with a credit loss allowance of RMB5.06 million; Margin accounts amounted to RMB26,347.21 million with a credit loss allowance of RMB1,199.12 million; Financial assets held under resale agreements amounted to RMB23,916.83 million with a credit loss allowance of RMB119.60 million; Financial assets at fair value through other comprehensive income (debt instruments) amounted to RMB27,911.32 million with a credit loss allowance of RMB10.21 million. The credit impairment losses for the aforesaid financial assets recognized in the Group's consolidated income statement for the year ended 31 December 2018 amounted to RMB1,149.11 million.	We evaluated and tested the Group's internal controls relating to the measurement of ECL which comprised: (1) Governance over ECL models, including the selection and approval of methodologies and models; and the ongoing monitoring and optimization of such models; (2) Review and approval of significant management judgements and assumptions, including: i) the criteria for SICR with reference to management credit practices such as the monitoring of collateral value for Margin accounts/Financial assets held under resale agreements; and, ongoing monitoring of external credit ratings and negative information related to debt instruments; ii) the definition of default and credit-impairment; and iii) the use of economic variables and relative weightings for forward-looking scenarios. (3) Internal controls over the accuracy and completeness of key inputs used by the models.

Key Audit Matter	How our audit addressed the Key Audit Matter
The credit loss allowances as at 31 December 2018 for the aforesaid financial assets represented Management's best estimates of the expected credit losses ("ECL") in accordance with International Financial Reporting Standard 9: "Financial Instruments". Management applied a three – stage impairment model to calculate the ECL. For such financial assets classified under Stages 1 and 2, Management assessed credit loss allowances using the risk parameter modelling approach that incorporated key parameters, including probability of default, loss given default and exposure at default. For credit-impaired financial assets classified under Stage 3, Management assessed the credit loss allowances by estimating the cash flows expected to arise from the financial assets after taking into consideration forward looking factors. The measurement model for ECL involves significant management judgements and assumptions for each type of product and investment, primarily including the following: (1) Selection of the appropriate models and assumptions; (2) Determination of the criteria for significant increase in credit risk ("SICR"); (3) Establishment of the number and relative weightings of forward-looking scenarios;	We reviewed the ECL modelling methodologies and assessed their reasonableness. We also examined the underlying coding for the models on a sample basis to ascertain that the models reflected the methodologies established by Management. We examined the application of the SICR criteria and credit impairment definition by testing the fair value of the collateral of Margin accounts and Financial assets held under resale agreements; and we examined the external credit ratings and negative information related to debt instruments, on a sample basis. For forward-looking scenarios, we examined the basis of determining the economic indicators, number of scenarios and relative weightings; assessed the reasonableness of the economic indicators forecasted under the different scenarios; and performed sensitivity analysis on economic indicators and relative weightings. We examined major data inputs to the ECL models for selected samples, including historical data and data at the measurement date for accuracy and completeness.

Key Audit Matter	How our audit addressed the Key Audit Matter
The Group has established governance processes and controls over the measurement of ECL. The Group developed a number of complex models, adopted numerous parameters and data inputs, and applied significant management judgements and assumptions in measuring the ECL. The amounts involved were significant to the Group's financial statements. This led to this matter being identified as a key audit matter.	For credit-impaired assets under Stage 3, we tested on a sample basis the credit loss allowance computed by Management with reference to financial information of borrowers and guarantors, and the latest collateral valuations, as appropriate. Based on the audit procedures performed, in the context of the inherent uncertainties associated with the measurement of ECL, we considered the models, key parameters, significant judgments and assumptions adopted by Management and the measurement results to be acceptable.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of 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.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, 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 judgement 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.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yip Siu Foon, Linda.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 March 2019

Consolidated Income Statement

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

	Note	Year ended 31 December 2018	2017
Revenue			
Fee and commission income	6	7,231,682	8,780,933
Interest income	7	6,764,194	5,257,175
Net investment gains	8	2,416,898	2,414,267
		16,412,774	16,452,375
Other income/(loss)	9	79,068	(30,980)
Total revenue and other income		16,491,842	16,421,395
Fee and commission expenses	10	(802,747)	(1,172,270)
Interest expenses	10	(4,770,850)	(3,931,958)
Staff costs	10	(3,954,082)	(4,103,244)
Tax and surcharges		(79,928)	(87,166)
Other operating expenses and costs	10	(1,686,761)	(1,701,167)
Provision for impairment losses	13	–	(76,340)
Credit impairment losses	14	(1,153,905)	
Total expenses		(12,448,273)	(11,072,145)
Operating profit		4,043,569	5,349,250
Share of profits and losses of associates		7,874	6,087
Profit before income tax		4,051,443	5,355,337
Income tax expense	15	(948,015)	(1,293,690)
Profit for the year		3,103,428	4,061,647
Attributable to:			
Equity holders of the Company		3,087,460	4,015,428
Non-controlling interests		15,968	46,219
		3,103,428	4,061,647
Earnings per share attributable to ordinary equity holders of the Company *(expressed in RMB yuan per share)*			
– Basic and diluted	17	0.37	0.51

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2018	2017
Profit for the year	3,103,428	4,061,647
Other comprehensive income		
Items that may be reclassified to profit or loss in subsequent years		
Available-for-sale financial assets:		
Changes in fair value		42,095
Income tax effect on changes in fair value		(12,436)
Gains reclassified to the consolidated income statement		(110,602)
		(80,943)
Net gains on investments in debt instruments measured at fair value through other comprehensive income	641,318	
Net gains on investments in debt instruments measured at fair value through other comprehensive income reclassified to profit or loss on disposal	87,021	
Income tax relating to these items	(181,847)	
	546,492	
Share of other comprehensive income of associates	1,131	221
Foreign currency translation differences	114,820	(59,661)
Items that will not be reclassified subsequently to profit or loss		
Net losses on investments in equity instruments designated as at fair value through other comprehensive income	(435,672)	
Income tax relating to these items	102,089	
	(333,583)	

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2018	2017
Other comprehensive income for the year, net of tax	328,860	(140,383)
Total comprehensive income for the year	3,432,288	3,921,264
Attributable to:		
Equity holders of the Company	3,416,320	3,874,514
Non-controlling interests	15,968	46,750
	3,432,288	3,921,264

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

Consolidated Statement of Financial Position

As at 31 December 2018

(In RMB thousands, unless otherwise stated)

	Note	31 December 2018	31 December 2017
Non-current assets			
Property, plant and equipment	18	451,376	515,203
Investment properties		47,742	49,648
Intangible assets	19	186,915	169,892
Investment in associates	21	162,713	206,292
Financial assets at fair value through profit or loss	34	2,978,326	
Available-for-sale financial assets	22		5,326,584
Financial assets at fair value through other comprehensive income	23	3,003,549	
Held-to-maturity investments	24		573,592
Financial assets at amortized costs	25	67,276	
Financial assets held under resale agreements	26	3,449,017	5,109,380
Refundable deposits	27	1,880,554	2,228,778
Deferred tax assets	28	974,506	796,063
Other non-current assets	29	175,859	203,953
Total non-current assets		13,377,833	15,179,385
Current assets			
Margin accounts	30	25,148,083	47,821,230
Accounts receivable	31	1,440,038	1,369,856
Financial assets held for trading	32		32,341,915
Financial assets designated as at fair value through profit or loss	33		307,184
Financial assets at fair value through profit or loss	34	54,347,744	
Available-for-sale financial assets	22		34,255,207
Financial assets at fair value through other comprehensive income	23	27,965,580	
Held-to-maturity investments	24		4,976
Financial assets at amortized cost	25	119,787	
Derivative financial assets	35	1,239,584	120,384
Financial assets held under resale agreements	26	20,348,220	20,955,696
Cash held on behalf of clients	36	33,698,335	39,740,852
Cash and bank balances	37	17,055,809	11,227,905
Other current assets	38	341,300	2,558,802
Total current assets		181,704,480	190,704,007
Total assets		195,082,313	205,883,392

As at 31 December 2018

(In RMB thousands, unless otherwise stated)

	Note	31 December 2018	31 December 2017
Current liabilities			
Accounts payable to brokerage clients	39	35,038,585	41,416,503
Derivative financial liabilities	35	177,461	285,284
Financial liabilities held for trading	40		126,780
Financial liabilities at fair value through profit or loss	41	1,252,581	
Financial assets sold under repurchase agreements	42	32,531,875	29,147,293
Placements from banks and other financial institutions	43	4,048,839	14,000,000
Taxes payable	44	302,981	346,183
Short-term borrowings	45	1,118,475	2,050,817
Short-term financing instruments payable	46	13,753,706	27,641,673
Other current liabilities	47	20,997,043	22,918,671
Total current liabilities		109,221,546	137,933,204
Net current assets		72,482,934	52,770,803
Total assets less current liabilities		85,860,767	67,950,188
Non-current liabilities			
Financial liabilities designated as at fair value through profit or loss			11,640
Bonds in issue	48	37,650,008	23,872,761
Deferred tax liabilities	28	342,642	36,018
Other non-current liabilities		4,720	30,991
Total non-current liabilities		37,997,370	23,951,410
Net assets		47,863,397	43,998,778

Consolidated Statement of Financial Position (Continued)

As at 31 December 2018

(In RMB thousands, unless otherwise stated)

	Note	31 December 2018	31 December 2017
Equity			
Share capital	49	7,646,385	7,246,385
Other equity instruments	50	5,000,000	5,000,000
Reserves	51	19,425,664	16,489,518
Retained earnings		15,505,197	15,018,176
Equity attributable to equity holders of the Company		47,577,246	43,754,079
Non-controlling interests		286,151	244,699
Total equity		47,863,397	43,998,778

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

Approved and authorized for issue by the Board of Directors on 18 March 2019.

Wang Changqing
Chairman

Li Geping
Executive Director and President

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

		Attributable to equity holders of the Company										
				Reserves								
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Foreign currency translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total
At 31 December 2017		7,246,385	5,000,000	7,084,516	2,702,394	6,930,389	(269,666)	41,885	15,018,176	43,754,079	244,699	43,998,778
Change in accounting policy		–	–	–	(4,066)	(14,655)	22,880	–	4,342	8,501	412	8,913
At 1 January 2018 (Restated)		7,246,385	5,000,000	7,084,516	2,698,328	6,915,734	(246,786)	41,885	15,022,518	43,762,580	245,111	44,007,691
Profit for the year		–	–	–	–	–	–	–	3,087,460	3,087,460	15,968	3,103,428
Other comprehensive income for the year		–	–	–	–	–	214,040	114,820	–	328,860	–	328,860
Total comprehensive income for the year		–	–	–	–	–	214,040	114,820	3,087,460	3,416,320	15,968	3,432,288
Capital injected by equity holders												
– Issuance of A shares	49	400,000	–	1,668,697	–	–	–	–	–	2,068,697	–	2,068,697
– Capital injected by subsidiaries' non-controlling equity holders		–	–	–	–	–	–	–	–	–	36,031	36,031
Appropriation to surplus reserve	51	–	–	–	314,738	–	–	–	(314,738)	–	–	–
Appropriation to general reserve	51	–	–	–	–	619,692	–	–	(619,692)	–	–	–
Dividends – 2017	16	–	–	–	–	–	–	–	(1,376,351)	(1,376,351)	–	(1,376,351)
Distribution to other equity instrument holders	16	–	–	–	–	–	–	–	(294,000)	(294,000)	–	(294,000)
Dividends to non-controlling interests		–	–	–	–	–	–	–	–	–	(10,959)	(10,959)
At 31 December 2018		7,646,385	5,000,000	8,753,213	3,013,066	7,535,426	(32,746)	156,705	15,505,197	47,577,246	286,151	47,863,397

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

		Attributable to equity holders of the Company										
				Reserves								
	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Foreign currency translation reserve	Retained earnings	Subtotal	Non-controlling interests	Total
At 1 January 2017		7,176,470	5,000,000	6,739,567	2,294,445	6,151,907	(188,413)	101,546	13,787,528	41,063,050	199,629	41,262,679
Profit for the year		–	–	–	–	–	–	–	4,015,428	4,015,428	46,219	4,061,647
Other comprehensive income for the year		–	–	–	–	–	(81,253)	(59,661)	–	(140,914)	531	(140,383)
Total comprehensive income for the year		–	–	–	–	–	(81,253)	(59,661)	4,015,428	3,874,514	46,750	3,921,264
Capital injected by equity holders												
– Issuance of H shares	49	69,915	–	344,949	–	–	–	–	–	414,864	–	414,864
– Capital injected by subsidiaries' non-controlling equity holders		–	–	–	–	–	–	–	–	–	36	36
Appropriation to surplus reserve	51	–	–	–	407,949	–	–	–	(407,949)	–	–	–
Appropriation to general reserve	51	–	–	–	–	778,482	–	–	(778,482)	–	–	–
Distribution to other equity instrument holders	16	–	–	–	–	–	–	–	(294,000)	(294,000)	–	(294,000)
Dividends – 2016	16	–	–	–	–	–	–	–	(1,304,349)	(1,304,349)	–	(1,304,349)
Dividends to non-controlling interests		–	–	–	–	–	–	–	–	–	(1,716)	(1,716)
At 31 December 2017		7,246,385	5,000,000	7,084,516	2,702,394	6,930,389	(269,666)	41,885	15,018,176	43,754,079	244,699	43,998,778

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

	Year ended 31 December 2018	2017
Cash flows from operating activities		
Profit before income tax	4,051,443	5,355,337
Adjustments for:		
Interest expenses on bonds in issue, short-term financing instruments payable and borrowings	2,883,326	2,008,184
Dividend income and interest income from financial assets at fair value through other comprehensive income	(1,478,139)	
Dividend income and interest income from available-for-sale financial assets		(1,532,874)
Net gains from disposal of financial assets at fair value through other comprehensive income	(89,402)	
Net gains from disposal of available-for-sale financial assets		(8,798)
Interest income from financial assets at amortized costs	(27,320)	
Interest income from held-to-maturity financial assets		(46,105)
Net gains or losses attributable to other interest holders of consolidated structured entities	360,833	465,343
Net gains from disposal of investments in associates and joint ventures	(25,294)	–
Share of profits and losses from associates and joint ventures	(7,874)	(6,087)
Net gains on disposal of property, plant, equipment and other assets	(231)	(473)
Revaluation gains or losses on financial instruments at fair value through profit or loss	(988,850)	5,139
Net foreign exchange losses	22,371	119,214
Depreciation and amortization	249,609	235,191
Provision for impairment losses	–	76,340
Credit impairment losses	1,153,905	
	6,104,377	6,670,411
Net changes in operating assets		
Margin accounts	21,986,984	(16,839,080)
Financial assets at fair value through profit or loss	(12,943,383)	
Financial assets held for trading		(5,243,866)
Cash held on behalf of clients	6,056,892	15,341,810
Financial assets held under resale agreements	2,248,633	(18,379,074)
Other operating assets	(215,397)	(813,841)
	17,133,729	(25,934,051)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2018	2017
Net changes in operating liabilities		
Accounts payable to brokerage clients	(6,377,918)	(15,319,531)
Financial liabilities at fair value through profit or loss	1,081,968	
Financial liabilities held for trading		(2,866,166)
Financial assets sold under repurchase agreements	3,345,658	4,115,851
Placements from banks and other financial institutions	(10,000,000)	4,640,000
Other operating liabilities	155,252	(205,144)
	(11,795,040)	(9,634,990)
Net cash inflow/(outflow) from operating activities before tax	11,443,066	(28,898,630)
Income tax paid	(882,951)	(1,548,830)
Net cash inflow/(outflow)from operating activities	10,560,115	(30,447,460)
Cash flows from investing activities		
Net cash flow from purchase or disposal of financial assets at fair value through other comprehensive income	(1,301,669)	
Net cash flow from purchase or disposal of available-for-sale financial assets		(5,116,874)
Dividend income and interest income received from financial assets at fair value through other comprehensive income	1,450,514	
Dividend income and interest income received from available-for-sale financial assets		1,372,056
Cash paid for purchase of property, plant and equipment, intangible assets and other assets	(172,865)	(258,232)
Net cash flow from purchase or disposal of financial assets at amortized costs	75,062	
Net cash flow from purchase or disposal of held-to-maturity investments		75,344
Net cash flow from investments in associates	7,823	(12,820)
Other cash flows from investing activities	(210,539)	(28,971)
Net cash outflow from investing activities	(151,674)	(3,969,497)

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

	Year ended 31 December	
	2018	2017
Cash flows from financing activities		
Cash inflows from public offering	2,168,000	425,535
Cash inflows from capital injected by non-controlling interests	36,031	36
Cash inflows from borrowing activities	22,979,398	4,589,096
Cash inflows from issuing bonds	77,624,216	78,201,934
Cash outflows from dividend distribution	(1,670,349)	(1,598,349)
Cash outflows from distribution to subsidiaries' non-controlling equity holders	(10,960)	(1,716)
Repayments of interest on debts	(2,772,337)	(1,483,997)
Payments of debts	(102,808,086)	(51,279,602)
Other cash outflows from financing activities	(388,951)	(501,102)
Net cash inflow from financing activities	(4,843,038)	28,351,835
Net change in cash and cash equivalents	5,565,403	(6,065,122)
Cash and cash equivalents at the beginning of the year	11,183,962	17,427,960
Effect of exchange rate changes on cash and cash equivalents	92,448	(178,876)
Cash and cash equivalents at the end of the year *(Note 52)*	16,841,813	11,183,962

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

1 GENERAL INFORMATION

CSC Financial Co., Ltd. (the "Company") (formerly known as China Securities Finance Co., Ltd.) is the successor entity of China Securities Finance Limited Liability Company which was approved for establishment by the China Securities Regulatory Commission (the "CSRC") on 2 November 2005. The original registered capital of the Company was RMB2,700.00 million. The registered address of the Company is Unit 4, No.66 Anli Road, Chaoyang District, Beijing, the People's Republic of China (the "PRC").

The Company received the approval of CRSC on 30 June 2011 to convert into a joint stock company, with registered capital increased to RMB6,100.00 million.

The Company completed its initial public offering of overseas listed foreign shares ("H shares") on The Stock Exchange of Hong Kong Limited on 9 December 2016. Under this offering, the Company issued a total of 1,076.47 million new shares with a nominal value of RMB1 per share. On 5 January 2017, the Company issued an additional 69,915,238 H shares through partial exercise of the over-allotment option with a nominal value of RMB1 per share. The registered capital of the Company increased to RMB7,246.39 million after such issuance. The Company completed the industrial and commercial registration for these changes on 5 June 2017, and obtained its new business license with the Unified Social Credit Code of 91110000781703453H on 9 June 2017.

The Company completed its initial public offering of domestic listed shares ("A shares") on the Shanghai Stock Exchange on 20 June 2018. The Company issued a total of 400,000,000 shares with a nominal value of RMB1 per share. After this issuance, total share capital of the Company was increased to RMB7,646,385,238.00.

The principal activities of the Company and its subsidiaries (collectively, the "Group") include securities brokerage, financial advisory relating to securities trading and securities investment activities, securities underwriting and sponsoring, proprietary trading and investment of securities, securities asset management, agency sale of securities investment funds, introducing brokerage for futures companies, margin financing and securities lending services, agency sale of financial products, market-making of stock options, custodian services for securities investment funds, and sale of precious metal products, commodity futures brokerage, financial futures brokerage and asset management, equity investment and corporate management services, investment management, raising and management of investment funds, investment management of equity investment, investment consulting, project consulting.

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments, financial assets/liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, which have been measured at fair value, as further explained in the respective accounting policies below. The consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 Amendments to the accounting standards effective in 2018 and adopted by the Group

(1)	Amendments to IFRS 2	Share – based Payment
(2)	Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
(3)	IFRS 9	Financial Instruments
(4)	IFRS 15	Revenue from Contracts with Customers
(5)	IFRIC 22	Foreign Currency Transactions and Advance Consideration
(6)	Amendments to IAS 40	Transfer of Investment Property
(7)	Amendments to IAS 28	Investments in Associates and Joint Ventures to IFRSs included in the Annual Improvements 2014 – 2016 cycle

(1) Amendments to IFRS 2: Share – based Payment

On 20 June 2016, the IASB issued an amendment to IFRS 2, "Share-based Payment", addressing three classification and measurement issues. The amendments address the accounting for cash-settled share-based payments and equity-settled awards that include a "net settlement" feature in respect of withholding taxes.

2 BASIS OF PREPARATION (Continued)

2.1 Amendments to the accounting standards effective in 2018 and adopted by the Group (Continued)

(1) Amendments to IFRS 2: Share – based Payment (Continued)

The amendments clarify the measurement basis for cash-settled share-based payments and the accounting for modifications that change an award from cash settled to equity-settled. The amendments also introduce an exception to the principles in IFRS 2 that will require an award to be treated as if it is wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

(2) Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The IASB issued amendments to IFRS 4, Insurance Contracts, Applying IFRS 9 Financial Instruments with IFRS 4, which provides two alternative measures to address the different effective dates of IFRS 9 and the forthcoming insurance contracts standard. These measures include a temporary option for companies whose activities are predominantly connected with insurance to defer the effective date of IFRS 9 until the earlier of the effective date of the forthcoming insurance contracts standard and the annual reporting periods beginning on or after 1 January 2021, as well as an approach that allows an entity to remove from profit or loss the effects of certain accounting mismatches that may occur before the forthcoming insurance contracts standard is applied.

(3) IFRS 9: Financial Instruments

"IFRS 9 Financial Instruments" introduces new rules for the classification, measurement and derecognition of financial assets and financial liabilities; the main impact for the Group includes the classification, measurement for financial assets and financial liabilities also the impairment for financial assets.

IFRS 9 introduces a principles-based approach to the classification of financial assets based on an entity's business model and the nature of the cash flows of the asset. All financial assets, including hybrid contracts, are measured as at fair value through profit and loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost. For financial liabilities, IFRS 9 includes the requirements for classification and measurement previously included in IAS 39.

2 BASIS OF PREPARATION (Continued)

2.1 Amendments to the accounting standards effective in 2018 and adopted by the Group (Continued)

(4) IFRS 15: Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize through a 5-step approach. The core principle is that a company should recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes' to an 'asset-liability' approach based on transfer of control. IFRS 15 provides specific guidance on capitalization of contract cost and license arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

(5) IFRIC 22: Foreign Currency Transactions And Advance Consideration

The IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration, to clarify the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income when an entity has received or paid advance consideration in a foreign currency.

(6) Amendments to IAS 40: Transfer of Investment Property

On 8 December 2016, the IASB issued amendments to IAS 40 – Transfer of Investment Property. These amendments specify that an entity shall transfer a property to, or from, investment property when, and only when, there is a change in use of a property supported by evidence that a change in use has occurred. They also clarify that the list of circumstances set out in IAS 40 is non-exhaustive list of examples of evidence that a change in use has occurred instead of an exhaustive list. The examples have been expanded to include assets under construction and development and not only transfers of completed properties.

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.1 Amendments to the accounting standards effective in 2018 and adopted by the Group (Continued)

(7) Amendments to IAS 28: Investments in Associates and Joint Ventures to IFRSs included in the Annual Improvements 2014 – 2016 cycle

These amendments clarify that the election to measure investees at fair value through profit or loss is available for each investment in an associate or joint venture on an investment – by – investment basis, upon initial recognition.

There were no significant impacts from the amendments above on the Group's consolidated financial statements. In addition, the impacts of IFRS 9 to the Group's financial statement is set out in Note 3.2.

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group

The Group has not adopted the following new and amended standards that have been issued but are not yet effective.

			Effective for annual periods beginning on or after
(1)	IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
(2)	IFRS 16	Leases	1 January 2019
(3)	IFRS 17	Insurance Contracts	1 January 2022
(4)	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23	The Annual Improvements to IFRSs 2015 – 2017 Cycle	1 January 2019
(5)	Amendments to IFRS 9	Prepayment Features with Negative Compensation	1 January 2019

(In RMB thousands, unless otherwise stated)

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

			Effective for annual periods beginning on or after
(6)	Amendments to IAS 19	Employee Benefits Regarding Plan Amendment, Curtailment or Settlement	1 January 2019
(7)	Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
(8)	Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	The amendments were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.
(9)	Amendments to IAS 1 and IAS 8	The Definition of Material	1 January 2020
(10)	Amendments to IFRS 3	The Definition of A Business	1 January 2020

(1) IFRIC 23: Uncertainty over Income Tax Treatments

In June 2017 the IASB issued IFRIC 23 Uncertainty over Income Tax Treatments to clarify how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. The Group anticipates that the adoption of this interpretation will not have a significant impact on the Group's consolidated financial statements.

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

(2) IFRS 16: Leases

IFRS 16 – Leases addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts, unless the underlying asset is of low value or of short lease term, in the statement of financial position. Accordingly, a lessee should recognize depreciation of the right-of-use asset and interest on the lease liability in the consolidated income statement, and also classifies cash repayments of the lease liability into principal portion and an interest portion for presentation in the consolidated statement of cash flows.

For the lessor, 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.

For operating lease existed before the commencement day, the lease liability is initially recognized at the commencement day and measured at an amount equal to the present value of the lease payments during the lease term that are not yet paid. The lessee uses as the discount rate the incremental borrowing rate. The measurement of right-of-use asset would be the amount of lease liability (adjusted by the amount of any previously recognized prepaid lease payments relating to that lease). The cumulative effect of applying the standard is recognized as an adjustment to the opening balance of retained earnings at the date of initial application, and it does not restate comparative information. The right-of-use asset is depreciated in subsequent periods. The lease liability is measured in subsequent periods using the effective interest rate method.

The adoption of IFRS 16 is not expected to have a significant impact on the net assets of the Group as at 1 January, 2019.

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

(3) IFRS 17: Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using the building blocks of: discounted probability – weighted cash flows, an explicit risk adjustment, and a contractual service margin ("CSM") representing the unearned profit of the contract which is recognized as revenue over the coverage period.

The standard allows a choice between recognizing changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach the entity's share of the fair value changes of the underlying items is included in the contractual service margin. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

(4) Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23: The Annual Improvements to IFRSs 2015 – 2017 Cycle

The Annual Improvements to IFRSs 2015 – 2017 Cycle include a number of amendments to various IFRSs and IASs, including the amendments IFRS 3 – Business combinations, the amendments to IFRS 11 – Joint arrangements, the amendments to IAS 12 – Income taxes and the amendments to IAS 23 – Borrowing costs. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

(5) Amendments to IFRS 9: Prepayment Features with Negative Compensation

The IASB issued a narrow-scope amendment to IFRS 9 to enable companies to measure at amortized cost some prepayable financial assets with negative compensation. Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. To qualify for amortized cost measurement, the amendments require the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect'. However, the standard does not define 'reasonable compensation' and significant judgement may be required to assess if this test is met. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

(6) Amendments to IAS 19: Employee Benefits Regarding Plan Amendment, Curtailment or Settlement

The IASB issued amendments to IAS 19: Employee benefits regarding plan amendment, curtailment or settlement. These amendments require any entity that changes the terms or the membership of a defined benefit plan to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement, and to recognize in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus. The Group anticipates that the adoption of the amendments will not have an impact on the Group's consolidated financial statements.

(7) Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

The IASB issued amendments to IAS 28: Investments in Associates and Joint Ventures to clarify that companies account for long-term interests in an associate or joint venture to which the equity method is not applied should be using IFRS 9. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(8) Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture

These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business. A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The Group anticipates that the adoption of these amendments will not have a significant impact on the Group's consolidated financial statements.

2 BASIS OF PREPARATION (Continued)

2.2 Standards and amendments relevant to the Group that are not yet effective and have not been adopted before their effective dates by the Group (Continued)

(9) Amendments to IAS 1 and IAS 8: The Definition of Material

The IASB issued amendments to the definition of material in IAS 1 and IAS 8. The amended definition is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

The amendment clarifies that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information. It also states that an entity assesses materiality in the context of the financial statements as a whole.

The amendment also clarifies the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

(10) Amendments to IFRS 3: The Definition of A Business

The IASB issued amendments to the definition of a business in IFRS 3. To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The Group anticipates that the adoption of the amendments will not have a significant impact on the Group's consolidated financial statements.

2 BASIS OF PREPARATION (Continued)

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. The accounting policies and accounting period of the Company and its subsidiaries are consistent.

Subsidiaries are all entities (including structured entities) over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. When the Group assesses whether it has power over an investee, the Group's voting rights or potential voting rights and other contractual arrangements are considered.

Income or expenses resulted from acquisition or disposal of subsidiaries, from the date on which the Company obtains control to the date on which the Company ceases its control over subsidiaries, are in the scope of consolidation. Intra-group assets and liabilities, equity, income, expenses, and cash flow which are relevant to all intra-group transactions occurred should be offset in consolidation.

A portion of equity over subsidiaries and profit or loss which does not belong to the Company should be treated as non-controlling interests. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Company and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position separately from the equity attributable to equity holders of the Company.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

3.1 Significant accounting policies

(1) Accounting period

The accounting year starts on 1 January and ends on 31 December.

(2) Functional and presentation currency

The Company's functional and presentation currency is RMB.

Each entity in the Group determines its own functional currency according to its economic situation. The functional currency is denominated in RMB in consolidated financial statements.

(3) Cash and cash equivalents

Cash comprises cash on hand and demand deposits which are not restricted as to use.

Cash equivalents comprise short term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

(4) Foreign currency transactions and foreign currency translation

The Group adopts the sub-account system to record foreign currency transactions. Foreign currency transactions are initially recorded on the original currency respectively at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the prevailing functional currency exchange rates at the end of the reporting period. The exchange rate is quoted by the People's Bank of China, the State Administrative of Foreign Exchange or a cross rate determined based on quoted exchange rates. All differences are taken to the statement of profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated at the balance sheet date using the spot exchange rates at the date of the transactions.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(4) Foreign currency transactions and foreign currency translation (Continued)

The assets and liabilities of foreign operation subsidiaries denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of reporting period for consolidated financial statements. 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 exchange differences resulting from foreign currency financial statement translation of subsidiaries are recognized in OCI and accumulated in the foreign exchange translation reserve. The cash flows of overseas operations are translated at the spot exchange rates on the dates of the cash flows. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

(5) Financial instruments

(a) Initial recognition, classification and measurement of financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

(a) Initial recognition, classification and measurement of financial instruments (Continued)

Financial assets

Financial assets are classified on the basis of the Group's business model for managing the assets and the cash flow characteristics of the assets in the following measurement categories: (i) Amortized cost; (ii) Fair value through other comprehensive income ("FVOCI"); (iii) Fair value through profit or loss ("FVPL").

Business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of "other" business model and measured at FVPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic leading risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

(a) Initial recognition, classification and measurement of financial instruments (Continued)

Financial assets (Continued)

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest ("SPPI").

The classification requirements for debt instruments assets and equity instruments assets are described as below:

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as government bonds, corporate bonds and subordinated bonds. Classification and subsequent measurement of debt instruments depend on: (i) the Group's business model for managing the asset; and (ii) the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

(i) Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent SPPI and that are not designated as at FVPL, are measured at amortized cost.

(ii) Fair value through other comprehensive income: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI and that are not designated as at FVPL, are measured at FVOCI.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

(a) *Initial recognition, classification and measurement of financial instruments* (Continued)

Debt Instruments (Continued)

(iii) Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL.

The Group may also irrevocably designate financial assets at fair value through profit or loss if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

(a) Initial recognition, classification and measurement of financial instruments (Continued)

Financial liabilities

Financial liabilities are classified as subsequently measured at amortized cost, except for financial liabilities at FVPL, which is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition.

Contingent liabilities recognized by buyers should be measured as FVTPL under business combination for entities owned by different ultimate shareholders.

An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss: (i) it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch'); (ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

(b) Reclassification of financial assets

When the Group changes its business model for managing financial assets, it shall reclassify all affected financial assets, and apply the reclassification prospectively from the reclassification date. The Group does not restate any previously recognized gains, losses (including impairment gains or losses) or interest. Reclassification date is the first day of the first reporting period following the change in business model that results in the Group reclassifying financial assets.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

(c) Subsequent measurement of financial instruments

Subsequent measurement of financial instruments depends on the categories:

Amortized cost

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition: (i) minus the principal repayments; (ii) plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and; (iii) for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses ("ECL") and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate. For purchased or originated credit-impaired ("POCI") financial assets, the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

(c) Subsequent measurement of financial instruments (Continued)

Amortized cost (Continued)

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for: (i) POCI financial assets, whose interest income is calculated, since initial recognition, by applying the credit-adjusted effective interest rate to their amortized cost; and (ii) financial assets that are not POCI but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss allowance). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their gross carrying amount.

Fair value through other comprehensive income

Debt instruments

Movements in the carrying amount are taken through other comprehensive income ("OCI"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss.

Equity instruments

The equity instrument investments that are held for purposes other than to generate investment returns are designated as FVOCI. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognized in profit or loss when the Group's right to receive payments is established, and it is probable that future economic benefits associated with the item will flow to the Group, and the amounts of the dividends can be measured reliably.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) ***Financial instruments*** (Continued)

(c) Subsequent measurement of financial instruments (Continued)

Financial assets at fair value through profit or loss

Debt instruments

A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within "Net investment gains" in the period in which it arises.

Equity instruments

Gains and losses on equity investments at FVPL are included in the "Net investment gains" line in the statement of profit or loss.

Financial liabilities at fair value through profit or loss

Gains or losses on financial liabilities designated as at FVPL are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in profit or loss. The gains and losses from financial liabilities including the effects of credit risk variance should be recognized in current profit and loss by the Group.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

(d) Fair value of financial instruments

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. Fair value measurement is based on the presumption 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. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of market approach, income approach and cost approach. When using valuation techniques, unobservable market inputs would not be used unless relevant observable inputs are not available or not practicable to access.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

(d) Fair value of financial instruments (Continued)

Default Valuation Adjustments (DVA) are applied to the Group's financial liabilities at fair value through profit or loss, and assumes that DVA stay the same before and after the transfer of the liability. DVA refer to risk that enterprises fail to perform the obligation, including but not limited to their own credit risk.

The Group uses the following hierarchy for determining and disclosing the fair values of financial assets and financial liabilities based on the inputs used when determining the fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs).

The level of fair value measurement depends on the lowest level of input that is significant to the entire fair value measurement.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

(e) Impairment of financial assets

The Group assesses on a forward-looking basis the ECL associated with its debt instrument assets carried at amortized cost and FVOCI.

ECL is the weighted average of credit losses with the respective risks of a default occurring as the weights. Credit loss is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets).

The Group measures the ECL of a financial instrument reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

For financial instruments whose impairment losses are measured using the ECL model, the Group assesses whether their credit risk has increased significantly since their initial recognition, and applies a three-stage impairment model to calculate their impairment allowance and recognize their ECL, as follows:

Stage 1: The Group measures the loss allowance for a financial instrument at an amount equal to the next 12 months ECL if the credit risk of that financial instrument has not increased significantly since initial recognition;

Stage 2: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk of that financial instrument has increased significantly since initial recognition, but is not yet deemed to be credit-impaired;

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) ***Financial instruments*** (Continued)

(e) *Impairment of financial assets* (Continued)

Stage 3: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the financial instrument is credit-impaired.

The Group applies the impairment requirements for the recognition and measurement of credit loss allowance for debt instruments that are measured at FVOCI. The loss allowance is recognized in OCI and the impairment loss is recognized in profit or loss, and it should not reduce the carrying amount of the financial asset in the statement of financial position.

The Group has measured the loss allowance for a financial instrument at an amount equal to the lifetime ECL in the previous reporting period, but determines to measure it at an amount equal to the next 12 months ECL at the current reporting date since the credit risk of that financial instrument has increased significantly since initial recognition is no longer met, and the amount of ECL reversal is recognized in profit or loss.

(f) *Derivative financial instruments*

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

The changes on fair value of derivative financial instruments are directly recognized in the consolidated income statement. The difference between fair value and carrying amount is recognized as investment income when disposing.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

(g) Derecognition of Financial Instruments

A financial asset is derecognized, when one of the following criteria is satisfied: (i) the contractual rights to receive cash flows from the assets have expired; (ii) the Group has transferred substantially all the risks and rewards of ownership of the financial asset; (iii) the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has not retained control.

When equity financial assets designated as at FVOCI are derecognized, the cumulative gain or loss previously recognized in OCI is reclassified to retained earnings. When other financial assets are derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in "Net investment gains".

A financial liability is derecognized when it is wholly or partly extinguished, that is when the obligation is wholly or partly discharged. Fair value gains and losses are charged to profit or loss. When financial liabilities designated as at FVPL are derecognized, cumulative gains and losses are subsequently reclassified from other comprehensive income to retained earnings.

(h) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a current legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. Otherwise, financial assets and financial liabilities are reported separately.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

Financial instruments – Accounting policies applied prior to 1 January 2018

Financial instruments are contracts which become one enterprise's financial assets, at the same time become another enterprises' financial liabilities or equity instruments.

(a) Initial recognition and derecognition of financial instruments

The Group recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument.

All regular way purchases and sales of financial instruments are recognized and derecognized using trade date accounting. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned. Trade date is the date that the Group commits to purchase or sell the financial instrument.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized, which means to derecognize a financial asset from the account and statement of financial position of the Group when:

(i) The rights to receive cash flows from the assets have expired; or

(ii) The Group has transferred its rights to receive cash flows from the asset; or has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; and (a) the Group has transferred substantially all the risks and rewards of ownership of the financial asset; or (b) the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

(a) Initial recognition and derecognition of financial instruments (Continued)

When the Group has made substantial modifications to a part of the contract terms of an existing financial liability, the relevant portion of the existing financial liability is derecognized, while the financial liability under modified terms is recognized as a new financial liability.

On derecognition of a financial liability in its entirety or partially, the difference between the carrying amount and the consideration paid (including non-cash assets transferred or new financial liabilities assumed) shall be recognized in the consolidated income statement.

If the Group repurchases a part of a financial liability, the Group shall allocate the previous carrying amount of the financial liability between the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the repurchase. The difference between the carrying amount allocated to the part derecognized and the consideration paid (including any non-cash assets transferred or liabilities assumed) for the part derecognized shall be recognized in the consolidated income statement.

(b) Classification and measurement of financial instruments

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are measured at fair value when they are recognized initially. The transaction cost attributable to the acquisition of the financial assets is recognized as profit or loss for the financial assets at fair value through profit or loss, and is included in the initial cost of the other financial assets.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

(b) Classification and measurement of financial instruments (Continued)

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and other financial liabilities. The transaction cost attributable to the acquisition of the financial liabilities is recognized as profit or loss for the financial liabilities at fair value through profit or loss, and is included in the initial cost of the other financial liabilities.

Subsequent measurement of financial instruments depends on their classification as follows:

(i) Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss include financial assets and financial liabilities held for trading, and financial assets and financial liabilities designated as at fair value through profit or loss.

A financial asset or financial liability is classified as held for trading if it is acquired for the purpose of sale or repurchase in the near term. Derivatives are also classified as held for trading except for the derivative that is a financial guarantee contract or a designated effective hedging instrument.

Such financial instruments are subsequently measured at fair value. Gains or losses arising from the difference between fair value and previous carrying amount are recognized in profit or loss as net investment gains or losses. Realized gains or losses upon disposal of held-for-trading financial assets are recognized as net investment gains or losses. Dividends and interest accrued during the holding period from financial assets measured at fair value through profit or loss are recognized as net investment gains.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

(b) Classification and measurement of financial instruments (Continued)

(i) Financial assets and financial liabilities at fair value through profit or loss (Continued)

Financial assets or financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if one of the following criteria is satisfied:

– The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognizing the gains and losses on different bases;

– A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel;

– Hybrid instruments containing one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear with little or no analysis that the embedded derivative(s) would not be separately recorded;

– Hybrid instruments containing embedded derivatives which need to be separated but cannot be separately measured on acquisition date or subsequent balance sheet date.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

(b) Classification and measurement of financial instruments (Continued)

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets, with fixed or determinable payments quartered in an active market and a fixed maturity, which the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest rate method. If there are no significant differences between the contractual interest rates or coupon rates and effective interest rates, held-to-maturity investments are measured at amortized cost using the contractual interest rates or coupon rates.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortized cost using the effective interest rate method. If there are no significant differences between the contractual interest rates and effective interest rates, loans and receivables are measured at amortized cost using the contractual interest rates. When loans and receivables are collected, differences between the amount received and the carrying amount are recognized in the consolidated income statement.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

(b) Classification and measurement of financial instruments (Continued)

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are subsequently measured at fair value. When the fair value cannot be reliably measured, equity investment classified as available-for-sale financial assets are carried at cost. When available-for-sale financial assets are disposed of, the difference between the consideration received plus cumulative gains or losses previously recorded in equity arising from changes of fair value and the carrying amount are recognized as net investment gains or losses.

(v) Other financial liabilities

Other financial liabilities are non-derivative financial liabilities that are not classified or designated as financial liabilities at fair value through profit or loss. Other liabilities are subsequently measured at amortized cost using the effective interest rate method.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

(b) Classification and measurement of financial instruments (Continued)

(vi) Reclassification of financial assets

When the Group changes its intention over held-to-maturity investments, they are reclassified as available-for-sale financial assets. If the Group sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, it shall reclassify any remaining held-to-maturity investments as available-for-sale financial assets, and shall not classify any financial assets as held to maturity during the current and the two subsequent financial years.

(c) Fair value of financial instruments

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. Fair value measurement is based on the presumption 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. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The fair values of quoted financial assets and financial liabilities in active markets are based on current bid prices and ask prices, as appropriate. If there is no active market, the Group establishes fair value by using valuation techniques. These include the use of market approach, income approach and cost approach. When using valuation techniques, unobservable market inputs would not be used unless relevant observable inputs are not available or not practicable to access.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

(c) Fair value of financial instruments (Continued)

The Group uses the following hierarchy for determining and disclosing the fair values of financial assets and financial liabilities based on the inputs used when determining the fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Valuation technique using inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Valuation technique using inputs for the asset or liability that is not based on observable market data (unobservable inputs).

The level of fair value measurement depends on the lowest level of input that is significant to the entire fair value measurement.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

(d) Impairment of financial assets

The Group assesses at each financial reporting date whether there is objective evidence that a financial asset is impaired and impairment allowance shall be made. The objective evidence of impairment is a result of one or more events that occurred after the initial recognition of financial assets and has an impact on the estimated future cash flows of the financial assets that can be reliably measured.

(i) Financial assets carried at amortized cost

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The loss is recognized in the consolidated income statement. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition), and the value of collateral should be considered.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence of impairment, the impairment loss is recognized in the consolidated income statement. The Group performs a collective assessment for all other financial assets that are not individually significant or for which impairment has not yet been identified by including the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

(d) Impairment of financial assets (Continued)

(i) Financial assets carried at amortized cost (Continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account and recognized in the consolidated income statement. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

(ii) Available-for-sale financial assets

If objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss recognized in other comprehensive income is reclassified from equity to the profit or loss and is measured as the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated income statement.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

(d) Impairment of financial assets (Continued)

(ii) Available-for-sale financial assets (Continued)

In the case of equity investments classified as available for sale, objective evidence includes a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. A significant or prolonged decline in the fair value of an equity instrument is an indicator of impairment in such investments where a decline in the fair value of an equity instrument is below its initial cost by 50% or more; or fair value is below cost for one year or longer, upon which circumstances an impairment loss is recognized.

For the Company's specific investment managed by China Securities Finance Corporation Limited, considering the purpose and the special features of this investment, including the investment and divestment decision-making process, the decline is considered significant or prolonged when a decline in the fair value of such investment is below its initial cost by 50% or more; or fair value is below cost for three years or longer, upon which circumstances an impairment loss is recognized.

Impairment losses of available-for-sale equity instruments are not reversed through the consolidated income statement. Increases in their fair value after the impairment are recognized directly in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the profit or loss, the previously recognized impairment loss is reversed through the consolidated income statement.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(5) Financial instruments (Continued)

Financial instruments – Accounting policies applied prior to 1 January 2018 (Continued)

(d) Impairment of financial assets (Continued)

(iii) Financial assets carried at cost

If there is objective evidence that a financial asset is impaired, the difference between the carrying amount and the present value of the future cash flows discounted at the original effective interest rate of return for a similar financial asset, is recognized as an impairment loss through profit or loss. The impairment losses are not reversed once recognized.

(e) Derivative financial instruments

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

The changes on fair value of derivative financial instruments are directly recognized in the consolidated income statement.

(f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a current legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(6) Reverse repurchase agreements and financial assets sold under repurchase agreements

Financial assets transferred as collateral in connection with repurchase agreements, involving fixed repurchase dates and prices, are not derecognized. They continue to be recorded as original financial assets before transferred. The corresponding liability is included in financial assets sold under repurchase agreements.

Consideration paid for financial assets held under agreements to resell are recorded as reverse repurchase agreements, the related collateral accepted is not recognized in the consolidated financial statements.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortized over the period of the respective transaction using the effective interest method and is recognized through profit or loss.

(7) Margin financing and securities lending services

Margin financing and securities lending services refer to the lending of funds by the Group to clients for purchase of securities, or lending of securities by the Group to clients for securities selling, for which the clients provide the Group with collateral.

The Group recognizes margin accounts at initial recognition, and recognizes interest income accordingly. Securities lent are not derecognized, but still accounted for as the original financial assets, and interest income is recognized accordingly.

Securities trading on behalf of margin financing and securities lending clients are accounted for as securities brokerage services.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(8) Fiduciary wealth management

The Group's fiduciary wealth management business includes targeted asset management, collective asset management and specified asset management. The Group keeps separate accounting records for each of these investment schemes, and periodically reconciles the accounting and valuation results of each scheme with the custodians.

(9) Associates

Associates are all entities 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 Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealized gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associate.

(10) Investment properties

Investment properties comprise real estate properties for the purpose of earning rental income and/or for capital appreciation, including buildings that have been leased.

The Group's investment properties are accounted for using the cost model. The initial recognition and subsequent measurement of buildings and properties that are leased out are accounted for using the same measurement and depreciation methods as those for property, plant and equipment.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(11) Property, plant and equipment

(a) Recognition criteria for property, plant and equipment

Property, plant and equipment refer to tangible assets held and controlled by the Group that the Group expects to use for more than one year for using in the supply of services or for administrative purpose. An asset is recognized as property, plant and equipment only if the following criteria are both satisfied:

(i) It is highly probable that future economic benefits associated with the property, plant and equipment will flow to the Group;

(ii) The cost of the asset can be measured reliably.

(b) Property, plant and equipment initially measured at cost

Cost of an item of purchased property, plant and equipment comprises purchase price, tax and any costs directly attributable to bringing the asset to the condition necessary for its intended use and it includes transportation costs, installation and assembly costs, and professional service fees.

Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance expenditure are recognized in the profit or loss as incurred. Depreciation of property, plant and equipment is calculated on the straight-line basis monthly.

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(11) Property, plant and equipment (Continued)

(b) Property, plant and equipment initially measured at cost (Continued)

Estimated useful life, depreciation rate and estimated residual value of each item of property, plant and equipment which are required by the operation of the Group are as follows:

Types of property plant and equipment	Estimated useful life	Monthly depreciation rate	Estimated residual value
Properties and buildings	35 years	2.262‰	5%
Electronic devices	2 to 5 years	1.667%–4.167%	0%
Transportation vehicles	5 years	1.617%	3%
Communication equipment	5 years	1.617%	3%
Office equipment	3 years	2.778%	0%
Security equipment	5 years	1.617%	3%
Others	5 years	1.617%	3%

The years that the property, plant and equipment were already in use were excluded when determining the estimated useful lives of these types of the property, plant and equipment. The estimated useful life, the estimated residual value and the depreciation method of each type of the property, plant and equipment are reviewed, and adjusted if appropriate, at each financial year end. Gains and losses on disposal of property, plant and equipment, the costs of disposal and taxes in connection with such disposal are considered in the determination of the estimated residual value.

(c) Construction in progress

Costs of construction in progress are determined based on the actual expenditure incurred which include all necessary expenditure incurred during the construction period, borrowing costs eligible for capitalization and other costs incurred to bring the asset to its intended use.

Items classified as construction in progress are transferred to property, plant and equipment when such assets are ready for their intended use.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(12) Intangible assets

Intangible assets are recognized only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably, and measured initially at cost. Intangible assets acquired from business combination and their fair value can be measured reliably are recognized as intangible assets individually and measured at their fair value as at date of combination.

Useful lives of intangible assets are determined as the period that the assets are expected to generate economic benefits for the Group, and when there is no foreseeable limit on the period of time over which the asset is expected to generate economic benefits for the Group, the intangible assets are regarded as having indefinite useful life.

Intangible assets with finite useful lives shall be amortized on a straight-line basis over the useful period. The useful lives and amortization method of the intangible assets with finite useful lives shall be reviewed by the Group at least at each financial year end, and adjusted as appropriate. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless there is a commitment by a third party to purchase the asset at the end of its useful life, or there is an active market for the asset, where residual value can be determined by reference to that market; and it is probable that such a market will exist at the end of the asset's useful life.

Trading seat rights at Shanghai and Shenzhen Stock Exchanges are amortized over 10 years (subject to changes in industry rules subsequently issued) and charged to the consolidated income statement. Outsourcing software is amortized over 5 years. Self-developed software, patents, non-patents, trade mark right, client relationship and other intangible assets are amortized over their useful lives.

Intangible assets with indefinite useful lives need to be assessed for impairment no matter if there is any impairment evidence. These assets need not to be amortized, and their useful lives shall be reviewed during every accounting period. If there is any evidence to support that the useful lives are definite, these intangible assets shall apply the policies of intangible assets with definite useful lives.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(13) Long-term pre-paid expense

Improvement expenses on property, plant and equipment under operating leases are amortized on a straight-line basis over the shorter of the contractual lease terms and 5 years, while long-term pre-paid expenses are amortized on a straight-line basis over their respective benefit periods but no longer than 10 years.

(14) Revenue

An entity should determine at contract inception whether control of a good or service is transferred over time or at a point in time. The determination should depict the transfer of benefits to the customer and should be evaluated from the customer's perspective.

An entity should first assess whether the performance obligation is satisfied with the following criteria over time. If not, the good or service transfers at a point in time.

(i) The customer concurrently receives and consumes the benefits provided by the entity's performance as the entity performs.

(ii) The entity's performance creates or enhances a customer-controlled assets.

(iii) The entity's performance does not create an asset with an alternative use and the entity has a right to payment for performance completed to date.

Where performance of a single service contract takes place over time, revenue should be recognized as performance takes place, excluding the stage of performance cannot be determined.

An entity that cannot reasonably measure the outcome of a performance obligation, but expects to recover the costs incurred, should recognize revenue only to the extent of the cost until a reliable measure of progress can be made.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(14) Revenue (Continued)

An entity will recognize revenue at a point in time (when control transfers) for performance obligation that meet the criteria for recognition of revenue at a point in time.

Revenue from underwriting services is recognized when the control of the underwriting services is transferred to the client. The revenue is usually recognized upon completion of the offering.

Revenue from the securities brokerage services is recognized on the date of the securities transaction.

Revenue from asset management services is recognized when management services are provided in accordance with the asset management contract.

Revenues from other businesses, including investment banking advisory and sponsoring services are recognized when the contractual obligations are fulfilled.

The interest income of debt investments at amortized costs and FVOCI, is measured by carrying amount and effective interest rate; excluding financial assets credit impaired are measured by amortized cost and effective interest rate. The net gains of holding period from financial investments at FVTPL is measured as “Net investment gains”.

(15) Income tax

Income tax comprises current tax and deferred income tax. Current tax is the amount of current income tax payable calculated based on current taxable income. Taxable income is calculated based on the adjustment to the current year pre-tax accounting profit according to the applicable tax laws.

For current income tax liabilities or current income tax assets generated from the current and prior periods, the expected income tax payable or the income tax deduction is calculated according to the applicable tax laws.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(15) Income tax (Continued)

The Group measures deferred income tax using the liability method on temporary differences arising between the carrying amount of an asset or liability at the end of the reporting period and its tax base.

All taxable temporary differences are recognized as deferred income tax liabilities, except:

(i) The deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and

(ii) In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilized, except:

(i) The deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or deductible expenses; and

(ii) In respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(15) Income tax (Continued)

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period and reflect the corresponding tax effect.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. When it is virtually probable that sufficient taxable income will be available, the reduced amount will be reversed accordingly.

Deferred tax assets and liabilities are offset:

(i) when there is a legally enforceable right to set off deferred tax assets against deferred tax liabilities and

(ii) when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(16) Employee compensation

Employee compensation refers to all forms of consideration and other related expenditure given or incurred by the Group in exchange for services rendered by employees or compensate for the termination of labour contract. The compensation payable is recognized as liability in the accounting period of services provided by employee. The employee compensation comprises of short-term compensation, post-employment welfare, termination benefits, and other long-term employee welfares.

Short-term compensation comprises of staff salaries, bonus, allowances, and subsidies, as well as social insurance expenses including employee welfare, medical insurance charge, work-related injury insurance charge, and maternity insurance and also covers housing funds, labour union expenses, personnel education expenses, short-term paid leave, short-term profit-sharing plan, non-monetary welfare and other short-term compensations.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(16) Employee compensation (Continued)

Post-employment welfare plans refer to agreements reached with employees or policies and measures established by the Group in relation to post-employment welfare. The defined contribution plans refer to post-employment welfare plans in which the Group pays contribution to an independent fund and the Group has no further payment obligation.

(17) Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the Group receives grants of monetary assets, the grants are recorded at the amount received or receivable. Where the Group receives grants of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets. When fair value cannot be reliably measured, they are recognized at nominal amount.

Government grants for purchasing, building or forming long-term assets in other methods stipulated in government documents are recognized as government grants related to assets. Judgements should be made based on the necessary basic conditions for obtaining the government grants when government documents are unclearly stated. Government grants with purchasing, building or forming long-term assets in other methods as basic condition are recognized as government grants related to assets, whereas the other grants are related to income.

Government grants related to income which are to compensate relevant expenditures or losses in future periods are recognized as deferred income and released into the consolidated income statement during the period when the expense incurs. Government grants that are to compensate the incurred expenses or losses are recognized into profit or loss directly. Government grants related to assets are recognized as deferred income, and released to profit or loss over the expected useful life of the relevant assets by equal annual instalments. Government grants measured at nominal amount are recorded in the consolidated income statement directly.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(18) Impairment

The Group assesses impairment of assets other than deferred tax assets and financial assets as follows:

The Group assesses at each financial reporting date whether there is any indication that assets are impaired. When any such indication exists, the Group estimates the recoverable amount and assesses impairment allowance. For goodwill acquired from business combination and intangible assets with indefinite useful life, no matter there is objective evidence of impairment or not, impairment should be assessed at each annual financial reporting date. Impairment for intangible assets not readily for use is also assessed annually.

The recoverable amount is the higher of an asset's fair value less costs of disposal and the present value of the estimated future cash flow expected to be derived from the asset. The Group estimates the recoverable amount on the basis of individual asset. When it is difficult to estimate the recoverable amount individually, the recoverable value of the cash generating units which the asset belongs to will be estimated. The recognition of a group of assets shall base on whether the main cash flow generated by the group of assets is independent from those generated by other assets or groups of assets.

When recoverable amounts of assets or groups of assets are lower than their carrying amounts, the Group decreases the carrying amounted to recoverable amount. The decreased amounts are recognized in the consolidated income statement and corresponding allowances are made.

For impairment test of goodwill, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units when being unable to be allocated to each of the cash-generating units. Cash-generating units or groups of cash-generating units refer to those that can benefit from the synergies of the combination and are not larger than the reportable segment determined by the Group.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(18) Impairment (Continued)

When performing impairment test for the (groups of) cash-generating unit to which goodwill is allocated, if there is indication of impairment, the Group firstly tests the (groups of) cash-generating unit excluding goodwill, calculates the recoverable amount and recognizes relevant impairment losses. The Group then tests the (groups of) cash-generating units including goodwill, and compares the carrying amount and recoverable amount. If the carrying amount exceeds the recoverable amount, the amount of impairment loss is firstly deducted from the carrying amount of goodwill allocated to the (groups of) cash-generating unit, and then from the carrying amount of each of other assets (other than goodwill) within the (groups of) cash-generating unit, on pro rata basis.

Once the loss of impairment of the above-mentioned assets has been recognized, it will not be reversed in the future accounting period.

(19) 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.

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(19) Related parties (Continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(20) Contingencies

The obligation pertinent to contingencies shall be recognized as provisions when the following conditions are satisfied concurrently:

– the obligation is a present obligation of the Group;

– the obligation is probable to cause a future outflow of resources from the Group as a result of performance of the obligation; and

– the amount of the obligation can be reliably measured.

The amount of a provision is initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. To determine the best estimate, the Group takes into full consideration of risks, uncertainty, time value of money and other factors pertinent to the contingencies. The Group reviews the book value of the provisions at the end of the reporting period. If there is substantial evidence that the amount of provisions cannot reflect the current best estimate, the Group will adjust the amount in accordance with the current best estimate.

A contingent liability is a possible obligation that rises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or, a present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(21) Perpetual bonds

Perpetual bonds issued by the Group, which are satisfied with the following criteria are classified as equity instruments:

(i) Financial instruments exclude those are settled on a net basis in cash (or other financial assets);

(ii) Financial instruments must or can be settled on own equity: (a) For non-derivative contracts, they exclude those are settled gross by delivery of a variable number of own shares; (b) Derivative contracts that result in the delivery of a fixed amount of cash or other financial assets for a fixed number of an entity's own equity instruments.

The dividends for the perpetual bonds are accounted for as profit distribution.

(22) Profit distribution

After-tax profit for the year is firstly applied to make up for the losses of previous years. Secondly, the Company sets aside 10% of after-tax profit for a statutory surplus reserve, 10% of after-tax profit for a general risk reserve, and according to the requirements of the CSRC, sets aside 10% of after-tax profit for a transaction risk reserve. In addition, with the approval from the Annual General Meeting, the Company may appropriate certain proportions of net profit for a discretionary surplus reserve after setting aside the statutory surplus reserve. The remaining after-tax profit is distributed according to the resolution approved at the Annual General Meeting. If the aggregate balance of the statutory reserve has reached 50% of the Company's registered capital, appropriation for the statutory reserve is no longer mandatory.

General risk reserve and transaction risk reserve sets aside by the Company are used to make up for any losses arising from securities transactions. The Company's reserve funds are used to make up for any losses of the Company, expand the Company's business or as additional capital of the Company. However, capital reserve cannot be used to make up for the Company's losses. When the statutory reserve funds are converted to capital, the balance of the statutory reserve funds cannot be less than 25% of the Company's registered capital.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.1 Significant accounting policies (Continued)

(22) Profit distribution (Continued)

Dividends proposed by the directors are not deducted from equity, until they have been approved by the ordinary equity holders in the Annual General Meeting. When these dividends have been approved by the ordinary equity holders, they are recognized as a liability.

3.2 The impact of changes in principal accounting policies

3.2.1 The impact of changes in principal accounting policies on consolidated financial statements

The adoption of IFRS 9 from 1 January 2018 has resulted in changes in accounting policies and adjustments to the relevant amounts previously recognized in the consolidated financial statements. The Group elected not to restate the comparative figures. The adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other relevant reserves of the current period. According to the requirements of the new financial instruments standard, the Group makes relevant disclosures on current information.

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.2 The impact of changes in principal accounting policies (Continued)

3.2.1 The impact of changes in principal accounting policies on consolidated financial statements (Continued)

(1) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS 39		IFRS 9	
Financial assets	Measurement categories	Carrying amount	Measurement categories	Carrying amount
Cash held on behalf of clients	Amortized costs (Loans and receivables)	39,740,852	Amortized costs	39,740,852
Cash and bank balances	Amortized costs (Loans and receivables)	11,227,905	Amortized costs	11,227,905
Margin accounts	Amortized costs (Loans and receivables)	47,821,230	Amortized costs	47,811,699
Derivative financial assets	FVPL	120,384	FVPL (Mandatory)	120,384
Financial assets held under resale agreements	Amortized costs (Loans and receivables)	26,065,076	Amortized costs	26,063,226
Accounts receivable	Amortized costs (Loans and receivables)	1,369,856	Amortized costs	1,339,856
Refundable deposits	Amortized costs (Loans and receivables)	2,228,778	Amortized costs	2,228,778
Investment in financial instruments	FVPL (Held for trading)	32,341,915	FVPL (Mandatory)	43,997,946
	FVPL (Designated)	307,184		
	FVOCI (Debt instruments classified as available-for-sale financial assets)	34,107,891	FVOCI (Debt instruments)	25,256,315
	FVOCI (Equity instruments classified as available-for-sale financial assets)	5,473,900	FVOCI (Equity instruments)	3,411,905
	Amortized costs (Held-to-maturity investments)	578,568	Amortized costs	249,084

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.2 The impact of changes in principal accounting policies (Continued)

3.2.1 The impact of changes in principal accounting policies on consolidated financial statements (Continued)

(1) Classification and measurement of financial instruments (Continued)

There were no changes to the classification and measurement of financial liabilities, other than to changes in the fair value of financial liabilities designated as at fair value through profit or loss that are attributable to changes in the instrument's credit risk, which are now presented in other comprehensive income. Such changes have no impact to the Group.

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Group performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS 39 Carrying amount 31 December 2017	Reclassifications	Remeasurements Expected Credit Loss Allowance	IFRS 9 Carrying amount 1 January 2018
Cash held on behalf of clients	39,740,852	–	–	39,740,852
Cash and bank balances	11,227,905	–	–	11,227,905
Margin accounts	47,821,230	–	(9,531)	47,811,699
Derivative financial assets	120,384	–	–	120,384
Financial assets held under resale agreements	26,065,076	–	(1,850)	26,063,226
Accounts receivable	1,369,856	(30,000)	–	1,339,856
Refundable deposits	2,228,778	–	–	2,228,778

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.2 The impact of changes in principal accounting policies (Continued)

3.2.1 The impact of changes in principal accounting policies on consolidated financial statements (Continued)

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	IAS 39 Carrying amount 31 December 2017	Reclassifications	Remeasurements Expected Credit Loss Allowance	IFRS 9 Carrying amount 1 January 2018
Financial Instruments – Held-to-maturity investments				
Opening balance under IAS 39	578,568			
Reclassification: To FVPL (Mandatory) (IFRS 9)		(18,146)		
To FVOCI (Debt instruments) ((IFRS 9)		(299,055)		
Remeasurement: ECL allowance			(12,283)	
Financial assets at amortized costs				
Closing balance under IFRS 9				249,084

In the table above, non-reclassified held-to-maturity investments under IAS 39 are entirely recognized to financial assets at amortized costs under IFRS 9.

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.2 The impact of changes in principal accounting policies (Continued)

3.2.1 The impact of changes in principal accounting policies on consolidated financial statements (Continued)

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	IAS 39 Carrying amount 31 December 2017	Remeasurements	Reclassifications Changes in Fair Value	IFRS 9 Carrying amount 1 January 2018
Financial Instruments – FVPL (Held for trading)				
Opening balance under IAS 39	32,341,915			
Reclassification: From available for sale financial assets (IAS 39)		11,199,297		
From accounts receivable		30,000		
From held-to maturity investments (IAS 39)		18,146		
Remeasurement: From cost to fair value			102,362	
From amortized cost to fair value			(958)	
Financial Instruments – FVPL (Designated)				
Opening balance under IAS 39	307,184			
FVPL (Mandatory)				
Closing balance under IFRS 9				43,997,946

In the table above, the financial assets at fair value through profit or loss and those reclassified from other financial assets under IAS 39 are entirely recognized to financial assets at fair value through profit or loss (mandatory) under IFRS 9.

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.2 The impact of changes in principal accounting policies (Continued)

3.2.1 The impact of changes in principal accounting policies on consolidated financial statements (Continued)

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	IAS 39 Carrying amount 31 December 2017	Reclassifications	Remeasurements Changes in Fair Value	IFRS 9 Carrying amount 1 January 2018
Financial Instruments – FVOCI (Debt instruments classified as available-for-sale financial assets)				
Opening balance under IAS 39	34,107,891			
Reclassification: From held-to-maturity investments (IAS 39)		299,451		
To FVPL (Mandatory) (IFRS 9)		(9,137,302)		
Remeasurement: From amortized cost to fair value			(13,725)	
Closing balance under IFRS 9 FVOCI (Debt instruments)				25,256,315

In the table above, non-reclassified debt instruments of available-for-sale financial assets and those reclassified from other financial assets under IAS 39 are entirely recognized to the financial assets at fair value through other comprehensive income (debt instruments) under IFRS 9.

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.2 The impact of changes in principal accounting policies (Continued)

3.2.1 The impact of changes in principal accounting policies on consolidated financial statements (Continued)

(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

	IAS 39 Carrying amount 31 December 2017	Reclassifications	Remeasurements Changes in Fair Value	IFRS 9 Carrying amount 1 January 2018
Financial Instruments – FVOCI (Equity instruments classified as available-for-sale financial assets)				
Opening balance under IAS 39	5,473,900			
Reclassification: To FVPL (Mandatory) (IFRS 9)		(2,061,995)		
Closing balance under IFRS 9 FVOCI (Equity instruments)				3,411,905

In the table above, non-reclassified equity instruments of available-for-sale financial assets are entirely recognized to the financial assets at fair value through other comprehensive income (equity instruments) under IFRS 9.

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.2 The impact of changes in principal accounting policies (Continued)

3.2.1 The impact of changes in principal accounting policies on consolidated financial statements (Continued)

(3) *Reconciliation of impairment allowance balance from IAS 39 to IFRS 9*

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model as at 1 January 2018.

	Loan Loss Allowance under IAS 39	Reclassifications	Remeasurements	Loan Loss Allowance under IFRS 9
Loans and Receivables (IAS 39)/ Financial assets at amortized costs (IFRS 9)				
Margin accounts	111,466	–	9,531	120,997
Financial assets held under resale agreements	42,647	–	1,850	44,497
Total	154,113	–	11,381	165,494
Held-to-maturity investments (IAS 39)/ Financial assets at amortized costs (IFRS 9)				
Financial instruments	396	(396)	12,283	12,283
Available-for-sale financial assets (IAS 39)/Financial assets at fair value through other comprehensive income/ (IFRS 9)				
Financial instruments	76,484	(76,484)	4,391	4,391

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.2 The impact of changes in principal accounting policies (Continued)

3.2.2 The impact of changes in principal accounting policies on corporate financial statements

The adoption of IFRS 9 from 1 January 2018 has resulted in changes in accounting policies and adjustments to the relevant amounts previously recognized in the corporate financial statements. The Company elected not to restate the comparative figures. The adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other relevant reserves of the current period.

According to the requirements of the new financial instruments standard, the Company makes relevant disclosures on current information.

(1) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS39		IFRS9	
Financial assets	Measurement categories	Carrying amount	Measurement categories	Carrying amount
Cash held on behalf of clients	Amortized costs (Loans and receivables)	35,024,479	Amortized costs	35,024,479
Cash and bank balances	Amortized costs (Loans and receivables)	9,779,983	Amortized costs	9,779,983
Margin accounts	Amortized costs (Loans and receivables)	46,162,994	Amortized costs	46,158,294
Derivative financial assets	FVPL	120,384	FVPL (Mandatory)	120,384
Financial assets held under resale agreements	Amortized costs (Loans and receivables)	25,388,056	Amortized costs	25,387,134
Accounts receivable	Amortized costs (Loans and receivables)	1,202,919	Amortized costs	1,202,919
Refundable deposits	Amortized costs (Loans and receivables)	691,871	Amortized costs	691,871

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.2 The impact of changes in principal accounting policies *(Continued)*

3.2.2 The impact of changes in principal accounting policies on corporate financial statements (Continued)

(1) Classification and measurement of financial instruments (Continued)

	IAS39		IFRS9	
Financial assets	Measurement categories	Carrying amount	Measurement categories	Carrying amount
Investment in financial instruments	FVPL (Held for trading)	20,228,355	FVPL (Mandatory)	30,930,916
	FVPL (Designated)	307,184		
	FVOCI (Debt instruments classified as available-for-sale financial assets)	34,833,149	FVOCI (Debt instruments)	24,937,549
	FVOCI (Equity instruments classified as available-for-sale financial assets)	3,911,684	FVOCI (Equity instruments)	3,411,905

There were no changes to the classification and measurement of financial liabilities, other than to changes in the fair value of financial liabilities designated as at fair value through profit or loss that are attributable to changes in the instrument's credit risk, which are now presented in other comprehensive income. Such changes have no impact to the Corporate.

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.2 The impact of changes in principal accounting policies (Continued)

3.2.2 The impact of changes in principal accounting policies on corporate financial statements (Continued)

(2) *Reconciliation of statement of financial position balances from IAS 39 to IFRS 9*

The Company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS39 Carrying amount 31 December 2017	Reclassifications	Remeasurements Expected Credit Loss Allowance	IFRS9 Carrying amount 1 January 2018
Cash held on behalf of clients	35,024,479	–	–	35,024,479
Cash and bank balances	9,779,983	–	–	9,779,983
Margin accounts	46,162,994	–	(4,700)	46,158,294
Derivative financial assets	120,384	–	–	120,384
Financial assets held under resale agreements	25,388,056	–	(922)	25,387,134
Accounts receivable	1,202,919	–	–	1,202,919
Refundable deposits	691,871	–	–	691,871

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.2 The impact of changes in principal accounting policies (Continued)

3.2.2 The impact of changes in principal accounting policies on corporate financial statements (Continued)

(2) *Reconciliation of statement of financial position balances from IAS 39 to IFRS 9* (Continued)

	IAS 39 Carrying amount 31 December 2017	Reclassifications	Remeasurements Changes in Fair Value	IFRS 9 Carrying amount 1 January 2018
Financial Instruments – FVPL (Held for trading)				
Opening balance under IAS 39	20,228,355			
Reclassification: From available for sale financial assets (IAS 39)		10,395,377		
Financial Instruments – FVPL (Designated)				
Opening balance under IAS 39	307,184			
FVPL (Mandatory)				
Closing balance under IFRS 9				30,930,916

In the table above, the financial assets at fair value through profit or loss and those reclassified from other financial assets under IAS 39 are entirely recognized to financial assets at fair value through profit or loss (mandatory) under IFRS 9.

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.2 The impact of changes in principal accounting policies (Continued)

3.2.2 The impact of changes in principal accounting policies on corporate financial statements (Continued)

(2) *Reconciliation of statement of financial position balances from IAS 39 to IFRS 9* (Continued)

	IAS 39 Carrying amount 31 December 2017	Reclassifications	Remeasurements Changes in Fair Value	IFRS 9 Carrying amount 1 January 2018
Financial Instruments – FVOCI (Debt instruments classified as available-for-sale financial assets)				
Opening balance under IAS 39	34,833,149			
Reclassification: To FVPL (Mandatory) (IFRS 9)		(9,895,600)		
Closing balance under IFRS 9 FVOCI (Debt instruments)				24,937,549

In the table above, non-reclassified debt instruments of available-for-sale financial assets are entirely recognized to the financial assets at fair value through other comprehensive income (debt instruments) under IFRS 9.

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.2 The impact of changes in principal accounting policies (Continued)

3.2.2 The impact of changes in principal accounting policies on corporate financial statements (Continued)

(2) *Reconciliation of statement of financial position balances from IAS 39 to IFRS 9* (Continued)

	IAS 39 Carrying amount 31 December 2017	Reclassifications	Remeasurements Changes in Fair Value	IFRS 9 Carrying amount 1 January 2018
Financial Instruments – FVOCI (Equity instruments classified as available-for-sale financial assets)				
Opening balance under IAS 39	3,911,684			
Reclassification: To FVPL (Mandatory) (IFRS 9)		(499,779)		
Closing balance under IFRS 9 FVOCI (Equity instruments)				3,411,905

In the table above, non-reclassified equity instruments of available-for-sale financial assets are entirely recognized to the financial assets at fair value through other comprehensive income (equity instruments) under IFRS 9.

(In RMB thousands, unless otherwise stated)

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.2 The impact of changes in principal accounting policies (Continued)

3.2.2 The impact of changes in principal accounting policies on corporate financial statements (Continued)

(3) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model as at 1 January 2018.

	Loan Loss Allowance under IAS 39	Reclassifications	Remeasurements	Loan Loss Allowance under IFRS 9
Loans and Receivables (IAS 39)/ Financial assets at amortized costs (IFRS 9)				
Margin accounts	111,466	–	4,700	116,166
Financial assets held under resale agreements	42,647	–	922	43,569
Total	154,113	–	5,622	159,735
Available-for-sale financial assets (IAS 39)/Financial assets at fair value through other comprehensive income/ (IFRS 9)				
Financial instruments	24,532	(24,532)	4,021	4,021

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.3 Significant accounting judgements and estimates

During the preparation of the Group's financial statements, management will make judgements, estimates and assumptions about the impact of future uncertainties on revenue, expenses, assets and liabilities, and disclosure of contingent liabilities. At the end of the reporting period, management makes the following judgements and main assumptions on major future uncertainties, which may lead to adjustments in the book value of assets and liabilities during the accounting period.

(1) Measurement of the expected credit loss allowance

Expected credit loss measurement

The measurement of the expected credit loss allowance for debt instruments investments of financial assets measured at amortized cost and FVOCI is an area that requires the use of models and assumptions about future economic conditions and credit behavior of the client (such as the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

– Determining criteria for significant increase in credit risk;

– Choosing appropriate models and assumptions for the measurement of ECL;

– Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

Inputs, assumptions and estimation techniques

The ECL of different financial portfolios is measured by the Group on either a 12-month or lifetime basis depending on whether they are in Stage 1, 2 or 3 as defined above.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.3 Significant accounting judgements and estimates (Continued)

(1) Measurement of the expected credit loss allowance (Continued)

Forward-looking information incorporated in the ECL model

A pervasive concept in measuring ECL in accordance with IFRS9 is that it should consider forward-looking information. The assessment of SICR and the calculation of ECL both incorporated forward-looking information. The Group has performed historical data and identified the key economic variables impacting credit risk and ECL for each financial instrument portfolio. These economic variables and their associated impact on the PD vary by product type. The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

Details of the significant accounting judgements and estimates above please refer to Note 58.1.

(2) Classification of financial assets

When the Group determines the classification of financial assets, a number of significant judgements in the business model and the contractual cash flow characteristics of the financial assets are required.

Factors considered by the Group in determining the business model for a group of financial assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

When the Group assesses whether the contractual cash flows of the financial assets are consistent with basic lending arrangements, the main judgements are described as below: whether the principal amount may change over the life of the financial asset (for example, if there are prepayment of principal); whether the interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin and cost, associated with holding the financial asset for a particular period of time.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.3 Significant accounting judgements and estimates (Continued)

(3) Fair Value of Financial Instruments

For financial instruments where there is a lack of active market, the Group uses valuation methods to determine its fair value. Valuation methods include referring to the transaction price determined when fair transactions are conducted between economic entities with complete information and willingness to buy and sell in the market, referring to the fair value of another similar financial instrument in the market, or using cash flow discount analysis and option pricing model to estimate. Valuation methods maximize the use of observable market information. However, when observable market information is unavailable, management will estimate the significant non-observable information included in the valuation methods.

(4) Income tax

The Group needs to make a judgement on future tax treatment of certain transactions to confirm income tax. In accordance with relevant tax regulations, the Group carefully judges the impact of income tax on transactions and accordingly calculates income tax. The deferred income tax assets can only be recognized when there is a possibility of future taxable profits and can be used to offset the temporary differences. This requires a major judgement on the tax treatment of certain transactions and a significant estimate of the possibility of having sufficient future taxable profits to offset deferred income tax assets.

(5) Consolidation of Structured Entities

Management needs to make important judgements on whether to control and consolidate structured entities, confirming whether it will affect accounting treatment and the financial situation and operating results of the Group.

In assessing control, the Group needs to consider: 1) the power of the investor to the investee; 2) the variable return enjoyed by the investee in the relevant activities; and 3) the ability to use the power of the investee to influence the amount of its return. If one or more of the three control elements mentioned above change, the Group will reassess whether control still exists.

3 SIGNIFICANT ACCOUNTING POLICIES, SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

3.3 Significant accounting judgements and estimates (Continued)

(5) Consolidation of Structured Entities (Continued)

In judging whether the Group controls the structured entities, it also needs to consider whether the Group's decision-making behavior is carried out as a principal or as an agent. Considerations usually include the scope of decision-making power of the Group to the structured entities, the substantive rights enjoyed by other parties, the level of remuneration of the Group, and the risk that the Group bears variable returns for holding other interests of the structured entities.

4 TAXATION

According to relevant PRC tax policies, the most significant categories of taxes to which the Group is currently subjected are as follows:

(1) Income tax

From 1 January 2008, the "Enterprise Income Tax Law of the PRC" and the "Regulations on the Implementation of Enterprise Income Tax Law of the PRC" became effective for the Company and its subsidiaries excluding China Futures Co., Ltd. and China Securities (International) Finance Holding Co., Ltd. Income tax computation and payment are governed by the "Announcement of the State Administration of Taxation on Printing and Distributing Administrative Measures for Collection of Consolidated Payments of Enterprise Income Tax by Enterprises with Multi-Location Operations" (Public Notice of the State Administration of Taxation [2012] No. 57). The PRC Enterprise income tax rate applicable to the Company is 25%.

In accordance with Explanation on Implementation of Tax Preferential Treatments concerning Western China Development Strategy issued by local taxation bureau in Yuzhong District, Chongqing City, the applicable income tax rates for China Futures Co., Ltd. is 15%.

The income tax rate for China Securities (International) Finance Holding Co., Ltd. (a Hong Kong Company) is 16.5%.

4 TAXATION (Continued)

(2) Value added tax

Pursuant to the "Circular regarding the Comprehensive Implementation of the Pilot Programs for Transformation from Business Taxes to Value-added Taxes (the "VAT Pilot Programs")" (Cai Shui [2016] No. 36), the "Circular regarding Further Clarification of Relevant Policies Applicable to the Financial Sector in the Comprehensive Implementation of the VAT Pilot Programs (Cai Shui [2016] No. 46), the "Supplementary Circular regarding VAT Policies Applicable to Transactions between Financial Institutions" (Cai Shui [2016] No.70) issued by the Ministry of Finance (the "MOF") and the State Administration of Taxation (the "SAT") of the PRC, effective from 1 May 2016, the Group is subject to value-added taxes on its income from principal businesses at 6%.

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.

After the implementation of the VAT Pilot Programs, the Group's related income is presented at value net of its respective VAT in the consolidated income statement.

(3) Urban maintenance and construction taxes and educational surcharges are charged at 7% and 3% of turnover taxes payable, respectively. In addition, according to the provisions of "Administrative Measures for Collection and Usage of Local Educational Surcharges in Beijing" (Jin Zheng Fa [2011] No. 72), since 1 January 2012, the local educational surcharges of the Company's head office and securities trading department located in Beijing are levied at 2% of the total amount of value-added tax, consumption tax and business tax.

(4) Vehicle and vessel taxes, property taxes and stamp duties are levied in accordance with the provisions of the relevant tax laws and regulations.

5 OPERATING SEGMENT INFORMATION

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 engaged in the following activities.

Investment banking segment: provides investment banking services, including financial advisory, sponsoring, underwriting of equity and debt securities.

Wealth management segment: serves as a brokerage agent for corporate and personal clients in the trading of equity stocks, funds, bonds and futures; and provides margin financing and securities lending services to these clients.

Trading and institutional client services segment: engages in trading of financial products; serves as a brokerage agent for institutional clients (financial institutions) in the trading of equity stocks, funds and bonds, and provides them with margin financing and securities lending; provides services in relation to sales of financial products to institutional clients, and provides specialized research and advisory services to assist their investment decision-making.

Investment management segment: develops asset management products, fund management products services, and private placement offerings, and provides related services through subsidiaries and consolidated structured entities.

Other segment: primarily the treasury function from the head office.

Management monitors the performance and results of these operating segments for considerations of resource allocation and operating decision-making.

Income taxes are managed as a whole and are not allocated to operating segments.

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

5 OPERATING SEGMENT INFORMATION (Continued)

	Year ended 31 December 2018					
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Total
Segment revenue and other income						
Fee and commission income	3,315,909	2,138,373	814,164	963,236	–	7,231,682
Interest income	–	4,199,034	1,954,304	38,181	572,675	6,764,194
Net investment gains	–	–	1,903,580	513,318	–	2,416,898
Other income	2,445	43,926	(6,524)	10,323	28,898	79,068
Total revenue and other income	3,318,354	6,381,333	4,665,524	1,525,058	601,573	16,491,842
Segment expenses	(1,509,888)	(6,282,873)	(3,805,570)	(601,349)	(248,593)	(12,448,273)
Including: Interest expenses	(88,586)	(2,232,980)	(2,328,462)	(120,822)	–	(4,770,850)
Credit impairment losses	(4,096)	(1,094,400)	(51,767)	(2,970)	(672)	(1,153,905)
Operating profit	1,808,466	98,460	859,954	923,709	352,980	4,043,569
Share of profits and losses of associates	–	–	–	9,865	(1,991)	7,874
Profit before income tax	1,808,466	98,460	859,954	933,574	350,989	4,051,443
Income tax expense						(948,015)
Net profit for the year						3,103,428
Total assets	162,883	63,400,418	101,417,703	14,750,587	15,350,722	195,082,313
Total Liabilities	2,275,166	64,834,560	63,544,538	10,846,805	5,717,847	147,218,916
Other segment information:						
Depreciation and amortization	64,851	78,799	63,149	24,443	18,367	249,609
Capital expenditure	43,034	53,225	42,052	21,781	12,773	172,865

(In RMB thousands, unless otherwise stated)

5 OPERATING SEGMENT INFORMATION (Continued)

	Year ended 31 December 2017					
	Investment banking	Wealth management	Trading and institutional client services	Investment management	Others	Total
Segment revenue and other income						
Fee and commission income	3,740,546	2,967,834	893,206	1,179,347	–	8,780,933
Interest income	–	4,209,732	617,049	30,428	399,966	5,257,175
Net investment gains	–	–	1,928,985	485,282	–	2,414,267
Other income	292	42,445	4,641	12,667	(91,025)	(30,980)
Total revenue and other income	3,740,838	7,220,011	3,443,881	1,707,724	308,941	16,421,395
Segment expenses	(1,834,157)	(5,331,498)	(3,079,353)	(594,567)	(232,570)	(11,072,145)
Including: Interest expenses	(83,293)	(1,840,648)	(1,909,017)	(99,000)	–	(3,931,958)
Provision for Impairment losses	(188)	(43,268)	(9,212)	(23,672)	–	(76,340)
Operating profit	1,906,681	1,888,513	364,528	1,113,157	76,371	5,349,250
Share of profits and losses of associates	–	–	–	6,156	(69)	6,087
Profit before income tax	1,906,681	1,888,513	364,528	1,119,313	76,302	5,355,337
Income tax expense						(1,293,690)
Net profit for the year						4,061,647
Total assets	197,783	92,137,982	90,364,365	13,198,623	9,984,639	205,883,392
Total liabilities	3,336,108	81,984,887	57,290,164	11,476,993	7,796,462	161,884,614
Other segment information:						
Depreciation and amortization	74,504	53,026	54,683	27,701	25,277	235,191
Capital expenditure	73,036	67,007	58,837	26,815	32,537	258,232

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

6 FEE AND COMMISSION INCOME

	Year ended 31 December	
	2018	2017
Brokerage services income	2,849,065	3,771,540
Investment banking income	3,315,909	3,740,546
Asset and fund management income	963,236	1,179,347
Others	103,472	89,500
Total	7,231,682	8,780,933

7 INTEREST INCOME

	Year ended 31 December	
	2018	2017
Margin financing and securities lending	2,743,325	2,945,680
Bank deposits	1,555,543	1,567,673
Financial assets held under resale agreements	1,222,325	720,996
Financial assets at fair value through other comprehensive income	1,215,444	
Financial assets at amortized costs	27,320	
Others	237	22,826
Total	6,764,194	5,257,175

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

8 NET INVESTMENT GAINS

	Year ended 31 December	
	2018	2017
Net gains from disposal of financial assets at fair value through other comprehensive income	89,402	
Net gains from disposal of available-for-sale financial assets		8,798
Dividend income from financial assets at fair value through other comprehensive income	262,695	
Dividend and interest income from available-for-sale financial assets		1,532,874
Net gains from financial assets at fair value through profit or loss	889,718	
Net gains from financial assets held for trading		1,073,796
Net losses from financial liabilities at fair value through profit or loss	(74,667)	
Net gains from financial liabilities held for trading		17,828
Net gains from financial instruments designated as at fair value through profit or loss		14,800
Net gains from derivatives	1,585,289	185,409
Interest Income from held-to-maturity investments		46,105
Net gains or losses attributable to other interest holders of consolidated structured entities	(360,833)	(465,343)
Gains on disposal of an associated company	25,294	–
Total	2,416,898	2,414,267

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

9 OTHER INCOME/(LOSS)

	Year ended 31 December	
	2018	2017
Government grants	28,143	41,145
Rental income	16,160	14,921
Gains on disposal of property, plant and equipment	231	473
Net losses on foreign exchange	(22,371)	(119,214)
Others	56,905	31,695
Total	79,068	(30,980)

(In RMB thousands, unless otherwise stated)

10 EXPENSES

	Year ended 31 December 2018	2017
Fee and commission expenses:		
Brokerage expenses	557,809	726,005
Investment banking expenses	181,250	392,684
Others	63,688	53,581
Total	802,747	1,172,270
Interest expenses:		
Bonds in issue and short-term financing instruments payable	2,818,937	1,962,635
Financial assets sold under repurchase agreements	1,106,105	1,123,691
Placements from banks and other financial institutions	555,027	482,978
Accounts payable to brokerage clients	155,269	192,981
Borrowings	64,389	45,549
Others	71,123	124,124
Total	4,770,850	3,931,958
Staff costs (including directors' and supervisors' remuneration):		
Salaries, bonuses and allowances	3,212,391	3,410,799
Staff benefits	431,745	413,047
Contributions to defined contribution schemes (i)	309,946	279,398
Total	3,954,082	4,103,244

(In RMB thousands, unless otherwise stated)

10 EXPENSES (Continued)

(i) Retirement benefits are included, and their nature is described below:

Full-time employees of the Group in Mainland China are covered by various government-sponsored retirement plans including social pension schemes and corporate pension schemes, under which the employees are entitled to a monthly pension. Relevant government agencies determine the amount of pension benefits and are responsible for the related pension liabilities to eligible retired employees. The Group is required to make monthly contributions to these government-sponsored retirement plans for active employees, which are expensed as incurred. The Group has no obligation for post-retirement benefits beyond these contributions.

In addition, the Group participates in various defined contribution retirement schemes for its qualified employees in certain countries or regions outside of Mainland China.

Other operating expenses and costs:

	Year ended 31 December	
	2018	2017
Leasing expenses	367,058	294,399
Depreciation and amortization expenses	249,609	235,191
Electronic equipment operating expenses	179,196	204,546
Business travel expenses	167,330	182,303
Office operating expenses	119,414	74,737
Postal and communication expenses	97,243	111,256
Business entertainment expenses	93,970	108,595
Membership fees of exchanges	68,837	67,378
Vehicle operating expenses	61,812	75,177
Securities investor protection fund	47,318	47,355
Auditors' remuneration	4,389	2,080
Including: Audit service	3,927	1,981
Non-audit service	462	99
Others	230,585	298,150
Total	1,686,761	1,701,167

(In RMB thousands, unless otherwise stated)

11 DIRECTORS' AND SUPERVISORS' REMUNERATION

(1) Details of the directors' and supervisors' remuneration before tax are as follows:

	Year ended 31 December 2018					
Name	Salaries, allowances and other benefits	Discretionary bonuses	Deferred bonuses (i)	Directors' fees	Retirement benefits	Total remuneration before tax
Executive Directors						
Wang Changqing (Chairman)						
Current year	2,067	1,750	–	–	122	3,939
31 December 2013	–	–	4,000	–	–	4,000
Qi Liang (President) *(ii)*						
Current year	840	1,800	–	–	48	2,688
31 December 2013	–	–	4,000	–	–	4,000
Li Geping (President) *(iii)*						
Current year	1,602	–	–	–	93	1,695
Non-executive Directors						
Yu Zhongfu	–	–	–	–	–	–
Dong Shi *(iv)*	–	–	–	–	–	–
Zhang Qin *(v)*	–	–	–	–	–	–
Zhu Jia *(v)*	–	–	–	–	–	–
Wang Hao *(iv)*	–	–	–	–	–	–
Wang Bo *(v)*	–	–	–	–	–	–
Xu Gang *(vi)*	–	–	–	–	–	–
Wang Chenyang *(vii)*	–	–	–	–	–	–
Wang Shouye *(vii)*	–	–	–	–	–	–
Hu Donghui *(vii)*	–	–	–	–	–	–
Independent Non-executive Directors						
Feng Genfu	–	–	–	230	–	230
Zhu Shengqin	–	–	–	230	–	230
Dai Deming	–	–	–	230	–	230
Bai Jianjun	–	–	–	230	–	230
Liu Qiao	–	–	–	230	–	230
Supervisors						
Li Shihua						
Current year	1,482	1,800	–	–	100	3,382
31 December 2013	–	–	2,000	–	–	2,000
Ai Bo	–	–	–	–	–	–
Zhao Lijun *(viii)*	–	–	–	–	–	–
Lu Ya						
Current year	1,171	1,860	–	–	93	3,124
31 December 2014	–	–	1,100	–	–	1,100
Lin Xuan *(viii)*						
Current year	1,533	2,400	–	–	96	4,029
31 December 2014	–	–	1,900	–	–	1,900
Wu Lili *(ix)*	465	220	–	–	69	754
Wang Jing *(ix)*	–	–	–	–	–	–
Liu Hui *(ix)*	–	–	–	–	–	–
Total	9,160	9,830	13,000	1,150	621	33,761

(In RMB thousands, unless otherwise stated)

11 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(1) Details of the directors' and supervisors' remuneration before tax are as follows (continued):

	Year ended 31 December 2017					
Name	Salaries, allowances and other benefits	Discretionary bonuses	Deferred bonuses (i)	Directors' fees	Retirement benefits	Total remuneration before tax
Executive Directors						
Wang Changqing *(Chairman)*	2,146	2,200	–	–	117	4,463
Qi Liang *(President) (ii)*	2,011	2,200	–	–	113	4,324
Non-executive Directors						
Yu Zhongfu	–	–	–	–	–	–
Hu Donghui *(vii)*	–	–	–	–	–	–
Wang Chenyang	–	–	–	–	–	–
Wang Shouye	–	–	–	–	–	–
Xu Gang *(vi)*	–	–	–	–	–	–
Dong Shi *(iv)*	–	–	–	–	–	–
Wang Hao *(iv)*	–	–	–	–	–	–
Qiu Jianyang *(x)*	–	–	–	–	–	–
Liu Dingping *(xi)*	–	–	–	–	–	–
Wang Shumin *(xi)*	–	–	–	–	–	–
Independent Non-executive Directors						
Feng Genfu	–	–	–	175	–	175
Zhu Shengqin	–	–	–	170	–	170
Dai Deming	–	–	–	175	–	175
Bai Jianjun	–	–	–	175	–	175
Liu Qiao	–	–	–	175	–	175
Supervisors						
Li Shihua	1,528	2,200	–	–	95	3,823
Lu Ya						
Current year	1,208	1,500	–	–	88	2,796
31 December 2013	–	–	800	–	–	800
Wu Lili *(ix)*	727	180	–	–	63	970
Wang Jing *(ix)*	–	–	–	–	–	–
Ai Bo	–	–	–	–	–	–
Liu Hui *(ix)*	–	–	–	–	–	–
Total	7,620	8,280	800	870	476	18,046

11 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(1) Details of the directors' and supervisors' remuneration before tax are as follow (continued):

(i) For the year ended 31 December 2018, Executive Director Wang Changqing received deferred bonuses for the year ended 31 December 2013 of RMB4.00 million, Executive Director Qi Liang received deferred bonuses for the year ended 31 December 2013 of RMB4.00 million, Supervisor Li Shihua received deferred bonuses for the year ended 31 December 2013 of RMB2.00 million, Supervisor Lu Ya received deferred bonuses for the year ended 31 December 2014 of RMB1.10 million, Supervisor Lin Xuan received deferred bonuses for the year ended 31 December 2014 of RMB1.90 million.

For each of the years ended 31 December 2018 and 31 December 2017, no directors and supervisors waived their remuneration. For non-executive directors and supervisors whose remuneration were not paid by the Group was shown as zero in tables.

(ii) Qi Liang resigned as executive director in April 2018.

(iii) Li Geping was appointed as executive director in April 2018.

(iv) Dong Shi and Wang Hao were appointed as non-executive director in December 2017.

(v) Zhang Qin, Zhu Jia and Wang Bo were appointed as non-executive director in April 2018.

(vi) Xu Gang was appointed as non-executive director in June 2017.

(vii) Wang Chenyang, Wang Shouye and Hu Donghui resigned as non-executive director in April 2018.

(viii) Zhao Lijun and Lin Xuan were appointed as supervisor in April 2018.

(ix) Wu Lili, Wang Jing and Liu Hui resigned as supervisor in April 2018.

(x) Qiu Jianyang resigned as non-executive director in March 2017.

(xi) Liu Dingping and Wang Shumin resigned as non-executive director in December 2017.

(In RMB thousands, unless otherwise stated)

11 DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(2) Other benefits and rights of directors and supervisors

For each of the years ended 31 December 2018 and 31 December 2017, no emoluments were paid by the Group to any of the persons who are directors, or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office. Except for the contributions to social pension schemes and corporate pension schemes, there were no other retirement benefits for directors or supervisors; meanwhile, there were no consideration provided to third parties for making available directors' and supervisor' services.

For each of the years ended 31 December 2018 and 31 December 2017, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly. In addition, the Group did not provide any guarantees or securities to certain controlled body corporates and connected entities of the directors or supervisors in respect of their loans, quasi-loans or credit transactions.

12 FIVE HIGHEST PAID EMPLOYEES

For the year ended 31 December 2018 and 31 December 2017, the five highest paid employees excluded directors and supervisors are as follows:

	Year ended 31 December	
	2018	2017
Salaries, allowances and other benefits	10,053	8,071
Discretionary bonuses	18,747	28,560
Deferred bonuses	6,500	3,750
Retirement benefits	403	426
Total	35,703	40,807

(In RMB thousands, unless otherwise stated)

12 FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of these individuals whose remuneration fell within the following bands is set out below:

	Year ended 31 December	
	2018	2017
RMB6,000,001 to RMB7,000,000 yuan	1	–
RMB7,000,001 to RMB8,000,000 yuan	4	2
RMB8,000,001 to RMB9,000,000 yuan	–	3
Total	5	5

For each of the years ended 31 December 2018 and 31 December 2017, no remunerations were paid by the Group to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13 PROVISION FOR IMPAIRMENT LOSSES

	Year ended 31 December	
	2018	2017
Margin financing		24,523
Financial assets held under resale agreements		19,111
Available-for-sale financial assets		32,140
Held-to-maturity investments		396
Others		170
Total	–	76,340

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

14 CREDIT IMPAIRMENT LOSSES

	Year ended 31 December	
	2018	2017
Margin financing	1,075,771	
Financial assets held under resale agreements	75,071	
Financial assets at fair value through other comprehensive income	5,819	
Financial assets at amortized costs	(7,552)	
Others	4,796	
Total	1,153,905	

15 INCOME TAX EXPENSE

(1) Income tax

	Year ended 31 December	
	2018	2017
Current income tax		
– Mainland China	882,244	1,244,142
– Hong Kong	24,651	18,672
Subtotal	906,895	1,262,814
Deferred income tax	41,120	30,876
Total	948,015	1,293,690

(In RMB thousands, unless otherwise stated)

15 INCOME TAX EXPENSE (Continued)

(2) Reconciliation between income tax and accounting profit

A reconciliation of the income tax expense applicable to profit before tax at the PRC statutory income tax rate of 25% to income tax expense at the Group's effective income tax rate is as follows:

	Year ended 31 December	
	2018	2017
Profit before income tax	4,051,443	5,355,337
Income tax at the PRC statutory income tax rate	1,012,861	1,338,834
Effects of different applicable rates of tax prevailing in various jurisdictions	(13,407)	(30,190)
Non-deductible expenses	20,501	31,924
Non-taxable income	(75,291)	(37,959)
Others	3,351	(8,919)
Income tax expenses at the Group's effective income tax rate	948,015	1,293,690

16 DIVIDENDS

	Year ended 31 December	
	2018	2017
Dividends on ordinary shares proposed but not paid	1,376,351	1,304,349
Distribution to other equity instrument holders *(Note 17(i))*	294,000	294,000

No dividends on ordinary shares during the year 2018 were paid, declared or proposed in respect of the current year.

A cash dividend of RMB1.80 (tax inclusive) per 10 ordinary shares related to the year of 2017, amounting to RMB1,376 million (tax inclusive) in total and based on 7,646,385,238 shares was approved, at the 2018 second extraordinary general meeting held on 30 October 2018.

A cash dividend of RMB1.80 (tax inclusive) per 10 ordinary shares related to the year of 2016, amounting to RMB1,304 million (tax inclusive) in total and based on 7,246,385,238 shares was approved, at the annual general meeting held on 8 June 2017.

17 EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Basic earnings per share was calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding. The calculations of basic and diluted earnings per share are based on:

	Year ended 31 December	
	2018	2017
Earnings:		
Profit attributable to equity holders of the Company	3,087,460	4,015,428
Less: Profit attributable to other equity instrument holders of the Company [(i)]	(294,000)	(294,000)
Profit attributable to ordinary equity holders of the Company	2,793,460	3,721,428
Shares:		
Weighted average number of ordinary shares in issue *(thousand) (Note 49)*	7,458,988	7,245,427
Basic and diluted earnings per share *(in RMB yuan)*	0.37	0.51

There were no dilutive shares during the years ended 31 December 2018 (years ended 31 December 2017: None).

(i) The Company issued two batches of perpetual subordinated bonds during the year ended 31 December 2015, under the terms and conditions as detailed in Note 50 Other Equity Instruments.

For the purpose of calculating basic earnings per ordinary share, distributions for perpetual subordinated bonds were deducted from the profit attributable to ordinary equity holders of the Company.

(In RMB thousands, unless otherwise stated)

18 PROPERTY, PLANT AND EQUIPMENT

	Properties and buildings	Electronic devices	Transportation vehicles	Communication equipment	Office equipment	Security equipment	Others	Total
Cost								
1 January 2018	431,472	573,243	37,551	7,326	78,539	9,216	36,647	1,173,994
Increases	–	50,746	563	432	3,072	347	1,913	57,073
Decreases	–	(14,319)	(941)	(88)	(1,565)	(364)	(12)	(17,289)
31 December 2018	431,472	609,670	37,173	7,670	80,046	9,199	38,548	1,213,778
Accumulated depreciation								
1 January 2018	(110,467)	(411,852)	(31,960)	(5,642)	(62,181)	(6,922)	(29,767)	(658,791)
Increases	(11,712)	(93,388)	(2,069)	(662)	(9,493)	(625)	(2,086)	(120,035)
Decreases	–	13,526	913	86	1,534	353	12	16,424
31 December 2018	(122,179)	(491,714)	(33,116)	(6,218)	(70,140)	(7,194)	(31,841)	(762,402)
Net carrying amount								
31 December 2018	309,293	117,956	4,057	1,452	9,906	2,005	6,707	451,376
Cost								
1 January 2017	424,761	501,669	37,485	7,240	71,357	8,817	31,031	1,082,360
Increases	6,711	92,566	853	116	8,912	786	5,789	115,733
Decreases	–	(20,992)	(787)	(30)	(1,730)	(387)	(173)	(24,099)
31 December 2017	431,472	573,243	37,551	7,326	78,539	9,216	36,647	1,173,994
Accumulated depreciation								
1 January 2017	(96,773)	(337,623)	(29,492)	(4,946)	(54,536)	(6,737)	(28,936)	(559,043)
Increases	(13,694)	(94,907)	(3,124)	(725)	(9,199)	(558)	(999)	(123,206)
Decreases	–	20,678	656	29	1,554	373	168	23,458
31 December 2017	(110,467)	(411,852)	(31,960)	(5,642)	(62,181)	(6,922)	(29,767)	(658,791)
Net carrying amount								
31 December 2017	321,005	161,391	5,591	1,684	16,358	2,294	6,880	515,203

(In RMB thousands, unless otherwise stated)

19 INTANGIBLE ASSETS

	Software	Trading seat rights and others	Total
Cost			
1 January 2018	354,791	75,918	430,709
Increases	74,770	–	74,770
Decreases	(39)	–	(39)
Foreign currency translation differences	472	20	492
31 December 2018	429,994	75,938	505,932
Accumulated amortization			
1 January 2018	(191,217)	(69,600)	(260,817)
Increases	(57,910)	–	(57,910)
Decreases	39	–	39
Foreign currency translation differences	(329)	–	(329)
31 December 2018	(249,417)	(69,600)	(319,017)
Net carrying amount			
31 December 2018	180,577	6,338	186,915
Cost			
1 January 2017	282,286	75,947	358,233
Increases	73,128	–	73,128
Decreases	(623)	(29)	(652)
31 December 2017	354,791	75,918	430,709
Accumulated amortization			
1 January 2017	(144,213)	(69,600)	(213,813)
Increases	(47,307)	–	(47,307)
Decreases	303	–	303
31 December 2017	(191,217)	(69,600)	(260,817)
Net carrying amount			
31 December 2017	163,574	6,318	169,892

(In RMB thousands, unless otherwise stated)

20 INVESTMENTS IN SUBSIDIARIES

	31 December 2017	31 December 2016
Investments in subsidiaries	4,093,123	2,042,653

General information of the Company's principal subsidiaries are as follows:

Name of subsidiaries	Principal operating place	Place of registration	Registered share capital	Proportion of voting rights As at 31 December 2018	Proportion of voting rights As at 31 December 2017	Directly/ Indirectly hold	Principal activities
China Futures Co., Ltd.	Chongqing	Chongqing	RMB700 million	100%	100%	Directly	Futures brokerage
China Capital Management Co., Ltd. (i)	Beijing	Beijing	RMB1,650 million	100%	100%	Directly	Project investment
China Securities (International) Finance Holding Co., Ltd. (ii)	Hong Kong	Hong Kong	Not applicable	100%	100%	Directly	Shareholding and investment
China Fund Management Co., Ltd.	Beijing	Beijing	RMB300 million	55%	55%	Directly	Funds business, asset management
China Securities Investment Co., Ltd. (i)	Beijing	Beijing	RMB1,000 million	100%	100%	Directly	Investment management, equity investment management，investment consultancy and project management

(i) During the year of 2018, the Company increased capital investment of RMB250.00 million and RMB1,000.00 million in China Capital Management Co., Ltd. and China Securities Investment Co., Ltd. respectively.

(ii) During the year of 2018, the Company converted HKD1,000.00 million of other account receivable from China Securities (International) Finance Holding Co., Ltd. to RMB800.47 million into capital investment in this subsidiary.

(In RMB thousands, unless otherwise stated)

21 INVESTMENTS IN ASSOCIATES

	31 December 2018	31 December 2017
Investments in associates	162,713	206,292

The following table illustrates details of investments in associates:

Name	1 January 2018	Addition in capital investments	Deduction in capital investments	Movement for using the equity method	31 December 2018
Zhongguancun Equity Trading Service Group Co., Ltd.	48,424	–	–	(859)	47,565
Jiangsu DDBS Environment Remediation Co., LTD	42,066	–	–	2,009	44,075
Beijing Tinavi Medical Technology Co., Ltd.	25,000	–	(1,277)	–	23,723
Guangdong South Lead TV & Film Co., Ltd.	30,000	–	–	–	30,000
CITIC Agri Fund Management Co., Ltd	2,070	–	(2,070)	–	–
CITIC City Development Equity Investment Fund Management (Shenzhen) Co., Ltd.	38,482	–	(46,337)	7,855	–
CITIC Engineering Equity Investment Fund Management (Wuhan) Co., Ltd.	5,250	–	(5,250)	–	–
Shenzhen MALONG TECHNOLOGIES Co., Ltd.	15,000	–	–	–	15,000
Beijing Haifu Capital Management Co., Ltd.	–	1,250	–	–	1,250
Xinjin Global Industrial Fund LP	–	1,100	–	–	1,100
Total	206,292	2,350	(54,934)	9,005	162,713

(In RMB thousands, unless otherwise stated)

21 INVESTMENT IN ASSOCIATES (Continued)

Name	1 January 2017	Addition in capital investments	Deduction in capital investments	Movement for using the equity method	31 December 2017
Zhongguancun Equity Trading Service Group Co., Ltd.	48,271	–	–	153	48,424
Jinlv Equity Investment Fund Management (Ningbo) Co., Ltd.	2,430	–	(2,430)	–	–
Jiangsu DDBS Environment Remediation Co., LTD	30,000	10,000	–	2,066	42,066
Beijing Tinavi Medical Technology Co., Ltd	25,000	–	–	–	25,000
Guangdong South Lead TV & Film Co., Ltd.	30,000	–	–	–	30,000
CITIC Agri Fund Management Co., Ltd.	2,070	–	–	–	2,070
CITIC City Development Equity Investment Fund Management (Shenzhen) Co., Ltd.	34,392	–	–	4,090	38,482
CITIC Engineering Equity Investment Fund Management (Wuhan) Co., Ltd.	–	5,250	–	–	5,250
Shenzhen MALONG TECHNOLOGIES Co., Ltd	–	15,000	–	–	15,000
Total	172,163	30,250	(2,430)	6,309	206,292

As at 31 December 2018 and 31 December 2017, there were no provision of impairment accumulated, due to no sign of impairment of the Group's investments in associates.

(In RMB thousands, unless otherwise stated)

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2017
Non-current	
At fair value:	
Equity investments	489,850
Fund investments	11,692
Others *(i)*	3,901,018
At cost:	
Equity investments	960,837
	5,363,397
Allowance for impairment losses	(36,813)
Subtotal	5,326,584
Analyzed into:	
Listed outside Hong Kong	479,729
Unlisted	4,846,855
Subtotal	5,326,584
Current	
At fair value:	
Debt instruments	26,687,032
Equity investments	202,197
Fund investments	473,903
Others *(i)*	6,931,746
	34,294,878
Allowance for impairment losses	(39,671)
Subtotal	34,255,207
Analyzed into:	
Listed in Hong Kong	87,550
Listed outside Hong Kong	29,439,643
Unlisted	4,728,014
Subtotal	34,255,207
Total	39,581,791

22 AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

(i) Classified as other available-for-sale financial assets of the Group included investments in asset management plans.

In addition, as at 31 December 2017, others of the non-current available-for-sale financial assets included specific accounts invested by the Company together with several other securities companies and managed by China Securities Finance Corporation Limited ("CSF"). According to the relevant contracts, the Company made investments on 6 July 2015 and 1 September 2015, in the aggregate amount of RMB4,244.00 million. Risks and returns of the specific accounts are shared by the Company and other investing securities companies based on investment proportion and the accounts are operated and managed by CSF.

As at 31 December 2017, based on investment account report provided by CSF, the balance of cost and fair value of the Company's specific investment were RMB3,075.00 million and RMB3,411.91 million, respectively.

As at 31 December 2017, available-for-sale financial assets of the Group included securities lent to clients amounted to RMB0.37 million. In addition the fair value of securities of the Group which have been pledged as collateral for repurchase agreements (Note 42), placements from China Securities Finance Corporation Limited (Note 43) and securities borrowing business were RMB15,124.48 million.

See Note 3.2 regarding the classification impacts of the adoption of IFRS 9 from 1 January 2018.

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2018
Non-current	
Equity instruments *(i)*	3,003,549
Analyzed into:	
Unlisted	3,003,549
Current	
Debt instruments	27,911,317
Equity instruments	54,263
Subtotal	27,965,580
Analyzed into:	
Listed in Hong Kong	54,263
Listed outside Hong Kong	27,861,137
Unlisted	50,180
Subtotal	27,965,580
Total	30,969,129

23 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Continued)

(i) Equity instruments assets at fair value through other comprehensive income are the specific accounts invested by the Company together with several other securities companies and managed by CSF. According to the relevant contracts, risks and returns of the specific accounts are shared by the Company and other investing securities companies based on investment proportion and the accounts are operated and managed by CSF. The Company manages these financial assets for purposes other than to generate investment returns.

As at 31 December 2018, based on investment account report provided by CSF, the balance of cost and fair value of the Company's specific investment were RMB3,075.00 million and RMB3,003.55 million, respectively.

As at 31 December 2018, the fair value of securities classified as financial assets at fair value through other comprehensive income of the Group which have been pledged as collateral for repurchase agreements (Note 42), placements from China Securities Finance Corporation Limited (Note 43) and securities borrowing business were RMB20,429.96 million.

(In RMB thousands, unless otherwise stated)

24 HELD-TO-MATURITY INVESTMENTS

	31 December 2017
Non-current	
Debt instruments	573,592
Analyzed into:	
Listed in Hong Kong	261,368
Listed outside Hong Kong	312,224
Subtotal	573,592
Current	
Debt instruments	4,976
Analyzed into:	
Listed outside Hong Kong	4,976
Total	578,568

As at 31 December 2017, the fair value of held-to-maturity investments held by the Group was RMB577.49 million.

As at 31 December 2017, held-to-maturity investments pledged as collateral for bonds in issue (Note 48) and repurchase agreements (Note 42) by the Group amounted to RMB261.37 million and RMB290.58 million, respectively.

See Note 3.2 regarding the classification impacts of the adoption of IFRS 9 from 1 January 2018.

(In RMB thousands, unless otherwise stated)

25 FINANCIAL ASSETS AT AMORTIZED COSTS

	31 December 2018
Non-current	
Debt instruments	67,276
Analyzed into:	
Listed in Hong Kong	67,276
Current	
Debt instruments	119,787
Analyzed into:	
Listed in Hong Kong	119,787
Total	187,063

As at 31 December 2018, the fair value of financial assets at amortized costs held by the Group was RMB190.24 million.

(In RMB thousands, unless otherwise stated)

26 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

	31 December 2018	31 December 2017
Non-current		
Analyzed by collateral:		
Stock	3,473,093	5,136,215
Allowance for impairment losses	(24,076)	(26,835)
Subtotal	3,449,017	5,109,380
Current		
Analyzed by collateral:		
Stock	10,462,732	8,445,537
Debts	9,841,933	12,340,479
Others	139,075	185,492
	20,443,740	20,971,508
Allowance for impairment losses	(95,520)	(15,812)
Subtotal	20,348,220	20,955,696
Total	23,797,237	26,065,076

The Group received securities as collateral in connection with financial assets under resale agreements. As part of the resale agreements, the Group received securities allowed to be re-pledged in the absence of default by counterparties. If the collateral received declines in value, the Group may, in certain circumstances, require additional collateral. The Group had an obligation to return the collateral to its counterparties at the maturity of the contracts.

(In RMB thousands, unless otherwise stated)

26 FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS (Continued)

The fair value of the collateral received in connection with financial assets under resale agreements, the collateral allowed to be re-pledged and the collateral re-pledged were as below:

	31 December 2018	31 December 2017
Collateral received	40,733,860	45,855,552
Collateral allowed to be re-pledged	1,056,752	1,691,476
Collateral re-pledged	887,603	1,247,270

27 REFUNDABLE DEPOSITS

	31 December 2018	31 December 2017
Performance bonds	1,330,872	1,630,871
Trading deposits	520,452	559,425
Credit deposits	29,230	38,482
Total	1,880,554	2,228,778

(In RMB thousands, unless otherwise stated)

28 DEFERRED TAX ASSETS AND LIABILITIES

Changes of deferred tax assets and deferred tax liabilities are as follow:

Deferred tax assets	Salaries, bonuses, and allowances payable	Fair value changes of financial instruments	Allowance for impairment losses	Others	Total
1 January 2017	688,385	76,758	39,838	6,172	811,153
Credited/(Debited) to the statement of profit or loss	(57,130)	(29,792)	13,020	1,127	(72,775)
Credited to other comprehensive income	–	56,177	1,508	–	57,685
31 December 2017	631,255	103,143	54,366	7,299	796,063

Deferred tax assets	Salaries, bonuses, and allowances payable	Fair value changes of financial instruments	Allowance for credit impairment losses	Others	Total
31 December 2017	631,255	103,143	54,366	7,299	796,063
Change in accounting policy	–	(15,143)	(4,289)	831	(18,601)
1 January 2018	631,255	88,000	50,077	8,130	777,462
Credited/(Debited) to the statement of profit or loss	(101,952)	74,454	284,950	17,388	274,840
Credited/(Debited) to other comprehensive income	–	(78,419)	623	–	(77,796)
31 December 2018	529,303	84,035	335,650	25,518	974,506

(In RMB thousands, unless otherwise stated)

28 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

Changes of deferred tax assets and deferred tax liabilities are as follow (Continued):

Deferred tax liabilities	Fair value changes of financial instruments	Others	Total
1 January 2017	44,489	2,358	46,847
Credited to the statement of profit or loss	(41,400)	(499)	(41,899)
Debited to other comprehensive income	31,070	–	31,070
31 December 2017	34,159	1,859	36,018

Deferred tax liabilities	Fair value changes of financial instruments	Others	Total
31 December 2017	34,159	1,859	36,018
Change in accounting policy	(10,531)	–	(10,531)
1 January 2018	23,628	1,859	25,487
Debited to the statement of profit or loss	306,468	9,492	315,960
Debited to other comprehensive income	1,195	–	1,195
31 December 2018	331,291	11,351	342,642

29 OTHER NON-CURRENT ASSETS

As at 31 December 2018 and 31 December 2017, other non-current assets of the Group represented lease of property, long-term deferred expenses incurred on leasehold improvements of property, plant and equipment.

(In RMB thousands, unless otherwise stated)

30 MARGIN ACCOUNTS

	31 December 2018	31 December 2017
Margin accounts		
– Individuals	23,181,956	43,847,465
– Institutions	3,165,251	4,085,231
	26,347,207	47,932,696
Allowance for impairment losses	(1,199,124)	(111,466)
Total	25,148,083	47,821,230

Margin accounts are funds that the Group provided to clients in margin financing business. As at 31 December 2018, no margin accounts were pledged for repurchase agreements (31 December 2017: RMB5,497.40 million) (Note 42).

As at 31 December 2018, the Group received collateral with fair value amounted to RMB71,398.60 million (31 December 2017: RMB127,821.69 million), in connection with its margin financing business.

31 ACCOUNTS RECEIVABLE

	31 December 2018	31 December 2017
Clearing funds receivable	356,704	14,667
Assets management fee receivable	89,704	109,541
Clearing settlement fund and refundable deposits advanced on behalf of sponsored structured entities	24,106	23,724
Others	971,701	1,222,440
	1,442,215	1,370,372
Allowance for impairment losses	(2,177)	(516)
Total	1,440,038	1,369,856

(In RMB thousands, unless otherwise stated)

32 FINANCIAL ASSETS HELD FOR TRADING

	31 December 2017
Debt instruments	22,490,703
Equity investments	4,295,117
Fund investments	908,104
Others	4,647,991
Total	32,341,915
Analyzed into:	
Listed in Hong Kong	301,826
Listed outside Hong Kong	27,330,616
Unlisted	4,709,473
Total	32,341,915

As at 31 December 2017, the fair value of financial assets held for trading pledged as collateral for repurchase agreements (Note 42), placements from China Securities Finance Corporation Limited (Note 43), bonds in issue (Note 48) and securities borrowing business by the Group totaled RMB13,595.68 million.

See Note 3.2 regarding the classification impacts of the adoption of IFRS 9 from 1 January 2018.

(In RMB thousands, unless otherwise stated)

33 FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2017
Debt instruments	1,250
Equity investments	4,535
Fund investments	135,658
Others	165,741
Total	307,184
Analyzed into:	
Listed outside Hong Kong	305,934
Unlisted	1,250
Total	307,184

As at 31 December 2017, financial assets designated as at fair value through profit or loss held by the Group included securities lent amounted to RMB86.34 million.

See Note 3.2 regarding the classification impacts of the adoption of IFRS 9 from 1 January 2018.

(In RMB thousands, unless otherwise stated)

34 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018
Current	
Financial assets at fair value through profit or loss (Mandatory)	
Debt instruments	30,800,069
Equity investments	2,381,992
Fund investments	5,016,279
Others	16,149,404
Subtotal	54,347,744
Analyzed into:	
Listed in Hong Kong	1,183,452
Listed outside Hong Kong	37,985,448
Unlisted	15,178,844
Subtotal	54,347,744
Non-current	
Financial assets at fair value through profit or loss (Mandatory)	
Equity investments	1,954,384
Others	1,023,942
Subtotal	2,978,326
Analyzed into:	
Listed outside Hong Kong	190,240
Unlisted	2,788,086
Subtotal	2,978,326
Total	57,326,070

(In RMB thousands, unless otherwise stated)

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

As at 31 December 2018, the fair value of financial assets pledged as collateral for repurchase agreements (Note 42), placements from China Securities Finance Corporation Limited (Note 43) and securities borrowing business by the Group totaled RMB22,019.04 million.

As at 31 December 2018, financial assets held by the Group included securities lent amounted to RMB45.02 million.

As at 31 December 2018, the fair value of financial assets at fair value through profit or loss (mandatory) in restricted period held by the Group was RMB18.09 million.

35 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2018		
		Fair value	
	Nominal value	Assets	Liabilities
Interest rate derivatives	89,898,955	10,734	10,158
Equity derivatives	89,161,627	1,224,396	159,452
Credit derivatives	60,000	–	347
Others	1,306,726	4,454	7,504
Total	180,427,308	1,239,584	177,461

	As at 31 December 2017		
		Fair value	
	Nominal value	Assets	Liabilities
Interest rate derivatives	27,093,882	7,941	8,931
Equity derivatives	12,828,476	112,443	276,353
Others	32,441	–	–
Total	39,954,799	120,384	285,284

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in futures were settled daily and the corresponding payments or receipts were included in "cash and bank balances" as at 31 December 2018. Accordingly, the amount of mark-to-market gains or losses of unexpired futures contracts included derivative financial instruments above was nil. As at 31 December 2018, the fair value of the Group's unexpired futures contracts was RMB2.55 million (31 December 2017: RMB-1.54 million).

(In RMB thousands, unless otherwise stated)

36 CASH HELD ON BEHALF OF CLIENTS

The Group maintains segregated deposit accounts with banks and authorized institutions to hold cash on behalf of customers arising from its normal course of business. The Group has recorded the related amounts as cash held on behalf of clients and the corresponding liabilities as accounts payable to brokerage clients (Note 39). In Mainland China, the use of cash held on behalf of clients for securities trading and settlement is restricted and governed by relevant third-party custodian regulations issued by the CSRC. In Hong Kong, the “Securities and Futures (Client Money) Rules” under the Securities and Futures Ordinance impose similar restrictions.

37 CASH AND BANK BALANCES

	31 December 2018	31 December 2017
Cash on hand	38	98
Deposits in banks	17,055,771	11,227,807
Total	17,055,809	11,227,905

As at 31 December 2018, the Group had restricted deposits of RMB42.14 million (31 December 2017: RMB23.94 million) was general risk reserves.

As at 31 December 2018, the Group’s deposits in banks of RMB164.64 million (31 December 2017: RMB20.00 million) was collateralized for Bonds in issue (Note 48).

(In RMB thousands, unless otherwise stated)

38 OTHER CURRENT ASSETS

	31 December 2018	31 December 2017
Deferred expenses	43,794	37,561
Interest receivable	35,957	2,223,253
Prepaid expenses	9,979	1,604
Others	290,417	335,205
	380,147	2,597,623
Allowance for impairment losses	(38,847)	(38,821)
Total	341,300	2,558,802

39 ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

Accounts payable to brokerage clients represent the amounts received from and repayable to clients arising from the ordinary course of the Group's securities brokerage business. For more details, please refer to Cash Held on Behalf of Clients (Note 36).

40 FINANCIAL LIABILITIES HELD FOR TRADING

	31 December 2017
Current	
Debt instruments	126,780

(In RMB thousands, unless otherwise stated)

41 FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2018
Current	
Financial liabilities at fair value through profit or loss (Held for trading)	
Debt instruments	1,252,581

42 FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	31 December 2018	31 December 2017
Current		
Analyzed by collateral:		
Debt securities *(Notes 22, 23, 24, 32 and 34)*	25,247,836	17,031,899
Beneficial rights over margin financing and securities lending *(Note 30)*	–	4,000,000
Gold	833,097	4,375,495
Others *(Notes 32 and 34)*	6,450,942	3,739,899
Total	32,531,875	29,147,293

43 PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2018	31 December 2017
Placements from banks	–	5,000,000
Placements from China Securities Finance Corporation Limited (Notes 22, 23, 32 and 34)	4,048,839	9,000,000
Total	4,048,839	14,000,000

(In RMB thousands, unless otherwise stated)

44 TAXES PAYABLE

	31 December 2018	31 December 2017
Income tax	110,820	86,877
Value added tax	134,993	28,859
Others	57,168	230,447
Total	302,981	346,183

45 SHORT-TERM BORROWINGS

	31 December 2018	31 December 2017
Analyzed by nature:		
Credit borrowings	1,118,475	2,050,817
Total	1,118,475	2,050,817

As at 31 December 2018 and 31 December 2017, the Group had variable-rate borrowings which carried interest at HIBOR or LIBOR plus a margin.

(In RMB thousands, unless otherwise stated)

46 SHORT-TERM FINANCING INSTRUMENTS PAYABLE

Name	Issue date	Maturity date	Coupon rate	1 January 2018	Increase	Decrease	31 December 2018
17 CSC D3	22/03/2017	22/03/2018	4.80%	3,112,438	23,277	(3,135,715)	–
17 CSC D4	21/07/2017	21/07/2018	4.74%	3,570,662	86,148	(3,656,810)	–
17 CSC D5	12/09/2017	12/09/2018	4.85%	4,965,232	165,256	(5,130,488)	–
17 CSC D6	20/11/2017	20/11/2018	5.20%	3,926,217	176,519	(4,102,736)	–
18 CSC D1	12/02/2018	28/01/2019	5.34%	–	3,046,921	–	3,046,921
18 CSC D2	14/05/2018	24/04/2019	4.70%	–	2,982,426	–	2,982,426
Structured notes *(i)*				12,517,218	52,085,115	(56,877,974)	7,724,359
Total				28,091,767	58,565,662	(72,903,723)	13,753,706

Name	Issue date	Maturity date	Coupon rate	1 January 2017	Increase	Decrease	31 December 2017
16 CSC D1	15/06/2016	12/03/2017	3.28%	2,999,520	–	(2,999,520)	–
17 CSC D1	17/01/2017	19/07/2017	4.00%	–	3,000,000	(3,000,000)	–
17 CSC D2	27/02/2017	25/08/2017	4.53%	–	3,000,000	(3,000,000)	–
17 CSC D3	22/03/2017	22/03/2018	4.80%	–	3,000,000	–	3,000,000
17 CSC D4	21/07/2017	21/07/2018	4.74%	–	3,496,120	–	3,496,120
17 CSC D5	12/09/2017	12/09/2018	4.85%	–	4,892,960	–	4,892,960
17 CSC D6	20/11/2017	20/11/2018	5.20%	–	3,902,822	–	3,902,822
Structured notes *(i)*				4,757,679	39,551,934	(31,959,842)	12,349,771
Total				7,757,199	60,843,836	(40,959,362)	27,641,673

As at 31 December 2018 and 31 December 2017, there were no defaults related to any short-term financing instruments payable by the Group.

As at 1 January 2018 and 31 December 2018, the interests of short-term financing instruments payable measured by the effective interest rate method were included in the carrying amount of the related financial assets, which amounted to RMB450.09 million and RMB265.66 million, respectively.

(i) As at 31 December 2018 and 31 December 2017, the Group had issued two types of structured notes. One type accrues interests at a fixed annual rate in the range of 3.00%–5.20% and 3.00%–6.60%, respectively. The other one accrues interests at floating rate linked to certain stock and commodity indexes.

(In RMB thousands, unless otherwise stated)

47 OTHER CURRENT LIABILITIES

	31 December 2018	31 December 2017
Amounts due to other holders of consolidated structured entities	8,100,791	8,247,497
Bonds in issue with maturity within one year *(1)*	7,202,701	7,000,000
Salaries, bonuses and allowances payable	2,340,803	2,591,643
Interest payable *(2)*	–	1,435,456
Settlement deposits payable	95,908	443,324
Accounts payable to underwriting clients	24,667	31,573
Futures settlement risk funds payable	81,629	71,630
Provision	50,570	57,425
Securities investor protection fund payable	24,143	26,107
Dividends payable	294,000	294,000
Funds payable to securities holders	6,090	6,184
Others	2,775,741	2,713,832
Total	20,997,043	22,918,671

(1) Bonds in issue with maturity within one year as at 31 December 2018 and 31 December 2017 were as follows:

	31 December 2018	31 December 2017
15 Xinjiantou *(i)*	–	6,000,000
16 Xintou G1 *(ii)*	3,056,832	–
16 Xintou G2 *(iii)*	1,516,000	–
"Zhi Yingbao"-070 *(iv)*	1,554,066	–
"Zhi Yingbao"-076 *(v)*	–	1,000,000
"Zhi Yingbao"-078 *(vi)*	500,678	–
"Zhi Yingbao"-079 *(vii)*	503,970	–
Gushouxin series *(viii)*	71,155	–
Total	7,202,701	7,000,000

47 OTHER CURRENT LIABILITIES (Continued)

(1) Bonds in issue with maturity within one year as at 31 December 2018 and 31 December 2017 were as follows: (continued)

(i) In June 2015, the Company privately issued a 5-year fixed rate corporate bond, 15 Xinjiantou, with a face value of RMB6 billion, which offered the options, at the end of the third year, for the Company to redeem in full at face value or increase the coupon rate, or the investors to put back the bond. The bond bore interest annually at 5.32% per annum and is not guaranteed. The bond was fully redeemed in June 2018.

(ii) In May 2016, the Company publicly issued a 5-year fixed rate corporate bond with a face value of RMB3 billion, which offers the options, at the end of the third year, for the Company to redeem it at face value or increase the coupon rate, or the investors to put back the bond. The bond pays interest annually at 3.14% per annum and is not guaranteed.

(iii) In August 2016, the Company publicly issued a 5-year fixed rate corporate bond with a face value of RMB1.5 billion, which offers the options, at the end of the third year, for the Company to redeem it at face value or increase the coupon rate, or the investors to put back the bond. The bond pays interest annually at 2.90% per annum and is not guaranteed.

(iv) In March 2017, the Company issued a 2-year fixed rate structured note, with a face value of RMB1.5 billion. The structured note pays interest annually at 4.60% per annum and is not guaranteed.

(v) In August 2017, the Company issued a 450-days fixed rate structured note, with a face value of RMB1 billion. The structured note pays interest quarterly at 5.10% per year and is not guaranteed. The structured note was fully redeemed in November 2018.

(vi) In October 2018, the Company issued a 396-days fixed rate structured note, with a face value of RMB0.5 billion. The structured note pays interest quarterly at 4.50% per year and is not guaranteed.

(vii) In October 2018, the Company issued a 397-days fixed rate structured note, with a face value of RMB0.5 billion. The structured note pays interest quarterly at 4.20% per year and is not guaranteed.

(In RMB thousands, unless otherwise stated)

47 OTHER CURRENT LIABILITIES (Continued)

(1) Bonds in issue with maturity within one year as at 31 December 2018 and 31 December 2017 were as follows: (continued)

(viii) As at 31 December 2018，the Company had issued two types of structured notes named "Gushouxin series" amounted to RMB71.16 million with remaining tenure of less than one year. One type accrues interests at a fixed annual rate in the range of 3.70%~5.00%. The other one accrues interests at floating rate linked to one or more stock indexes. The structured notes pay the principal and interest at maturity and are not guaranteed.

(2) Interest payables for bonds in issue, short-term financing instruments payable and short-term borrowings are disclosed in Notes 48, 47(1), 46 and 45, respectively. Compared to interest payable of aforesaid financial liabilities as at 31 December 2017, the movements were mainly attributable to cash payments of interest expenses of RMB2,772.34 million and accretion of interest payable of RMB2,896.97 million. Except for the accretion of interest payable, the Group did not have any significant non-cash changes to liabilities arising from financing activities during the years ended 31 December 2018.

48 BONDS IN ISSUE

	31 December 2018	31 December 2017
Corporate bonds in issue	32,626,527	22,372,761
Structured notes in issue	–	1,500,000
Subordinated bonds in issue	5,023,481	–
Total	37,650,008	23,872,761

(1) As at 31 December 2018 and 31 December 2017, there were no defaults related to any bonds in issue.

(In RMB thousands, unless otherwise stated)

48 BONDS IN ISSUE (Continued)

(2) The details of bonds in issue

		31 December 2018	31 December 2017
Corporate bonds			
15 Xintou 01 *(i)*		1,826,094	1,798,176
CSCIFN15B2009 *(ii)*		1,377,817	1,296,288
16 Xintou G1	(47(1) (ii))	–	2,996,195
16 Xintou G2	(47(1) (iii))	–	1,497,122
17 Xintou G1 *(iii)*		4,087,902	3,957,908
17 Xintou G2 *(iv)*		3,086,006	2,990,630
17 Xintou F1 *(v)*		5,034,840	4,919,873
17 Xintou F2 *(vi)*		2,949,329	2,916,569
18 Xintou F1 *(vii)*		4,143,789	–
18 Xintou F2 *(viii)*		4,092,222	–
18 Xintou F3 *(ix)*		3,505,710	–
18 Xintou F4 *(x)*		2,522,818	–
Subordinated bonds			
18 Xintou C1	(xi)	5,023,481	–
Structured notes			
"Zhi Yingbao"-070	(47(1) (iv))	–	1,500,000
Carrying amount		37,650,008	23,872,761

(i) In August 2015, the Company publicly issued a 10-year fixed rate corporate bond with a face value of RMB1.8 billion, which offers the options, at the end of the fifth year, for the Company to redeem it at face value or increase the coupon rate, or the investors to sell back the bond. The bond pays interest annually at 4.20% per annum and is not guaranteed.

(ii) In September 2015, the Company's subsidiary CSCI Finance (2015) Co., Ltd. publicly issued a 5-year fixed rate credit enhancement bond with a face value of USD0.2 billion. The bond pays interest semi-annually at 3.125% per annum and is unconditionally and irrevocably guaranteed by another subsidiary of the Company China Securities (International) Finance Holding Co., Ltd. (Notes 24 and 32)

48 BONDS IN ISSUE (Continued)

(2) The details of bonds in issue (Continued)

(iii) In April 2017, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB4 billion. The bond pays interest annually at 4.48% per annum and is not guaranteed.

(iv) In May 2017, the Company publicly issued a 3-year fixed rate corporate bond with a face value of RMB3 billion. The bond pays interest annually at 4.88% per annum and is not guaranteed.

(v) In July 2017, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB5 billion. The bond pays interest annually at 4.74% per annum and is not guaranteed.

(vi) In October 2017, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB3 billion. The bond pays interest annually at 5.07% per annum and is not guaranteed.

(vii) In March 2018, the Company privately issued a 2-year fixed rate corporate bond with a face value of RMB4 billion. The bond pays interest annually at 5.43% per annum and is not guaranteed.

(viii) In April 2018, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB4 billion. The bond pays interest annually at 5.12% per annum and is not guaranteed.

(ix) In July 2018, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB3.5 billion. The bond pays interest annually at 4.86% per annum and is not guaranteed.

(x) In July 2018, the Company privately issued a 3-year fixed rate corporate bond with a face value of RMB2.5 billion. The bond pays interest annually at 4.84% per annum and is not guaranteed.

(xi) In November 2018, the Company privately issued a 3-year fixed rate subordinated bond with a face value of RMB5 billion. The bond pays interest annually at 4.38% per annum and is not guaranteed.

49 SHARE CAPITAL

All shares issued by the Company are fully paid common shares, with a notional value of RMB1 per share. The number of shares and nominal value of the Company's share capital are as follows:

	31 December 2018	31 December 2017
Issued and fully paid ordinary shares of RMB1 each *(in thousands)*		
– A shares	6,385,361	5,985,361
– H shares	1,261,024	1,261,024
Total	7,646,385	7,246,385

The Company completed its initial public offering of A shares on the Shanghai Stock Exchange on 20 June 2018. The Company issued 400,000,000 A shares with a face value of RMB1 per share，for a total contribution of RMB2,068,697,180.29, resulting in a capital reserve of RMB1,668,697,180.29.

On 9 December 2016, the Group completed its initial public offering of 1,076,470,000 H shares on the Main Board of The Stock Exchange of Hong Kong Limited.

According to the relevant PRC requirements, certain existing shareholders of the State-owned shares of the Company have transferred an aggregate of 107,647,000 shares of the Company to the National Social Security Fund of the PRC, and such shares were then converted into H shares on a one-for-one basis.

On 30 December 2016, the over-allotment option of the Group's H Shares Global Offering was partially exercised by the International Underwriters with 69,915,238 newly issued H shares, for a total contribution of RMB414,863,592.04, resulting in a capital reserve of RMB344,948,354.04. According to the relevant PRC requirements, certain existing shareholders of the state-owned shares of the Company carried out their obligations of state-owned share reduction and have transferred an aggregate of 6,991,524 shares of the Company to the National Social Security Fund of the PRC based on 10% of the actual number of new shares issued, and such shares were then converted into H shares on a one-for-one basis. The over-allotment shares were listed and traded on the Main Board of The Stock Exchange of Hong Kong Limited on 5 January 2017.

50 OTHER EQUITY INSTRUMENTS

In January 2015, the Company issued first batch of perpetual subordinated bonds amounted to RMB2 billion. In March 2015, the second batch amounted to RMB3 billion was issued.

Key terms and conditions relating to the above equity instruments are as follows:

– The bonds are repriced every 5 interest-accruing years, and at the end of the repricing cycle, the issuer has the option to extend the bonds for another repricing cycle (another five years) or redeem them in full;

– The bonds offer no redemption option to the investors so that investors cannot require the issuer to redeem their bonds during the duration of the bonds;

– 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 issuer may choose to defer the interest payment to the next payment date for the current period as well as all interests and accreted interests already deferred according to the related terms, without any limitation with respect to the number of deferrals. Mandatory interest payment events are limited to dividend distributions to ordinary equity holders and reductions of registered capital;

– The priority over repayment of these bonds is subordinated to the Company's general debts but senior to the Company's ordinary equity shares. Unless in the event of discontinuance, closure or liquidation of the Company, investors of these bonds cannot require the Company to accelerate payment of bonds' principals.

The perpetual subordinated bonds issued by the Company are classified as equity instruments, and recognized under equity in the consolidated statement of financial position.

51 RESERVES

The amounts of the Group's reserves and the related movements are presented in the consolidated statement of changes in equity.

(1) Capital reserve

Capital reserve primarily includes share premium arising from the issuance of new shares at prices in excess of par value.

(2) Surplus reserves

(i) Statutory surplus reserve

Pursuant to the Company Law of the PRC, the Company is required to appropriate 10% of its profit for the year for the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses, if any, and may also be converted into capital of the Company, provided that the balance of the statutory surplus reserve after this capitalization is not less than 25% of the registered capital immediately before capitalization.

(ii) Discretionary surplus reserve

After making the appropriation to the statutory surplus reserve, the Company may also appropriate its after-tax profit for the year, as determined under China Accounting Standards for Business Enterprises, to its discretionary surplus reserve upon approval by the ordinary equity holders in Annual General Meeting. Subject to the shareholders' approval, the discretionary surplus reserve may be used to offset accumulated losses, if any, and may be converted into capital of the Company.

51 RESERVES (Continued)

(3) General reserve

Pursuant to the requirements of regulatory authorities, including the Ministry of Finance and the CSRC, the Company is required to appropriate 10% of its profit for the year for the general risk reserve and 10% for the transaction risk reserve. These reserves may be used to offset accumulated losses of the Company but shall not be declared as dividends or converted into share capital. Regulatory reserves represent reserves that are established by subsidiaries and branches in certain countries or jurisdictions outside Mainland China in accordance with the regulatory requirements in their respective territories are also included herein.

(4) Investment revaluation reserve

The investment revaluation reserve represents the fair value changes of financial assets at fair value through other comprehensive income (31 December 2017: Available-for-sale financial assets).

(5) Foreign currency translation reserve

The foreign currency translation reserve represents the exchange difference arising from the translation of the financial statements of the subsidiaries incorporated outside Mainland China with functional currencies other than RMB.

(6) Distributable profits

The Company's distributable profits are based on the retained profits of the Company as determined under China Accounting Standards for Business Enterprises and IFRSs, whichever is lower.

(In RMB thousands, unless otherwise stated)

52 CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Cash and bank balance	17,055,809	11,227,905
Less: Restricted deposits *(Note 37)*	(206,776)	(43,943)
Interest receivable	(7,220)	
Cash and cash equivalents	16,841,813	11,183,962

53 INTERESTS IN STRUCTURED ENTITIES

The Group is involved with structured entities primarily through investments management business. The Group determines whether to consolidate these structured entities depending on whether the Group has control over them.

(1) Structured entities included in consolidated financial statements

Considering that the Company acts as either the investment manager for the structured entities, or as principal in investing in the subordinated tranches or all of the shares issued by the structured entities, bearing most or all the risk of the products and obtaining most or all of the variable returns, the Group therefore consolidated these structured entities in its consolidated financial statements.

As at 31 December 2018 and 31 December 2017, total assets of consolidated structured entities, the Group's investments and maximum exposure arising from its investments in consolidated structured entities are as follows:

	31 December 2018	31 December 2017
Total assets	11,855,904	10,675,013
Investments	3,524,174	1,554,432
Maximum exposure	3,559,564	1,553,682

53 INTERESTS IN STRUCTURED ENTITIES (Continued)

(2) Interests in unconsolidated structured entities

(i) Structured entities sponsored by the Group

Unconsolidated structured entities sponsored by the Group primarily include asset management plans and investment funds sponsored by the Group. As the manager of these structured entities, the Group invests, on behalf of its customers, the funds raised in the assets as described in the investment plan related to each structured entity. The interests held by the Group in these unconsolidated structured entities primarily include investments held directly and/or management fees, commission and performance fee earned from managed structured entities. The Group concluded that it acted as an agent rather than a principal based on its assessment of the variable return derived from these structured entities. Therefore, these structured entities are not consolidated by the Group.

For the year ended 31 December 2018, the Group earned management fee, commission and performance fee amounted to RMB811.86 million (31 December 2017: RMB931.68 million) from unconsolidated structured entities sponsored by the Group, for which the Group held no interest in as at the end of the reporting year.

(In RMB thousands, unless otherwise stated)

53 INTERESTS IN STRUCTURED ENTITIES (Continued)

(2) Interests in unconsolidated structured entities (Continued)

(i) Structured entities sponsored by the Group (Continued)

As at 31 December 2018 and 31 December 2017, the maximum exposure and the carrying amount of relevant balance sheet items of the Group arising from these unconsolidated structured entities, for which the Group held interests in as at the end of the reporting year, were set out as below:

	31 December 2018	31 December 2017
Financial assets at fair value through profit or loss		
– Carrying amount	1,790,751	
– Maximum exposure	1,818,061	
Financial assets for trading		
– Carrying amount		77,382
– Maximum exposure		77,433
Financial assets designated as at fair value through profit or loss		
– Carrying amount		9,968
– Maximum exposure		9,968
Available-for-sale financial assets		
– Carrying amount		1,206,896
– Maximum exposure		1,229,456

(In RMB thousands, unless otherwise stated)

53 INTERESTS IN STRUCTURED ENTITIES (Continued)

(2) Interests in unconsolidated structured entities (Continued)

(ii) Structured entities sponsored by third party financial institutions

As at 31 December 2018 and 31 December 2017, the amount of maximum exposure and the book value of relevant balance sheet items of the Group arising from the interest held of directly invested structured entities sponsored by third party financial institutions were equal, which set out as below:

	31 December 2018	31 December 2017
Financial assets at fair value through profit or loss	21,127,138	
Financial assets held for trading		5,478,438
Financial assets designated as at fair value through profit or loss		291,431
Available-for-sale financial assets		7,034,912

54 TRANSFERRED FINANCIAL ASSETS

The Group enters into transactions in the normal course of business by which it transfers recognized financial assets to third parties or customers. In some cases where these transfers may give rise to full or partial derecognition of the financial assets concerned. In other cases where the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognize the transferred assets.

Repurchase transactions

Transferred financial assets that do not qualify for derecognition include debt securities held by counterparties as collateral under repurchase transactions. The counterparties are allowed to re-pledge those securities sold under repurchase transactions in the absence of default by the Group, but have an obligation to return the securities at the maturity of the contract. If the securities increase or decrease in value, the Group may in certain circumstances require counterparties to return part of collateral or be required to pay additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore does not derecognize them. A financial liability is recognized for cash received.

(In RMB thousands, unless otherwise stated)

54 TRANSFERRED FINANCIAL ASSETS (Continued)

Securities lending arrangements

Transferred financial assets that do not qualify for derecognition include securities lent to customers for securities selling transactions, for which the customers provide the Group with collateral that could fully cover the credit risk exposure of the securities lent. The customers have an obligation to return the securities according to the contracts. If the securities increase or decrease in value, the Group may in certain circumstances be required to return part of collateral or require counterparties to pay additional collateral. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore does not derecognize them.

The following table analyses the carrying amount of the above-mentioned financial assets transferred to third parties or customers that did not qualify for derecognition and their associated financial liabilities:

	31 December 2018	31 December 2017
Carrying amount of transferred assets		
– Financial assets sold under repurchase agreements	100,262	52,149
– Securities lending	45,016	86,707
Total	145,278	138,856
Carrying amount of related liabilities		
– Financial assets sold under repurchase agreements	100,143	52,866

55 COMMITMENTS AND CONTINGENT LIABILITIES

(1) Capital commitments

	31 December 2018	31 December 2017
Contracted, but not provided for	14,683	29,740

The above-mentioned capital commitments are primarily in respect of the construction of properties and purchase of equipment by the Group.

(In RMB thousands, unless otherwise stated)

55 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(2) Operating lease commitments

At the end of the reporting years, the Group leased certain office properties under operating lease arrangements. The total future minimum lease payments under irrevocable operating lease arrangements are summarized below:

	31 December 2018	31 December 2017
Within one year	391,350	342,887
After one year but not more than two years	316,608	270,275
After two years but not more than three years	224,080	219,985
After three years	348,986	309,371
Total	1,281,024	1,142,518

(3) Legal proceedings

The Company and its subsidiaries are subject to claims and are parties to legal and regulatory proceedings in their ordinary course of businesses. As at 31 December 2018 and 31 December 2017, management of the Group believes that the Group was not involved in any material legal, or arbitration proceedings that if adversely determined, would have material impact on its financial position or results of operations of the Group.

(In RMB thousands, unless otherwise stated)

56 RELATED PARTY DISCLOSURES

(1) Beijing State-owned Capital Operation and Management Center

As at 31 December 2018, Beijing State-Owned Capital Operation and Management Center owned 35.11% of the equity interest and voting rights of the Company (31 December 2017: 37.04%).

Beijing State-Owned Capital Operation and Management Center was established by State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality, which is a People-owned enterprise controlled by the PRC government.

The transactions between Beijing State-owned Capital Operation and Management Center and the Group are in the ordinary course of business under normal commercial terms and conditions. Corresponding transactions and balances with this institution were as follows:

	Year ended 31 December	
	2018	2017
Fee and commission income	8	1,132
Interest expense	(15)	(6)

	31 December 2018	31 December 2017
Accounts payable to brokerage clients	5,247	231

(2) Central Huijin and companies under Central Huijin

As at 31 December 2018, Central Huijin Investment Limited ("Central Huijin") owned 31.21% of the equity interest and voting rights of the Company (31 December 2017: 32.93%).

Central Huijin is a wholly-owned subsidiary of China Investment Corporation, which is incorporated in Beijing, the PRC. Central Huijin was established to hold certain equity interests in state-owned financial institutions as authorized by the China State Council and does not engage in other commercial activities. Central Huijin exercises its legal rights and assumes obligations related to the Company on behalf of the PRC Government. Central Huijin has equity interests in certain other banks and financial institutions under the direction of the PRC government.

(In RMB thousands, unless otherwise stated)

56 RELATED PARTY DISCLOSURES (Continued)

(2) Central Huijin and companies under Central Huijin (Continued)

The Group enters into transactions with Central Huijin and its related parties in the ordinary course of business under normal commercial terms. Corresponding transactions and balances with these banks and financial institutions were as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Fee and commission income	108,349	139,211
Interest income	215,264	233,014
Fee and commission expenses	(38,968)	(39,823)
Interest expense	(126,387)	(160,275)

	31 December 2018	31 December 2017
Assets		
Financial assets at fair value through other comprehensive income	484,786	
Available-for-sale financial assets		1,007,608
Financial assets at fair value through profit or loss	858,624	
Financial assets held for trading		334,617
Financial assets designated as at fair value through profit or loss		230
Financial assets held under resale agreements	370,663	137,200
Derivative financial assets	81,332	20,809
Cash held on behalf of client	5,619,507	6,694,184
Cash and bank balances	1,591,835	1,098,211
Interest receivable		27,846
Accounts receivable	19,159	–
Other assets	–	7,633
Liabilities		
Accounts payable to brokerage clients	1,630	7,509
Derivative financial liabilities	9,661	900
Financial assets sold under repurchase agreements	898,307	3,267,750
Interest payable		28,321
Placements from banks and other financial institutions	–	900,000
Accounts payable	153,894	313,934

(In RMB thousands, unless otherwise stated)

56 RELATED PARTY DISCLOSURES (Continued)

(3) Government related entities

According to the provisions of IAS 24 – Related Parties Disclosures, government entities controlled and jointly controlled by the PRC government and their subsidiaries (the "government related entities") are also regarded as related parties of the Group.

Part of the Group's transactions including securities and futures dealing and broking, underwriting of debt securities, purchase and sale of government bonds, and equity and debt securities issued by other government related entities are entered into with government related entities.

Directors of the Company consider that transactions with government related entities are activities conducted in the ordinary course of business under normal commercial terms and conditions, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the counterparties are government related entities.

(4) Other major shareholders and its related parties

	Year ended 31 December	
	2018	2017
Fee and commission income	26,742	16,164
Interest income	48,315	46,443
Fee and commission expenses	(36,787)	(68,753)
Interest expense	(28,319)	(9,897)

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

56 RELATED PARTY DISCLOSURES (Continued)

(4) Other major shareholders and its related parties (Continued)

	31 December 2018	31 December 2017
Assets		
Financial assets at fair value through other comprehensive income	544,144	
Available-for-sale financial assets		824,447
Financial assets at fair value through profit or loss	57,743	
Financial assets held for trading		333,924
Financial assets held under resale agreement	103,576	184,572
Derivative financial assets	2,618	–
Cash held behalf of client	1,195,192	1,412,160
Cash and bank balance	780,482	669,879
Interest receivable		9,567
Account receivable	11,610	963
Liabilities		
Accounts payable to brokerage clients	148,181	115,760
Derivative financial liabilities	7,427	1,336
Short-term borrowings	877,525	320,491
Interest payable		1,049
Accounts payable	2,009	458

(5) The Group's associates

The Group entered into transactions with its associates at arm's length in the ordinary course of business. Management considers that transactions between the Group and its associates are not significant.

(In RMB thousands, unless otherwise stated)

56 RELATED PARTY DISCLOSURES (Continued)

(6) Key management personnel

Key management personnel are those who have the authority and responsibility to directly or indirectly plan, direct and control the Group activities, including the board of directors, the board of supervisors and other senior management personnel.

The Group's remuneration paid for key management personnel are disclosed as follow:

	Year ended 31 December 2018	2017
Salaries, bonuses and allowances	87,113	63,214
Staff benefits	1,986	2,527
Contributions to defined contribution schemes	1,701	1,548
Total	90,800	67,289

57 FAIR VALUE AND FAIR VALUE HIERARCHY

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.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: where the inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2: where the inputs are observable for the assets and liabilities, either directly or indirectly, other than quoted prices in Level 1.

Level 3: where the inputs are unobservable inputs for relevant assets or liabilities.

The Group uses valuation techniques or counterparty quotations to determine fair value when market prices are not available in active markets.

The major parameters used in valuation techniques include, among others, underlying securities prices, interest rates, foreign exchange rates, volatilities, correlations and counterparty credit spreads, which are all observable and available from an active market.

For certain unlisted equity securities (private equity securities), thinly traded equity securities, unlisted asset management plans, and certain over-the-counter derivative contracts, the management uses counterparty quotations or valuation techniques to determine their fair value. Valuation techniques used include discounted cash flow analysis and market comparison approach. The fair value measurement of these financial instruments may use unobservable inputs that may have significant impact on the valuation results, and therefore, the Group includes them as Level 3 assets and liabilities. The unobservable inputs that may have impact on the valuation include, among others, weighted average cost of capital, liquidity discount, and price to book ratio. As at 31 December 2018 and 31 December 2017, fair value changes resulting from the changes in the unobservable inputs were not significant. The Group has implemented internal control procedures to monitor and control the Group's exposures to such financial instruments.

(In RMB thousands, unless otherwise stated)

57 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(1) Financial instruments recorded at fair value

	31 December 2018			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss (Mandatory)				
– Debt instruments	6,176,097	24,523,712	100,260	30,800,069
– Equity investments	2,254,471	314,217	1,767,688	4,336,376
– Fund investments	2,981,307	2,034,972	–	5,016,279
– Others	–	15,193,498	1,979,848	17,173,346
Subtotal	11,411,875	42,066,399	3,847,796	57,326,070
Derivative financial assets	4,454	373,976	861,154	1,239,584
Financial assets at fair value through other comprehensive income				
– Debt instruments	290,849	27,620,468	–	27,911,317
– Equity instruments	54,263	3,003,549	–	3,057,812
Subtotal	345,112	30,624,017	–	30,969,129
Total assets	11,761,441	73,064,392	4,708,950	89,534,783
Financial liabilities at fair value through profit or loss	–	1,252,581	–	1,252,581
Derivative financial liabilities	7,504	126,258	43,699	177,461
Total liabilities	7,504	1,378,839	43,699	1,430,042

(In RMB thousands, unless otherwise stated)

57 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(1) Financial instruments recorded at fair value (Continued)

	31 December 2017			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
– Debt instruments	7,025,061	15,465,642	–	22,490,703
– Equity investments	3,232,916	1,062,201	–	4,295,117
– Fund investments	908,104	–	–	908,104
– Others	274	4,601,767	45,950	4,647,991
Subtotal	11,166,355	21,129,610	45,950	32,341,915
Financial assets designated as at fair value through profit or loss	140,193	166,991	–	307,184
Derivative financial assets	6,734	95,121	18,529	120,384
Available-for-sale financial assets				
– Debt instruments	163,086	26,523,946	–	26,687,032
– Equity investments	386,106	163,617	80,840	630,563
– Fund investments	438,470	47,125	–	485,595
– Others	–	10,521,139	311,625	10,832,764
Subtotal	987,662	37,255,827	392,465	38,635,954
Total assets	12,300,944	58,647,549	456,944	71,405,437
Financial liabilities held for trading	–	126,780	–	126,780
Financial liabilities designated as at fair value through profit or loss	–	–	11,640	11,640
Derivative financial liabilities	6,041	181,579	97,664	285,284
Total liabilities	6,041	308,359	109,304	423,704

(In RMB thousands, unless otherwise stated)

57 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(2) Movements in Level 3 financial instruments measured at fair value

Movements in Level 3 financial instruments measured at fair value in each year are as follow:

	Year ended 31 December 2018				
	Financial assets held for trading (IAS 39)/Financial assets at FVPL (Mandatory) (IFRS 9)	Available-for-sale financial assets (IAS 39)/Financial assets at FVOCI (IFRS 9)	Derivative financial assets	Financial liabilities at fair value through profit or loss (Designated)	Derivative financial liabilities
31 December 2017	45,950	392,465	18,529	11,640	97,664
Change in accounting policy	1,453,478	(392,465)	–	–	–
1 January 2018	1,499,428	–	18,529	11,640	97,664
Total gains or losses for the year	125,629	–	997,805	19,835	(408,034)
Increases	2,842,252	–	24,820	–	386,703
Decreases	(564,824)	–	(180,000)	(31,475)	(32,634)
Transfers to Level 3 from Level 2	5,941	–	–	–	–
Transfers to Level 1 from Level 3	(60,630)	–	–	–	–
31 December 2018	3,847,796	–	861,154	–	43,699
Gains for the year included in profit or loss for assets/liabilities held at the end of the year	125,629	–	997,805	(19,835)	408,034

(In RMB thousands, unless otherwise stated)

57 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(2) Movements in Level 3 financial instruments measured at fair value (Continued)

Movements in Level 3 financial instruments measured at fair value in each year are as follow: (continued)

	Year ended 31 December 2017				
	Financial assets held for trading	Available-for-sale financial assets	Derivative financial assets	Financial liabilities designated as at fair value through profit or loss	Derivative financial liabilities
1 January 2017	–	304,884	2,718	9,938	25,618
Total gains or losses for the year	–	95,184	(3,254)	1,702	(161,029)
Changes in fair value in other comprehensive income for the year	–	(123,283)	–	–	–
Increases	45,950	357,465	20,818	–	598,832
Decreases	–	(184,420)	(1,753)	–	(365,757)
Transfers to Level 1 from Level 3	–	(27,365)	–	–	–
Transfers to Level 2 from Level 3	–	(30,000)	–	–	–
31 December 2017	45,950	392,465	18,529	11,640	97,664
Gains for the year included in profit or loss for assets/liabilities held at the end of the year	–	95,184	(3,254)	(1,702)	161,029

(In RMB thousands, unless otherwise stated)

57 FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

(3) Important unobservable input value in fair value measurement of Level 3

The fair value of financial instruments under Level 3 are determined by comparable company methods, discounted cash flow models and Black-Scholes option pricing model. Determinations to classify fair value measures within Level 3 of the valuation hierarchy are primarily based on the significance of the unobservable inputs which mainly include market data and inputs with reference to comparable companies, risk-adjusted discount rate and price volatility of underlying assets to the overall fair value measurement.

(4) Transfers between Level 1 and Level 2

During the year ended 31 December 2018, the amount of financial assets at fair value through profit and loss and financial assets at fair value through other comprehensive income transferred from Level 1 to Level 2 were RMB66.26 million and RMB10.11 million, respectively (2017: Nil).

(5) Financial assets and financial liabilities not measured at fair value

The information below summarizes the carrying amounts and fair values of those financial assets and liabilities not measured in the consolidated statement of financial position at their fair value. As at 31 December 2018 and 2017, financial assets and financial liabilities for which the carrying amounts approximate fair value, included financial assets held under resale agreements, refundable deposits, margin accounts, accounts receivable, cash held on behalf of clients, cash and bank balances, accounts payable to brokerage clients, financial assets sold under repurchase agreements, placements from banks and other financial institutions, short-term borrowings and short-term financing instruments payable.

As at 31 December 2018, the carrying amounts and fair value of financial assets at amortized cost are disclosed in Note 25 and as at 31 December 2017, the carrying amounts and fair value of held-to-maturity investments are disclosed in Note 24. The carrying amounts and fair value of bonds in issue (including bonds in issue with maturity within one year) are summarized below:

	31 December 2018	31 December 2017
Bonds in issue (including bonds in issue with maturity within one year)		
– Carrying amount *(Notes 47 and 48)*	44,852,709	30,872,761
– Fair value	45,263,891	30,383,102

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT

Overview

The management considers effective risk management a critical element in ensuring the Company's successful operations. Therefore, the Company has established a set of comprehensive risk management and internal control systems to enable the Company to monitor, evaluate and manage various financial risks in its business activities, including primarily credit risk, market risk and liquidity risk and operational risk.

Structure of risk management

The Board

The Board of Directors is the Company's highest decision-making body in risk management, the executive management is the execution body, and while different units are responsible for directly managing the risks they face in their business or operational activities. The Company has three dedicated risk control departments, namely the Risk Management Department, the Legal and Compliance Department and the Internal Audit Department, which independently monitor and manage risks before the event, during the event and after the event, as per their respective roles and responsibilities.

The Board of Directors is the Company's highest decision-making body in risk management, which makes decisions with respect to the Company's overall risk management strategies and policies, internal control arrangements, and actions to address material risks faced by the Company, among other things.

The Risk Management Committee under the Board of Directors is responsible for supervising the overall risk management of the Company and ensuring the associated risks are adequately managed so that risk management activities can be effectively carried out through the Company's business and operating activities. The Board Risk Management Committee also has the following responsibilities: preparing the overall risk management policies for the Board's deliberation; determining the strategic structure and resources for risk management so that they are aligned with the internal risk management policies; setting limits for major risks; and supervising and reviewing the risk management policies and making recommendations to the Board.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Structure of risk management (Continued)

The Operation Management

The Company's Executives Committee makes overall decisions with respect to the prevention, control, mitigation, or acceptance of risks in the Company's business and operating activities and makes decisions on efforts to improve the internal control rules and procedures and control measures in accordance with the risk management policies adopted by the Board.

The Company Risk Management Committee of the Executives Committee is responsible for discussing and proposing the Company's risk preference and tolerance as well as key risk limits for further decision-making; review and approval of specific risk limits and risk control criteria for each business lines; drafting and promoting the implementation of various risk management rules and measures; review and approval of new businesses and products; review and approval of the Company's risk reports; and formulating risk control strategies and plans for material business matters.

The Chief Risk Officer of the Company, serving also as the chairman of the Company Risk Management Committee, is responsible for leading risk management activities across the Company, including organizing the formulation of relevant risk management rules and procedures, improving the Company's risk management practices, and guiding the Risk Management Department in the identification, evaluation, monitoring and reporting of various risks.

The Department, Branch and Subsidiary

Each and every department and branch/subsidiary of the Company, within their respective roles and responsibilities, is responsible for following the decisions, rules and procedures, and risk control policies, and implementing risk-control measures and engaging in direct risk control efforts in their business activities. Every staff of the Company has the responsibility to comply with the Company's relevant rules and procedures and contribute to daily risk control efforts as part of their own job responsibilities.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Structure of risk management (Continued)

The Department, Branch and Subsidiary (Continued)

The Risk Management Department that is responsible for risk management of the Company, the Legal and Compliance Department that is responsible for legal affairs and compliance management, and the Internal Audit Department that is responsible for the Company's internal audit activities are the three independent risk management functions that establish their own rules and procedures and operate independently to promote risk management of the Company. Specifically, the Risk Management Department is responsible for risk management before and during the event through risk monitoring and assessment, the Legal Compliance Department is responsible for managing the overall legal and compliance risks of the Company, and the Internal Audit Department is responsible for conducting audits to identify material defects in key rules and procedures and processes, as well as internal control weakness, and supervising corrections and rectifications.

In addition, pursuant to the needs of risk management in investment banking business, along with regulatory requirements, the Company has established the internal audit department in the first half of 2018. Through company-level review, the Company conducted expert management and terminal risk control of investment banking projects, and performed ultimate approval of decision-making functions for the materials and documents submitted, reported, issued or disclosed in the name of the Company.

Risk management activities

The Risk Management Department works with business and management departments to identify major risks during the course of different business and management activities, issue the Risk Catalogue and Key Control List, and continue to update the same in light of business changes and monitoring findings.

The Company establishes a before-the-event risk control mechanism. It focuses on each of the main business lines to formulate specific risk limits and risk control standards, and has explicit procedures of risk control; the Risk Management Department and the Legal and Compliance Department have participated in the before-the-event evaluation for important projects and the operation system, and have expressed their opinions independently; important risk control parameters are directly under the management and control of the Risk Management Department, which also conducts independent verification for valuation model of financial instruments before going online.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Structure of risk management (Continued)

Risk management activities (Continued)

The Risk Management Department formulates the risk monitoring processes and indicators for key business and management lines. In particular, risk monitoring indicators for brokerage business, proprietary business, securities financing business, and asset management business as well as risk control indicators including net capital are monitored through the monitoring system, while the risk monitoring for other business or management lines primarily relies on regular and ad hoc monitoring by means of on-site monitoring, risk information reporting, data access and regular meetings.

The Company also formulates operational process for risk assessment, and determines main assessment methods and qualitative and quantitative risk rating criteria for various types of risks. The Risk Management Department assesses and rates the risk matters on an ongoing basis, evaluates the control of major business risks on a regular basis, and conducts comprehensive year-end assessments of the risk control process, risk events and positions, and risk incidents of the departments, branches and subsidiaries as a key component of their performance assessment.

The Company has formulated guidelines for various types of risk management and control, including market risk, credit risk, operational risk, liquidity risk and reputation risk, in order to guide and regulate the response to risks in various business lines. The Company has established crisis management mechanism and programs, and has formulated effective contingency measures and plans for various businesses, especially for key risks and emergencies such as liquidity crisis and accidents on transaction system, while emergency response mechanism has been established and is drilled sporadically on a regular basis.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Structure of risk management (Continued)

Risk management activities (Continued)

The Company is responsible for building mechanisms for communicating and reporting risk information and significant risk warnings, communicating and managing risk information and providing significant risk warnings. The Risk Management Department is responsible for formulating operational procedures for communicating and reporting risk information and issuing risk warnings, and the departments and branches and subsidiaries report risk information or issue warnings on potential risks identified by themselves to the Risk Management Department. The Risk Management Department then manages the risk information, performs comprehensive analyses on various risk information to identify risk control weaknesses and loopholes and propose recommendations on improving risk control, reports significant risks to the Chief Risk Officer and executive management or a Risk Management Committee, and at the same time, communicates risk information to relevant departments, while tracking any follow-up activities. The Risk Management Department prepares risk reports and risk control recommendation reports according to the results on risk identification, monitoring and assessment, and reports the findings to involved parties and the executive management of the Company. The Risk Management Department continuously monitors risks and the risk control status by following up on the implementation of risk control recommendations by relevant parties in managing risks identified in the risk reports.

Risk analysis and control

Financial risks in the Company's daily operating activities primarily include market risk, liquidity risk, credit risk, and operational risk. The Company has established specific policies and procedures to identify and address these risks, set out appropriate risk limits and internal control processes to manage these risks, and built integrated control system and information technology systems to continuously monitor these risks.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.1 Credit risk

Credit risks refer to the risks arising from the economic loss caused by failure of performing the obligations in the contract by counterparties, issuers of debt financing instruments (or financiers).

Credit risks of the Company arising from securities financial business primarily includes risks from decline in value or insufficient liquidity of collateral provided by customers, customers' failure to repay debts in full in a timely manner due to involvement in legal disputes of collateral assets, and credit risks arising from operational errors including fraudulent credit information, violation of contracts and regulatory requirements in transaction actions. Control of credit risk from securities financing business is realized primarily through risk education for customers, credit investigation and verification on customers, credit management, risk assessment on collateralized (pledged) securities, reasonable setting of indication of defaulting customers, financing of customers with insufficient guaranteed securities and normal customers, the Company will perform the provision for impairment in accordance with prudential principles by complying with the accounting standards of IFRS 9.

Credit risk arising from bond investments is primarily due to counterparty defaults, credit issuer defaults or decline in the creditworthiness of issuers, among others. The Company establishes ratings and credit lines for counterparties and maintains black lists to manage its counterparty credit risk, and sets a number of credit limits to control risks on credit facilities, including minimum ratings for credit products and maximum credit exposure of a single borrower. In 2018, with the increasing number of default cases in bond market, the Company further improved the credit quality of investment portfolio, post-investment tracking mechanism and credit risk management capability.

The Company controls credit risk arising from over-the-counter derivative transactions by setting counterparty ratings and credit lines, and setting limits to the sizes of transactions and credit risk exposures before transactions take place. The Company conducts a daily check and measurement of the credit risk exposures of counterparties. The Company has also adopted mark-to-market practices to monitor the contracts of derivative transactions and for valuation of collateral, and established forced position squaring procedures to control its credit risk exposures within established limits.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.1 Credit risk (Continued)

In order to manage the credit risk arising from the brokerage business, securities brokerage transactions in mainland China are all settled on a fully pledged basis, in order to control the settlement risks associated with the brokerage business. The Company strictly complies with relevant trading and settlement rules and procedures to eliminate risks of non-compliant financing operations for clients. With regard to clients' credit risk, the Company has adopted safeguards to prevent overdrafts or negative balances of equivalent securities arising from repurchase financing clients. The safeguards include performing due diligence on clients, establishing reasonable discount rates for pledged bonds, requiring minimum ratios for retaining equivalent securities, setting maximum leverage ratios and pledge concentration of single bonds, and applying various rules and practices to manage the credit risk of option trading clients, including margin management, position limits, and forced closeout policies.

Furthermore, the Company's Risk Management Department monitors its credit risk on an ongoing basis, including tracking the credit qualification status of counterparties and bond issuers, monitoring coverage of collateral for the securities and financial business, requiring the business department to fulfill its duty of post-investment management and using stress testing and sensitivity analysis, amongst other procedures, to measure the credit risk of major business lines.

Expected credit loss measurement

From the commencement date of IFRS 9 on 1 January, 2018, the measurement of the expected credit loss allowance for debt instruments of financial assets measured at amortized cost and FVOCI is an area that requires the use of models and assumptions about future economic conditions and credit behavior of clients (such as the likelihood of customers defaulting and the resulting losses).

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

The Group has applied a ‘three-stage’ impairment model for expected credit losses (“ECL”) measurement based on changes in credit quality since initial recognition of financial assets as summarized below:

– A financial instrument that is not credit-impaired on initial recognition is classified in “Stage 1” and has its credit risk continuously monitored by the Group;

– If a significant increase in credit risk (“SICR”) since initial recognition is identified, the financial instrument is moved to “Stage 2” but is not yet deemed to be credit-impaired;

– If the financial instrument is credit-impaired, the financial instrument is then moved to “Stage 3”.

Stage 1: The Group measures the loss allowance for a financial instrument at an amount equal to the next 12 months ECL; Stages 2 and 3: The Group measures the loss allowance for a financial instrument at an amount equal to the lifetime ECL. Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition and the Group has measured the loss allowance for such a financial instrument at an amount equal to the lifetime ECL.

For such financial assets classified under Stages 1 and 2, management assesses credit loss allowances using the risk parameter modelling approach that incorporates key parameters, including probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”). For credit-impaired financial assets classified under Stage 3, management assesses the credit loss allowances by estimating the cash flows expected to arise from the financial assets after taking into consideration forward looking factors.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

The measurement of ECL adopted by management according to IFRS 9, involves judgements, assumptions and estimations.

- Selection of the appropriate models and assumptions;
- Determination of the criteria for SICR;
- Establishment of the number and relative weightings of forward-looking scenarios for each type of product;

Measuring ECL – inputs, assumptions and estimation techniques

The ECL are measured on either a 12-month (12M) or Lifetime basis depending on whether SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired.

ECL are the discounted product of PD having considered the forward-looking impact, EAD, and LGD.

– PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. For margin loan financing, the Company determines the PD by borrower, based on factors including the coverage ratio of margin loans to underlying collateral value and, the volatility of such collateral's valuation. For debt securities investments, the external credit rating and related PD are taken into consideration.

– Loss Given Default (LGD) represents the Group's expectation of the extent of loss on a defaulted exposure. For margin loan financing, the Company determines LGD, based on factors including the realizable value of collateral upon forced liquidation taking into consideration the estimated volatility over the realization period. For debt securities investments, LGD is determined based on assessed publicly available information from credit rating agencies, and the type of securities.

– EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

The criteria of Significant increase in credit risk (SICR)

The Company evaluates the financial instruments at each financial statement date after considering whether SICR has occurred since initial recognition. An ECL allowance for financial assets is recognized according to the stage of ECL, which reflects the reasonable information and evidence available about the SICR and is also forward-looking. The Company considers a financial instrument to have experienced SICR when one or more of the following quantitative, qualitative or backstop criteria have been met.

The Company considers margin financing to have experienced a significant increase in credit risk if margin calls were triggered by a decrease of the ratio of margin loan to collateral below 130%. As at 31 December 2018, more than 90% of the margin financing business of the Company has been rated as investment grade or above which did not experience any significant increase in credit risk.

For debt securities investments, the Company employs open market credit ratings. The Company considers the debt securities investments to have experienced a significant increase in credit risk if the latest external ratings of issuers of debt securities or the debt securities themselves suffered two notches of downward migration or more, compared to their ratings on initial recognition, and when the latest external ratings of the debt securities or the issuers of the debt securities were under safety grade (A-). As at 31 December 2018, all the debt securities investments of the Company have been rated as investment grade or above and did not experience any significant increase in credit risk.

A backstop is applied and a financial instrument is considered to have experienced a significant increase in credit risk if the borrower or the debtor is more than 30 days past due on its contractual payments.

The Company has used the low credit risk exemption for financial instruments, such as cash and bank accounts, settlement reserve, refundable deposits, financial assets held under resale agreements (debt instruments) for the year ended 31 December 2018.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

Definition of credit-impaired assets

The Company considers whether a financial instrument is credit-impaired according to IFRS 9 based on criteria, which is consistent with the internal credit risk management practice. The consideration includes quantitative criteria and qualitative criteria. The Company defines a financial instrument as credit-impaired, which is fully aligned with the definition of in default, when it meets one or more of the following criteria:

- The borrower is more than 90 days past due on its contractual payments;
- For margin financing and stock pledge repurchase agreements, a forced liquidation of a client's position triggered when the collateral valuation falling short of the related loan amounts;
- The latest external ratings of issuers of debt securities or debt securities themselves are in default grade;
- the debtor is in significant financial difficulty;
- An active market for that financial asset has disappeared because of financial difficulties;
- Concessions have been made by the lender relating to the debtor's financial difficulty;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructure.

When a financial asset is considered to be credit-impaired, it may be from multiple events, not due to a separately identifiable event.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

Forward-looking information

The assessment of SICR and the calculation of ECL incorporate forward-looking information.

The Company has analyzed historical data and identified the key economic variables impacting credit risk and ECL for each financial instrument portfolio. Key economic variables include the growth rate of Domestic GDP, the growth rate of producer price index and the growth rate of RMB loan balances. The growth rate of domestic GDP applied in an optimistic scenario, base case scenario and pessimistic scenario ranges from 6.5% to 6.7%. The impact of these economic variables on the PD has been determined by performing historical statistical regression analysis to forecast the expected changes in these variables on default rates.

In addition to the base economic scenario, the Company's Expert team also identifies other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each financial statement date.

As at 1 January 2018 and 31 December 2018, for all portfolios the Company concluded that three scenarios appropriately captured non-linearities of key economic variables. The scenario weightings are determined by a combination of statistical analysis and expert judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The probability-weighting applied to the base case scenario by the Company was more than the aggregate of the optimistic and pessimistic scenarios.

The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. The Group measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

Forward-looking information (Continued)

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes.

Sensitivity analysis

The allowance for credit losses is sensitive to the inputs used in internally developed models, macroeconomic variables in the forward-looking forecasts, economic scenario weighting and other factors considered when applying expert judgment. Changes in these inputs, assumptions and judgments impact the assessment of SICR and the measurement of ECLs.

At 31 December 2018, the Company concluded for all portfolios that three scenarios are appropriate, being the optimistic scenario, base case scenario and pessimistic scenario. As at 31 December 2018, the incremental impact of using the probability-weighted ECL against the base scenario was less than 5%.

The decremental impact would be less than 5%, assuming a 10% increase of probability-weighting of the optimistic scenario and a 10% decrease of the probability-weighting of the base case scenario when measuring the ECL derived from using aforesaid three scenarios. The incremental impact would be less than 5%, assuming a 10% increase on probability-weighting of the pessimistic scenario and a 10% decrease on probability-weighted of the base case scenario when measuring the ECL derived from using aforesaid three scenarios.

Meanwhile, the Company also uses sensitivity analysis to monitor any significant increase in credit risk. At 31 December 2018, assuming no significant increase in credit risk since initial recognition was identified, and all the financial assets in Stage 2 moved to Stage 1, the decremental impact on ECL recognized in the consolidated financial statements would be less than 5%.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

Collateral and other credit enhancements

The Company employed a range of policies and credit enhancements to mitigate credit risk exposure to an acceptable level. The most common of these is accepting collateral for funds advanced or guarantees. The Company determined the type and amount of collaterals according to the credit risk evaluation of counterparties. The collaterals under margin financing and reverse repurchase agreements are primarily stocks, debt securities, funds etc. Management will exercise margin calls according to related agreements based on the market value fluctuation of collaterals.

Credit risk exposure analysis

The clients' margin loan financing assets were considered by Management to be in good condition, and the coverage ratio of margin loan to underlying collateral value was over 130% for more than 90% of margin financing, stock pledge repurchase agreement and financial assets held under resale agreements (debt instruments) of the Company as at 31 December 2018. High thresholds of margin loans to collateral ratios indicates that probability of default was low. For debt securities investments, the Company employed open market credit ratings. At 31 December 2018, all debt securities investments of the Company were rated as investment grade (AA) or above.

(In RMB thousands, unless otherwise stated)

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.1 Credit risk (Continued)

Expected credit loss measurement (Continued)

Credit risk exposure analysis (Continued)

The Group's maximum exposure to credit risk without taking into account any collateral and other credit enhancements is as follows:

	31 December 2018	31 December 2017
Available-for-sale financial assets		34,398,142
Financial assets at fair value through other comprehensive income	27,911,317	
Financial assets at amortized costs	187,063	
Held-to-maturity investments		578,568
Financial assets held under resale agreements	23,797,237	26,065,076
Refundable deposits	1,880,554	2,228,778
Margin accounts	25,148,083	47,821,230
Financial assets at fair value through profit or loss	52,754,080	
Financial assets held for trading		27,866,531
Financial assets designated as at fair value through profit or loss		166,991
Derivative financial assets	1,239,584	120,384
Cash held on behalf of clients	33,698,335	39,740,852
Deposits in banks	17,055,771	11,227,807
Others	1,737,544	3,891,098
Total maximum credit risk exposure	185,409,568	194,105,457

(In RMB thousands, unless otherwise stated)

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.1 Credit risk (Continued)

The Group's credit risk exposure of financial instruments for which an ECL allowance is recognized as follows according to the stage of ECL:

(i) Credit loss allowance for financial assets held under resale agreements

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018 *(Note 3.2.1 (3))*	44,497	–	–	44,497
Increases	5,085	51,546	19,661	76,292
Reverses	(1,221)	–	–	(1,221)
Write-offs	–	–	–	–
Foreign exchange and other movements	28	–	–	28
31 December 2018	48,389	51,546	19,661	119,596

As at 31 December 2018, the Group measured the loss allowance for financial assets held under resale agreements of Stage 1 amounted to be RMB48.39 million. The book value of the corresponding financial assets was RMB22,610.41 million. The loss allowance for financial assets held under resale agreements of Stage 2 amounted to RMB51.55 million. The book value of the corresponding financial assets was RMB1,198.69 million. The loss allowance for financial assets held under resale agreements of Stage 3 amounted to RMB19.66 million. The book value of the corresponding financial assets was RMB107.74 million.

(In RMB thousands, unless otherwise stated)

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.1 Credit risk (Continued)

(ii) Credit loss allowance for financial assets at fair value through other comprehensive income

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018 *(Note 3.2.1 (3))*	4,138	253	–	4,391
Increases	5,848	1,226	1,005	8,079
Reverses	(2,008)	(252)	–	(2,260)
Write-offs	–	–	–	–
Foreign exchange and other movements	–	–	–	–
31 December 2018	7,978	1,227	1,005	10,210

As at 31 December 2018, the Group measured the loss allowance for financial assets at fair value through other comprehensive income of Stage 1 amounted to be RMB7.98 million. The book value of the corresponding financial assets was RMB27,901.21 million. The loss allowance for financial assets at fair value through other comprehensive income of Stage 2 amounted to RMB1.23 million. The book value of the corresponding financial assets was RMB6.41 million. The loss allowance for financial assets at fair value through other comprehensive income of Stage 3 amounted to RMB1.01 million. The book value of the corresponding financial assets was RMB3.70 million.

(In RMB thousands, unless otherwise stated)

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.1 Credit risk (Continued)

(iii) Credit loss allowance for margin accounts

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018 *(Note 3.2.1 (3))*	116,742	–	4,255	120,997
Increases	–	5,485	1,097,918	1,103,403
Reverses	(27,632)	–	–	(27,632)
Write-offs	–	–	(120)	(120)
Foreign exchange and other movements	(164)	–	2,640	2,476
31 December 2018	88,946	5,485	1,104,693	1,199,124

As at 31 December 2018, the Group measured the loss allowance for margin accounts of Stage 1 amounted to be RMB88.95 million. The book value of the corresponding financial assets was RMB24,266.36 million. The loss allowance for margin accounts of Stage 2 amounted to RMB5.49 million. The book value of the corresponding financial assets was RMB203.24 million. The loss allowance for margin accounts of Stage 3 amounted to RMB1,104.69 million. The book value of the corresponding financial assets was RMB1,877.61 million.

Due to the fluctuation of the stock market, the collateral valuations fell short of the related margin loan amount. The overall increase of the ECL allowance was RMB1,097.92 million for 2018.

(In RMB thousands, unless otherwise stated)

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.1 Credit risk (Continued)

(iv) Credit loss allowance for financial assets at amortized cost

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018 *(Note 3.2.1 (3))*	12,283	–	–	12,283
Increases	–	–	–	–
Reverses	(7,552)	–	–	(7,552)
Write-offs	–	–	–	–
Foreign exchange and other movements	326	–	–	326
31 December 2018	5,057	–	–	5,057

As at 31 December 2018, the Group measured the loss allowance for financial assets at amortized cost to be RMB5.06 million, all of which are Stage 1 loss allowances. The book value of the corresponding financial assets was RMB192.12 million.

(In RMB thousands, unless otherwise stated)

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.1 Credit risk (Continued)

(v) Credit loss allowance for bad debts

	Stage of ECL			
	Stage 1	Stage 2	Stage 3	Total
	12-month ECL	Lifetime ECL	Lifetime ECL (Credit-impaired)	
1 January 2018 *(Note 3.2.1 (3))*	1,050	26,272	12,015	39,337
Increases	4,796	–	–	4,796
Reverses	–	–	–	–
Write-offs	(3,166)	–	–	(3,166)
Foreign exchange and other movements	57	–	–	57
31 December 2018	2,737	26,272	12,015	41,024

As at 31 December 2018, the Group measured the loss allowance for accounts receivable to be RMB2.18 million, all of which are Stage 1 loss allowances. The book value of the corresponding financial assets was RMB1,442.21 million.

As at 31 December 2018, the Group measured the loss allowance for Stage 1 other receivables to be RMB0.56 million. The book value of the corresponding financial assets was RMB225.86 million. The loss allowance for Stage 2 other receivables amounted to RMB26.27 million. The book value of the corresponding financial assets was RMB52.54 million. The loss allowance for Stage 3 other receivables amounted to RMB12.02 million. The book value of the corresponding financial assets was RMB12.02 million.

During the year of 2018, the movements in ECL allowance recognized by the Group was primarily related to (i) the increase in ECL allowance for the increased financial assets this year; (ii) the changes of modelling inputs including PD and LGD this year; (iii) the movements between Stages 1, 2 and 3. The movements of Stage 1 ECL allowances for margin accounts were mainly resulted from the reversal of ECL allowances upon the maturity of the related financial assets during the year; whereas the increase in Stage 3 was primarily due to increase in credit impaired assets moved from Stage 1 to Stage 3 during the year.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.2 Liquidity risk

Liquidity risks refer to the risks that a commercial bank is unable to acquire sufficient funds in a timely manner at a reasonable cost, in response to repay due debts, fulfill other payment obligations and meet other funding needs during normal course of business.

The Company has established clear decision-making levels, authority delegation and risk control rules and procedures, and clearly defined the roles and responsibilities of the Board of Directors, executive management and business departments in liquidity risk management. The Company has established strict rules and procedures for managing its own funds and requires strict compliance with these rules and procedures in taking debts, providing guarantees and making investments; it also sets liquidity risk limits and conducts daily and monthly liquidity position analyses to manage liquidity movements. For effective management of market liquidity risk of its securities portfolios, the Company has implemented securities centralization management for securities investment and financing activities, and has adopted credit rating criteria for fixed-income securities investments. The Company also calculates liquidity coverage ratio and net stable funds ratio as per regulatory requirements and all indicators fall within the safety zone.

The Asset and Liability Management Committee is responsible for organizing and managing the asset and liability allocation plan of the Company, reviewing and approving the internal valuation interest rate of capital and emergency plans for liquidity risk. The Company established the Treasury Operations Department to initiate the management of the liquidity of its proprietary funds, accounting for expanding mid- and long-term stable funding channels, reasonably adjusting the asset allocation among various business lines, and steadily optimizing its assets and liabilities structure. The Company has improved its daily practice for liquidity risk management and control mechanism with the assistance of classified liquidity reserve system, refining internal funds transfer pricing (FTP) system, as well as establishing and optimizing liquidity emergency plans and stress tests. In addition, in the first half of 2018, the Company carried out initial public offering of A Shares and various debt financing instruments to further improve the liquidity.

(In RMB thousands, unless otherwise stated)

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.2 Liquidity risk (Continued)

The maturity profile of the financial liabilities as at the end of the reporting year, based on their contractual undiscounted payments, is as follows:

	31 December 2018					
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Accounts payable to brokerage clients	35,038,585	–	–	–	–	35,038,585
Derivative financial liabilities	166,604	9,376	1,481	–	–	177,461
Financial liabilities at fair value through profit or loss	–	1,253,416	–	–	–	1,253,416
Financial assets sold under repurchase agreements	–	31,897,256	661,438	–	–	32,558,694
Placements from banks and other financial institutions	–	2,051,567	2,047,522	–	–	4,099,089
Short-term borrowings	–	1,119,592	–	–	–	1,119,592
Short-term financing instruments payable	–	9,407,743	4,444,587	–	–	13,852,330
Bonds in issue	–	237,562	1,512,945	39,323,475	–	41,073,982
Others	4,575,065	8,245,415	5,896,613	4,188	533	18,721,814
Other debts	4,888,460	6,303,265	8,008,571	30,437	554	19,231,287
Total	39,780,254	54,221,927	14,564,586	39,327,663	533	147,894,963
Cash flows from derivative financial liabilities settled on a net basis	166,604	9,355	957	–	–	176,916
Gross-settled derivative financial liabilities	–	21	524	–	–	545
Contractual amounts receivable	–	–	–	–	–	–
Contractual amounts payable	–	21	524	–	–	545

(In RMB thousands, unless otherwise stated)

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.2 Liquidity risk (Continued)

The maturity profile of the financial liabilities as at the end of the reporting year, based on their contractual undiscounted payments, is as follows: (continued)

	31 December 2017					
	Overdue/ repayable on demand	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Accounts payable to brokerage clients	41,416,503	–	–	–	–	41,416,503
Derivative financial liabilities	276,347	12	3,338	5,587	–	285,284
Financial liabilities held for trading	–	126,840	–	–	–	126,840
Financial liabilities designated as at fair value through profit or loss	–	–	–	11,640	–	11,640
Financial assets sold under repurchase agreements	–	20,705,875	8,752,291	–	–	29,458,166
Placements from banks and other financial institutions	–	11,097,797	3,077,350	–	–	14,175,147
Short-term borrowings	–	2,122,985	–	–	–	2,122,985
Short-term financing instruments payable	–	14,062,313	14,615,607	–	–	28,677,920
Bonds in issue	–	79,173	966,843	25,783,874	–	26,829,890
Other debts	4,888,460	6,303,265	8,008,571	30,437	554	19,231,287
Total	46,581,310	54,498,260	35,424,000	25,831,538	554	162,335,662
Cash flows from derivative financial liabilities settled on a net basis	276,347	6	3,338	5,587	–	285,278
Gross-settled derivative financial liabilities	–	6	–	–	–	6
Contractual amounts receivable	–	–	–	–	–	–
Contractual amounts payable	–	6	–	–	–	6

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.3 Market risk

Market risk represents risk of fluctuations in fair values or future cash flows of financial instruments due to movements in market prices. Market risks primarily include stock price risk, interest rate risk, foreign exchange rate risk, and other price risks.

For market risks, the Company has established a sound risk management organizational structure and built risk management processes that enables end-to-end coverage of investment activities before, during and after making the investments, with risk limits applied to every investment. The Company annually reviews and approves risk limits for the Company as well as each and every proprietary business lines, including exposure limits, stop-loss limits, VaR limits and stress testing limits, and charges the Risk Management Department to monitor and supervise their implementation and compliance. The Company has adopted daily mark-to-market practices, and implemented stop-loss procedures commensurate with its trading strategies. On a regular basis, the Company assesses the risk tolerance of its proprietary business lines and the effectiveness of its risks, and includes the assessment results in the performance evaluation of these business lines. The Company makes on-going efforts to improve its proprietary business management system, including automated controls over relevant limit indicators.

(1) Value at risk (VaR)

The Company adopts VaR as a tool to measure the market risk of its entire securities investment portfolio comprising different types and varieties of financial instruments. VaR is a method that estimates the maximum possible loss on the portfolio due to movements in market interest rates or securities prices over a specified time period and within a given confidence level.

VaR is calculated using the Company's historical data. Although VaR analysis is a key instrument for measuring market risk, it has to rely on historical data and relevant information, and accordingly, it has certain inherent limitations so that it may not accurately predict the future changes of risk factors and in particular, cannot effectively reflect the risk under extreme market conditions.

(In RMB thousands, unless otherwise stated)

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.3 Market risk (Continued)

(1) Value at risk (VaR) (Continued)

The Group's VaR was disclosed at a confidence level of 95% and with a holding period of 1 trading days since 1 January 2018, being consistent with internal risk management policy, which is easier to be compared with other securities (During the year 2017: at a confidence level of 95% and with a holding period of 10 trading days). The Group's VaR analysis by risk categories is summarized as follows:

	31 December 2018	31 December 2017
Equity price-sensitive financial instruments	22,039	25,377
Interest rate-sensitive financial instruments	61,703	237,622

In addition, for the purpose of maintaining market stability, the Company made contributions to a special account solely managed by China Securities Finance Corporation Limited and agreed with other investing securities companies to share risks and returns on the investments in proportion to their respective contributions. This investment is also exposed to market risks, but since it is impossible to accurately estimate the exposure, it is not included in the VaR calculation above.

(In RMB thousands, unless otherwise stated)

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.3 Market risk (Continued)

(2) Interest rate risk

Interest rate risk represents the risk of losses to the fair values or future cash flows of financial instruments due to adverse movements in market interest rates. The Company's interest rate risk primarily comes from the interest rate-sensitive financial instruments whose fair values are subject to changes due to adverse movements in market interest rates.

The Company primarily uses interest rate sensitivity analysis to monitor its interest rate risk. Sensitivity analysis measures the impact of fair value changes of financial instruments held at the year-end on the Company's total revenue and total equity when reasonable and possible changes occur to interest rates, assuming all other variables remain the same and market interest rates shift in a parallel manner and does not consider any risk management actions that the management may take to reduce its interest rate risk.

Interest rate sensitivity analysis of the Group are as follows:

Sensitivity to revenue	31 December 2018	31 December 2017
Change in basis points		
+25 basis points	(161,778)	(120,103)
– 25 basis points	163,183	121,122

Sensitivity to equity	31 December 2018	31 December 2017
Change in basis points		
+25 basis points	(133,615)	(173,675)
– 25 basis points	135,193	175,859

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.3 Market risk (Continued)

(3) *Foreign currency rate risk*

With respect to foreign exchange rate risk, the Group's foreign-currency-denominated assets and liabilities represent only a small portion in its entire assets and liabilities portfolio. As at 31 December 2018, the foreign exchange exposure is approximately RMB1,721 million. The Group manages its foreign exchange rate risk by limiting the size of its foreign-currency-denominated assets and liabilities and setting stop-loss limits for proprietary investments by its overseas subsidiaries. The majority of its income-generating business activities under the current structure are conducted in Renminbi, with only a small portion denominated in foreign currencies. Given the small portion of the foreign-currency-denominated businesses in both its assets and liabilities portfolio and income structure, the Group believes that its foreign exchange rate risk has an insignificant impact on its current operations.

(4) *Other price risks*

Other price risks refer to risks of fair value decline to the Group's investment portfolio due to fluctuations in market prices other than stock prices, interest rates, and foreign exchange rates, including primarily commodity prices. The Group's investment portfolio primarily comprises equity securities and their derivative instruments as well as fixed income businesses. Other market price-related businesses include gold trading where the Group primarily focuses on providing liquidity services and arbitrage trading, and economically hedges its positions with deferred gold trading and gold future transactions. The size of its gold portfolio represents a very small portion of the Group's portfolio and a negligible risk exposure. Accordingly, the Group believes that the other price risks do not have a significant impact on the Group's current operations.

58 FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

Risk analysis and control (Continued)

58.4 Capital management

The Group's objectives of capital management are:

- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for equity holders and benefits for other stakeholders;
- To support the Group's stability and growth;
- To maintain a strong capital base to support the development of their business; and
- To comply with the capital requirements under the PRC regulations.

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2016) (the "Administrative Measures") issued by the CSRC and effective 1 October 2016, the Company is required to meet the following standards for risk control indicators on a continual basis:

- The risk coverage ratio shall be no less than 100%;
- The capital leverage ratio shall be no less than 8%;
- The liquidity coverage ratio shall be no less than 100%;
- The net stable funding ratio shall be no less than 100%;

Risk coverage ratio = net capital/sum of various risk capital provisions x 100%,

Capital leverage ratio = core net capital/total asset on-/off-balance-sheet x 100%,

Liquidity coverage ratio = high quality liquid assets/net cash outflow in 30 days x 100%,

Net stable funding ratio = available amount of stable funding/required amount of stable funding x 100%.

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

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

59 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	31 December 2018	31 December 2017
Non-current assets			
Property, plant and equipment		439,704	504,140
Investment properties		47,742	49,648
Intangible assets		161,781	149,560
Investment in subsidiary	20	4,093,123	2,042,653
Investment in associates		47,565	48,425
Financial assets at fair value through profit or loss		4,234,861	
Available-for-sale financial assets			5,247,049
Financial assets at fair value through other comprehensive income		3,003,549	
Financial assets held under resale agreements		3,256,324	5,109,380
Refundable deposits		629,612	691,871
Deferred tax assets		899,233	780,140
Other non-current assets		153,654	176,016
Total non-current assets		16,967,148	14,798,882
Current assets			
Margin accounts		24,347,080	46,162,994
Accounts receivable		947,910	1,202,919
Financial assets held for trading			20,228,355
Financial assets designated as at fair value through profit or loss			307,184
Financial assets at fair value through profit or loss		41,539,033	
Available-for-sale financial assets			33,497,784
Financial assets at fair value through other comprehensive income		27,606,444	
Derivative financial assets		1,239,584	120,384
Financial assets held under resale agreements		19,436,964	20,278,676
Cash held on behalf of clients		29,876,323	35,024,479
Cash and bank balances		14,257,151	9,779,983
Other current assets		194,331	2,941,459
Total current assets		159,444,820	169,544,217
Total assets		176,411,968	184,343,099

(In RMB thousands, unless otherwise stated)

59 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	Note	31 December 2018	31 December 2017
Current liabilities			
Accounts payable to brokerage clients		29,983,709	35,163,375
Derivative financial liabilities		177,307	285,284
Financial liabilities held for trading			126,780
Financial liabilities at fair value through profit or loss		1,252,581	
Financial assets sold under repurchase agreements		31,413,929	27,150,206
Placements from banks and other financial institutions		4,048,839	14,000,000
Taxes payable		211,998	275,585
Short-term financing instruments payable		13,847,959	27,831,673
Other current liabilities		12,515,345	14,256,417
Total current liabilities		93,451,667	119,089,320
Net current assets		65,993,153	50,454,897
Total assets less current liabilities		82,960,301	65,253,779
Non-current liabilities			
Financial liabilities designated as at fair value through profit or loss			11,640
Bonds in issue		36,579,245	22,736,472
Deferred tax liabilities		321,588	27,359
Other non-current liabilities		4,614	6,532
Total non-current liabilities		36,905,447	22,782,003
Net assets		46,054,854	42,471,776
Equity			
Share capital		7,646,385	7,246,385
Other equity instruments		5,000,000	5,000,000
Reserves		18,992,277	16,149,035
Retained earnings		14,416,192	14,076,356
Total equity		46,054,854	42,471,776

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

60 STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Retained Earnings	Total
At 31 December 2017		7,246,385	5,000,000	7,022,263	2,589,255	6,839,998	(302,481)	14,076,356	42,471,776
Change in accounting policy		–	–	–	(7,329)	(14,658)	68,452	(51,303)	(4,838)
1 January 2018 (Restated)		7,246,385	5,000,000	7,022,263	2,581,926	6,825,340	(234,029)	14,025,053	42,466,938
Profit for the year		–	–	–	–	–	–	2,950,605	2,950,605
Other comprehensive income for the year		–	–	–	–	–	238,965	–	238,965
Total comprehensive income for the year		–	–	–	–	–	238,965	2,950,605	3,189,570
Capital injected by equity holders – issuance of A shares	49	400,000	–	1,668,697	–	–	–	–	2,068,697
Appropriation to surplus reserves	51	–	–	–	295,060	–	–	(295,060)	–
Appropriation to general reserves	51	–	–	–	–	594,055	–	(594,055)	–
Distribution to other equity instrument holders	16	–	–	–	–	–	–	(294,000)	(294,000)
Dividends – 2017	16	–	–	–	–	–	–	(1,376,351)	(1,376,351)
At 31 December 2018		7,646,385	5,000,000	8,690,960	2,876,986	7,419,395	4,936	14,416,192	46,054,854

For the year ended 31 December 2018

(In RMB thousands, unless otherwise stated)

60 STATEMENT OF CHANGES IN EQUITY OF THE COMPANY (Continued)

	Note	Share capital	Other equity instruments	Capital reserve	Surplus reserves	General reserves	Investment revaluation reserve	Retained Earnings	Total
At 1 January 2017		7,176,470	5,000,000	6,677,315	2,213,575	6,088,639	(132,521)	13,044,949	40,068,427
Profit for the year		–	–	–	–	–	–	3,756,795	3,756,795
Other comprehensive income for the year		–	–	–	–	–	(169,960)	–	(169,960)
Total comprehensive income for the year		–	–	–	–	–	(169,960)	3,756,795	3,586,835
Capital injected by equity holders – issuance of H shares	49	69,915	–	344,948	–	–	–	–	414,863
Appropriation to surplus reserves	51	–	–	–	375,680	–	–	(375,680)	–
Appropriation to general reserves	51	–	–	–	–	751,359	–	(751,359)	–
Distribution to other equity instrument holders	16	–	–	–	–	–	–	(294,000)	(294,000)
Dividends – 2016	16	–	–	–	–	–	–	(1,304,349)	(1,304,349)
At 31 December 2017		7,246,385	5,000,000	7,022,263	2,589,255	6,839,998	(302,481)	14,076,356	42,471,776

61 EVENTS AFTER THE REPORTING PERIOD

(1) Issuance of subordinated bonds

In January 2019, the Company privately issued a 3-year fixed rate subordinated bond ("19 Xintou C1") with a face value of RMB5.5 billion. The bond pays interest annually at 4.00% per annum and is not guaranteed.

(2) Dividend

As at 18 March 2019, Board of directors propose a cash dividend of RMB1.80 (tax inclusive) per 10 ordinary shares to the year of 2018, amounting to RMB1,376,349,342.84 (tax inclusive) in total and based on 7,646,385,238 shares ended on 31 December 2018. The dividend distribution represents to 49.27% of profit for the year 2018 attributable to ordinary equity holders of the Company in the consolidated financial statements. The remaining undistributed profit will be carried forward to the following years. Such proposal is subject to the approval by the ordinary equity holders in the Annual General Meeting.