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If you have sold or otherwise transferred all your shares in **China Merchants Securities Co., Ltd.**, you should at once hand this circular and the form of proxy and reply slip to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.



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

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

**WORKING REPORT OF THE BOARD FOR 2018,
WORKING REPORT OF THE SUPERVISORY COMMITTEE FOR 2018,
DUTY REPORT OF INDEPENDENT DIRECTORS FOR 2018,
ANNUAL REPORT FOR 2018,
FINAL ACCOUNTS REPORT FOR 2018,
RESOLUTION ON THE PROFIT DISTRIBUTION PLAN FOR 2018,
RESOLUTION ON THE BUDGET FOR
PROPRIETARY INVESTMENT FOR 2019,
RESOLUTION ON THE ENGAGEMENT OF THE AUDITORS FOR 2019,
RESOLUTIONS ON THE CONTEMPLATED ORDINARY
RELATED PARTY TRANSACTIONS FOR 2019
AND
RESOLUTION ON GRANT OF GENERAL MANDATE TO
THE BOARD TO ISSUE ADDITIONAL A SHARES AND/OR H SHARES**

A letter from the Board is set out on pages 3 to 9 of this circular.

The AGM is to be held on Friday, June 28, 2019 at 10 a.m. at St. Helen Shenzhen Bauhinia, No. 2002, Qiaocheng East Road, Futian District, Shenzhen. The notice of the AGM, the reply slip for holders of H Shares for attending the AGM and the form of proxy have been despatched on Friday, May 10, 2019. They have also been published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.cmschina.com). If you are not able to attend the AGM, please complete and return the form of proxy in accordance with the instructions printed thereon as soon as practicable and in any event not less than 24 hours before the time stipulated for the holding of the AGM and deposit it together with the notarised power of attorney or other document of authorization with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited (for holders of H Shares). Completion and return of the form of proxy will not preclude you from attending and voting at the AGM should you so desire.

Shareholders who intend to attend the AGM in person or by proxy should complete and return the reply slip for attending the AGM to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited (for holders of H Share) on or before Thursday, June 6, 2019.

June 5, 2019

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context otherwise requires:

“A Share(s)”	domestic shares of the Company, with a nominal value of RMB1.00 each, which are subscribed for or credited as paid up in Renminbi and are listed for trading on the SSE
“AGM”	the annual general meeting of 2018 to be held by the Company at St. Helen Shenzhen Bauhinia, No. 2002, Qiaocheng East Road, Futian District, Shenzhen on Friday, June 28, 2019 at 10 a.m.
“Articles of Association”	the articles of association of the Company
“Board” or “Board of Directors”	the board of Directors of the Company
“Company”	China Merchants Securities Co., Ltd., a joint stock limited company incorporated under the laws of the PRC as an enterprise legal person in August 1993; the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange (stock code: 6099) and the A Shares of which are listed on the SSE (stock code: 600999)
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the Director(s) of the Company
“General Mandate”	the general mandate proposed to be granted to the Board at the AGM to issue, allot and deal with additional A Shares and/or H Shares, representing up to the limit of 20% of the respective amount of the A Shares and/or H Shares in issue as at the date of passing the relevant resolution at the AGM
“H Share(s)”	overseas-listed foreign shares in the share capital of the Company with nominal value of RMB1.00 each, which are subscribed for and traded in Hong Kong dollars and are listed on the Hong Kong Stock Exchange
“HK dollar(s)”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Non-executive Director(s)” or “Independent Director(s)”	the independent non-executive Director(s) of the Company
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC” or “China”	the People’s Republic of China, excluding for the purposes of this circular, Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Reporting Period”	from January 1, 2018 to December 31, 2018
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Share(s)”	the ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each, comprising A Shares and H Shares
“Shareholders(s)”	holder(s) of the Share(s)
“Supervisor(s)”	member(s) of the Supervisory Committee
“Supervisory Committee”	the supervisory committee of the Company
“SSE”	the Shanghai Stock Exchange
“SZSE”	the Shenzhen Stock Exchange

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

LETTER FROM THE BOARD



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

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

(Stock Code: 6099)

Executive Directors:

Mr. HUO Da (*Chairman of the Board*)
Mr. XIONG Jiantao (*President*)

Non-executive Directors:

Ms. SU Min
Mr. SU Jian
Mr. XIONG Xianliang
Ms. PENG Lei
Mr. HUANG Jian
Mr. WANG Daxiong

Independent Non-executive Directors:

Mr. XIANG Hua
Mr. XIAO Houfa
Mr. XIONG Wei
Mr. HU Honggao
Mr. WONG Ti

Registered Office:

No.111 Fuhuayuan Road
Futian District
Shenzhen, Guangdong
PRC

*Principal Place of Business
in Hong Kong:*

48/F, One Exchange Square
8 Connaught Place
Central
Hong Kong

June 5, 2019

To the Shareholders

Dear Sir or Madam,

**WORKING REPORT OF THE BOARD FOR 2018,
WORKING REPORT OF THE SUPERVISORY COMMITTEE FOR 2018,
DUTY REPORT OF INDEPENDENT DIRECTORS FOR 2018,
ANNUAL REPORT FOR 2018,
FINAL ACCOUNTS REPORT FOR 2018,
RESOLUTION ON THE PROFIT DISTRIBUTION PLAN FOR 2018,
RESOLUTION ON THE BUDGET FOR
PROPRIETARY INVESTMENT FOR 2019,
RESOLUTION ON THE ENGAGEMENT OF THE AUDITORS FOR 2019,
RESOLUTIONS ON THE CONTEMPLATED ORDINARY
RELATED PARTY TRANSACTIONS FOR 2019
AND
RESOLUTION ON GRANT OF GENERAL MANDATE TO THE BOARD TO
ISSUE ADDITIONAL A SHARES AND/OR H SHARES**

INTRODUCTION

The purpose of this circular is to provide you, as holders of H Shares, with the information reasonably necessary to enable you to make an informed decision on whether to vote for or against the proposed resolutions at the AGM.

LETTER FROM THE BOARD

At the AGM, ordinary resolutions will be proposed to consider and approve, (i) the working report of the Board of the Company for 2018; (ii) the working report of the Supervisory Committee of the Company for 2018; (iii) the duty report of Independent Directors of the Company for 2018; (iv) the annual report of the Company for 2018; (v) the final accounts report of the Company for 2018; (vi) the resolution on the profit distribution plan of the Company for 2018; (vii) the resolution on the budget for proprietary investment of the Company for 2019; (viii) the resolution on the engagement of the auditors of the Company for 2019; and (ix) the resolutions on the contemplated ordinary related party transactions of the Company for 2019. At the AGM, a special resolution will be proposed to consider and approve the resolution on grant of General Mandate to the Board to issue additional A Shares and/or H Shares of the Company.

1. WORKING REPORT OF THE BOARD OF THE COMPANY FOR 2018

An ordinary resolution will be proposed at the AGM to approve the working report of the Board of the Company for 2018, the full text of which is set out in Appendix I of this circular.

The working report of the Board of the Company for 2018 has been considered and approved by the Board on March 28, 2019, and is hereby proposed at the AGM for its consideration and approval.

2. WORKING REPORT OF THE SUPERVISORY COMMITTEE OF THE COMPANY FOR 2018

An ordinary resolution will be proposed at the AGM to approve the working report of the Supervisory Committee of the Company for 2018, the full text of which is set out in Appendix II of this circular.

The working report of the Supervisory Committee of the Company for 2018 has been considered and approved by the Supervisory Committee on March 27, 2019, and is hereby proposed at the AGM for its consideration and approval.

3. DUTY REPORT OF INDEPENDENT DIRECTORS OF THE COMPANY FOR 2018

An ordinary resolution will be proposed at the AGM to approve the duty report of Independent Directors of the Company for 2018, the full text of which is set out in Appendix III of this circular.

4. ANNUAL REPORT OF THE COMPANY FOR 2018

An ordinary resolution will be proposed at the AGM to approve the annual report of the Company for 2018, which has been despatched on April 24, 2019, and meanwhile has been published on the websites of the SSE (www.sse.com.cn), the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.cmschina.com).

The annual report of the Company for 2018 has been considered and approved by the Board on March 28, 2019, and is hereby proposed at the AGM for its consideration and approval.

LETTER FROM THE BOARD

5. FINAL ACCOUNTS REPORT OF THE COMPANY FOR 2018

An ordinary resolution will be proposed at the AGM to approve the final accounts report of the Company for 2018, the full text of which is set out in Appendix IV of this circular.

The final accounts report of the Company for 2018 has been considered and approved by the Board on March 28, 2019, and is hereby proposed at the AGM for its consideration and approval.

6. RESOLUTION ON THE PROFIT DISTRIBUTION PLAN OF THE COMPANY FOR 2018

An ordinary resolution will be proposed at the AGM to approve the profit distribution plan of the Company for 2018, the full text of which is as below:

The resolution on profit distribution of the Company for 2018: based on the total share capital as at the date of registration of equity for this profit distribution, a cash dividend of RMB2.64 (tax inclusive) will be distributed to every 10 Shares. If, based on the total share capital of 669,940,932 Shares of the Company as of the end of 2018, the total cash dividend distributed for the period amounted to RMB1,768,644,062.86, representing 39.97% of the net profit attributable to the owners of the parent company for 2018 of the Company according to the consolidated financial statements. Upon implementation of profit distribution, shares registered in the designated account for repurchase of Company's shares as at the date of registration of equity for this profit distribution should not have the right to profit distribution.

Such cash dividend will be denominated and declared in RMB and paid to holders of A Shares in RMB and to holders of H Shares in Hong Kong dollar. The actual amount of dividend paid in Hong Kong dollar will be determined based on the average exchange rate of RMB and Hong Kong dollar published by the People's Bank of China for the five business days immediately before the date of the AGM of the Company.

In view of the procedure of the distribution of dividend of H Shares, it is hereby proposed at the AGM to agree that Computershare Hong Kong Trustees Limited was appointed as the trustee in respect of the distribution of dividend to holders of H Shares of the Company. Mr. WU Huifeng was authorized as the authorizer to exercise the rights on behalf of the Company to execute all instructions, guidelines, decisions, notices and approvals to nominees in relation to the nominee agreement, etc..

The profit distribution plan of the Company for 2018 has been considered and approved by the Board on March 28, 2019, and is hereby proposed at the AGM for its consideration and approval.

LETTER FROM THE BOARD

7. RESOLUTION ON THE BUDGET FOR PROPRIETARY INVESTMENT OF THE COMPANY FOR 2019

An ordinary resolution will be proposed at the AGM to approve the budget for proprietary investment of the Company for 2019, the full text of which is as below:

Given the fact that proprietary investment is an essential part of the principal business of the Company which requires prompt judgement and decision based on the market condition in order to capture the market opportunities, according to the Provisions on Strengthening the Supervision and Administration of Listed Securities Companies promulgated by CSRC it is hereby proposed to authorize the management of the Company to determine the total amount of proprietary investment of the Company for 2019 within the budget set forth below on the condition that the relevant requirements by CSRC regarding proprietary business management and risk management are satisfied:

- (1) The aggregate amount of proprietary investment in equity securities and its derivatives of the Company shall not exceed 100% of the net capital as at the relevant times;
- (2) The aggregate amount of proprietary investment in non-equity securities and its derivatives of the Company shall not exceed 500% of the net capital as at the relevant times.

Note: The budget as set out above does not include long-term equity investment of the Company, which shall adhere to the Company's relevant procedures for confirmation and execution.

The budget set out above is the maximum amount of proprietary investment based on the characteristics of market fluctuation, which does not represent the judgement of the management and the Board of the Company regarding the market. The actual amount of proprietary investment shall be solely subject to the then prevailing market condition when the proprietary investment is made.

The above resolution has been considered and approved by the Board on March 28, 2019, and is hereby proposed at the AGM for its consideration and approval.

8. RESOLUTION ON THE ENGAGEMENT OF THE AUDITORS OF THE COMPANY FOR 2019

An ordinary resolution will be proposed at the AGM to approve the engagement of the auditors of the Company for 2019, the full text of which is as below:

The Company proposes to continue to engage Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the auditors of the Company for the financial report and internal control of 2019; The annual audit fees charged by Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu (together "Deloitte") for 2019 shall not exceed RMB3.60 million, including meal and traveling expenses and etc (tax inclusive).

LETTER FROM THE BOARD

The above resolution has been considered and approved by the Board on March 28, 2019, and is hereby proposed at the AGM for its consideration and approval.

9. RESOLUTIONS ON THE CONTEMPLATED ORDINARY RELATED PARTY TRANSACTIONS OF THE COMPANY FOR 2019

Ordinary resolutions will be proposed at the AGM to approve the contemplated ordinary related party transactions of the Company for 2019 as follows, the full text of which are set out in Appendix V of this circular.

- 9.01 Contemplated ordinary related party transactions with China Merchants Bank Co., Ltd.
- 9.02 Contemplated ordinary related party transactions with China Merchants Group Limited and its subsidiaries
- 9.03 Contemplated ordinary related party transactions with China Merchants Fund Management Co., Ltd.
- 9.04 Contemplated ordinary related party transactions with Bosera Asset Management Co., Ltd.
- 9.05 Contemplated ordinary related party transactions with Great Wall Securities Co., Ltd.
- 9.06 Contemplated ordinary related party transactions with China COSCO Shipping Corporation Limited and other related parties controlled by it
- 9.07 Contemplated ordinary related party transactions with PICC Life Insurance Company Limited, PICC Health Insurance Company Limited, PICC Pension Company Limited and PICC Health Pension Management (Guangzhou) Co., Ltd.
- 9.08 Contemplated ordinary related party transactions with connected person
- 9.09 Contemplated ordinary related party transactions with other related parties

The above resolutions have been considered and approved by the Board on March 28, 2018, and are hereby proposed at the AGM for its consideration and approval.

10. RESOLUTION ON GRANT OF GENERAL MANDATE TO THE BOARD TO ISSUE ADDITIONAL A SHARES AND/OR H SHARES OF THE COMPANY

A special resolution will be proposed at the AGM to approve the grant of General Mandate to the Board to issue additional A Shares and/or H Shares, the full text of which is set out in Appendix VI of this circular.

The above resolution has been considered and approved by the Board on March 28, 2019, and is hereby proposed at the AGM for its consideration and approval.

LETTER FROM THE BOARD

AGM

The AGM will be held at St. Helen Shenzhen Bauhinia, No. 2002, Qiaocheng East Road, Futian District, Shenzhen on Friday, June 28, 2019 at 10 a.m..

The summary of the important dates for holders of H Share is as follows:

Last Registration Date	:	On or before 4:30 p.m. on Tuesday, May 28, 2019
Closure of Register of Members for H Shareholders	:	Wednesday, May 29 to Friday, June 28, 2019 (both days inclusive)
Submission of Reply Slip	:	On or before Thursday, June 6, 2019
Submission of Proxy Form	:	not less than 24 hours before the time appointed for the AGM, i.e. 10:00 a.m. on Thursday, June 27, 2019

The register of members is closed from Wednesday, May 29, 2019 to Friday, June 28, 2019 (both days inclusive), during which period no transfer of H Shares will be effected. All transfer documents accompanied by the relevant share certificate, shall be lodged with the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, May 28, 2019. Purchasers of Shares who have submitted their transfer documents to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited, and registered as Shareholders on the register of members of H Shares of the Company before 4:30 p.m. on Tuesday, May 28, 2019 are entitled to attend and vote in respect of all resolutions to be proposed at the AGM.

The Notice of the AGM, the reply slip and the proxy form for the AGM have been despatched on Friday, May 10, 2019 and have also been published on the websites of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company (www.cmschina.com). Shareholders intending to attend the AGM in person or by their proxies should complete and return the reply slip for attending the AGM to the Company's H Share registrar, Computershare Hong Kong Investor Services Limited (for holders of H Shares) on or before Thursday, June 6, 2019.

To be valid, for holders of H Shares, the form of proxy and notarised power of attorney or other document of authorisation must be delivered to Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 24 hours before the time appointed for the AGM. Completion and return of the proxy form will not preclude you from attending and voting at the AGM in person if you so wish.

LETTER FROM THE BOARD

PROCEDURES FOR VOTING AT THE AGM

According to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a Shareholders' general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the chairman of the AGM will demand a poll in relation to all the proposed resolutions at the AGM in accordance with Article 124 of the Articles of Association.

The abovementioned ordinary resolution No. 9 will be taken by poll by Shareholders who do not hold any interest in relation to such resolution. Shareholders controlled by China Merchants Group Limited are required to abstain from voting on the abovementioned ordinary resolution No. 9.02. Shareholders controlled by China COSCO Shipping Corporation Limited are required to abstain from voting on the abovementioned ordinary resolution No. 9.06. PICC Life Insurance Company Limited is required to abstain from voting on the abovementioned ordinary resolution No. 9.07.

RECOMMENDATION

The Board believes that all the resolutions mentioned above are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that all Shareholders vote in favour of the resolutions to be proposed at the AGM.

Yours faithfully,
By order of the Board
HUO Da
Chairman

I. MAJOR WORK OF THE BOARD IN 2018

In 2018, the world economic situation has undergone new changes with remarkably diverging development and the liquidity of major economies has tightened; the trade tensions between China and the United States continued to escalate, and domestic economic growth was stable with slowing growth. With continuously promoting the construction of marketization, rule of law, and internationalization of the domestic capital market, the reform continued to deepen. Meanwhile, with intensifying competition in the securities industry, the tendency of “the large ones get larger, the strong ones get stronger, the leading ones are concentrated, and the weak ones are eliminated” will become increasingly obvious.

In 2018, the Company actively responded to the unfavorable market environment and the current operation was generally stable. The annual operating revenue and the net profit attributable to the shareholders of the parent company were RMB11.322 billion and RMB4.425 billion respectively. There were no major risk compliance events during the Reporting Period, and the Company was awarded the highest rating of Class A “AA” by the CSRC and became one of the only two brokers in the industry to maintain “AA” rating for 11 consecutive years since 2008. In 2018, the Company profoundly carried out the “quality and efficiency improvement” project and formulated the “Medium and Long-term Development Strategy of China Merchants Securities and the Development Plan for 2019–2023” to improve the Company’s comprehensive competitiveness. In the meantime, the Company actively carried out the “Double Hundred Actions” reform, and implemented substantive reform measures in respect of construction of human resource mechanism, optimization and adjustment of organizational structure, and optimization of coordination mechanism. In addition, the Company vigorously promoted business synergy and business integration among the units of China Merchants Group, which has achieved a series of achievements in collaboration between industrial companies and financial companies and collaboration between financial companies.

(I) Strengthened strategic guidance and formulated a new round of the medium and long-term development strategy and the development plan for 2019–2023

The Company held the fifteenth meeting of the sixth session of the Board on 17 December 2018, at which the Resolution on the Medium and Long-Term Development Strategy of the Company and the Development Plan for 2019–2023 was considered and approved. The new strategy clearly puts forward the strategic goal of “becoming the top five in the industry in terms of comprehensive competitiveness” and the overall requirements of “quality first, prioritizing efficiency, moderate scale”, and places more emphasis on quality and efficiency indicators such as capital return and core business competitiveness. It also explicitly proposes five core strategies, i.e. taking investment banking business as value guide, developing characteristic advantages of institutional business and wealth management business, expanding multi-channel and multi-product integrated business model, and strengthening cross-border service integration, which emphasizes strategic focus and characteristic services and clarifies that the Company should concentrate its resources to develop differentiated competitive advantages.

In 2018, the Company took the “quality and efficiency improvement” project as the priority, and launched a number of transformation and reform initiatives during the year in accordance with the principle of “developing, implementing, and adjusting”. In terms of the investment banking module, the Company set up an investment banking committee to promote the flow of investment banking talents to the investment sector, which has begun to build a synergy model of “investment banking plus investment”; in terms of the Big Operation module, the Company began the construction of a unified operating system at company level; in terms of the financial technology module, the Company established an incubation platform of financial technology innovation, and set up an inter-departmental agile team, accelerating the integration of technology and business; in terms of research transformation, the Company took the opportunity of suspension of the competition held by the *New Fortune* magazine, and laid out the core competence of think-tank researches such as public policy research, industrial research and financial engineering research, strengthening the support for the Group and the Company.

(II) Deployed the reform blueprint and promoted the implementation of the “Double Hundred Actions” regarding the reform of state-owned enterprises

In 2018, the Company was included in the list of “Double Hundred Actions” regarding the reform of state-owned enterprises by the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council. The Board instructed the Company to accelerate the specific work of comprehensive reform plans for the “Double Hundred Actions” in accordance with the overall planning and guidance requirements of the SASAC as follows: first, the Company implemented the reform of the market-oriented talent mechanism including the global open recruitment of the Company’s president and the performance-based competition system for the deputy positions of senior management; second, for purpose of promoting synergy, transforming the thinking mode and building compound capabilities, the Company greatly adjusted the division of labor within the leading group; third, the Company adjusted the organizational structure according to the principle of “one office for one matter”, and carried out functional integration and institutional merger with the number of departments reduced by 7, which has optimized resource allocation, promoted business synergy, and improved organizational effectiveness and service efficiency; fourth, the Company initiated refinancing and employee incentive program with mixed ownership reform as the main line.

(III) Highlighted technology leadership and continuously enhanced innovation capabilities

The Board instructed the Company to focus on financial technology to improve innovation-driven capabilities. The Strategy Committee of the Board formulated the “Management Measures for Financial Technology Innovation Funds”, formed the Financial Technology Innovation Committee, and established the RMB100 million innovation fund through which approximately RMB80 million investment was completed, and 21 innovative projects were incubated. First, the Company established a two-way screening mechanism for financial technology projects. It focused on the core applications such as office network, mobile APP, investment consulting system and investment banking system from top to bottom to strengthen technology empowerment while enriching creative forums, salons, sprint camps and other project generation mechanisms from the bottom up to promote the launch of projects as soon as possible through agile development. Second, the Company built a “two-speed development” model of technological innovation. In accordance with the innovative model of the stable core trading system and the live customer and management interface, the Company promoted various business and management system innovations under the premise of fault-free operation of the core trading system throughout the year. The smart price monitoring technology realized the personalized warning setting for all retail customers for the first time in the industry. The robot investment consulting service system automatically answered nearly 400,000 questions and the precision marketing rate of wealth management increased 10 times. Third, the Company continuously improved the ability of business innovation. The Company became the first agency in the industry to provide fund operation services for public fund companies, and it underwritten multiple initial offering financial products in the industry as follows: the first batch of corporate bonds named after the “Belt and Road”; the first domestic asset-backed securities project that introduced the overseas investors to invest in asset-backed securities at the subordinated tranche level through “Bond Connect (Northbound Trading)”; and the first long-term rental apartment mortgage-backed securities.

(IV) Strictly prevented risks and continued to maintain legal compliance and sound operation

In 2018, the Board instructed the Company to actively respond to the continuous weakness in the stock market and the high default of the bond market, pay high attention to the risk of stock pledge business caused by the volatility and downward trend of the A-share market, and complete the risk control of financing projects with high quality and efficiency; adapt to the regulatory requirements for comprehensive operation and cross-border operation by regulatory bodies, and actively participate in the pilot on consolidated regulation by the CSRC, thereby creating the conditions for the Company to obtain more innovative qualifications in the future; sort out and improve the liquidity risk management mechanism, carry out liquidity pressure tests and emergency drills, and strengthen daily cash flow and capital position management, with various liquidity indicators continuously

meeting regulatory and internal management requirements; closely follow the new regulations on asset management and its supporting rules, internal control guidelines of investment banking, new regulations for stock pledges, anti-money laundering and other regulatory developments, establish and improve the corresponding systems and regulations in order to ensure the relevant businesses adapt to new regulations timely; step up compliance check, and carry out preventive inspections on high-risk areas, new businesses, and major regulatory concerns in order to eliminate compliance risks timely. In the context of frequent industrial risk events, no major risk events occurred in the Company, and default losses, investment losses, and error losses for various business were kept at a very low level.

In 2018, the overall compliance of the Company remained good, and the risk indicators met the regulatory requirements and the risk management policies of the Board.

Major regulatory indicators of the Company as at the end of 2018 (Unit: RMB)

Item	Indicator at the end of December, 2018	Warning standard	Regulatory standard
Net capital	52,815,746,346.60		
Net assets	75,518,016,192.53		
Total risk capital reserves	17,090,060,265.22		
Total assets on- and off-balance sheet	251,421,719,027.43		
Risk coverage ratio	309.04%	≥120%	≥100%
Capital leverage ratio	15.52%	≥9.6%	≥8%
Liquidity coverage ratio	277.30%	≥120%	≥100%
Net stable funding ratio	159.64%	≥120%	≥100%
Net capital/net assets	69.94%	≥24%	≥20%
Net capital/liabilities	31.77%	≥9.6%	≥8%
Net assets/liabilities	45.42%	≥12%	≥10%
Value of proprietary equity securities and its derivatives/net capital	22.27%	≤80%	≤100%
Value of proprietary non-equity securities and its derivatives/net capital	246.47%	≤400%	≤500%

(V) Further optimized the management of related party transactions and ensured that related party transactions were in the interests of the shareholders of the Company as a whole

During the Reporting Period, in accordance with the “the Circular on Matters Concerning Further Strengthening the Regulation of the Related Party Transactions of Securities Companies” by CSRC Shenzhen Office, the Company clarified the restrictive and prohibitive provisions of related party transactions, strengthened the role of compliance and risk control, established and improved the internal audit mechanism of related party transactions, and improved the long-term mechanism of its related party transactions management. The Company conducted related party transactions with strictly following the related party transactions rules of the A+H listed company, the requirements of the industry authorities and the Decision-Making Policy on Related Party Transactions (《關聯交易決策制度》) of the Company, and in accordance with the principles of openness, equality and fairness. After the Company’s Independent Directors delivered their prior approval opinions on the related party transactions that met the information disclosure standards, such transactions were submitted to the Board for consideration to ensure that the related party transactions could be carried out in the interests of the shareholders of the Company as a whole. The Audit Committee of the Board of the Company shall be responsible for the control over and daily administration of related party transactions, review major related party transactions of the Company, and submit them to the Board and the Shareholders’ general meeting for consideration. The Company established the voting avoidance mechanism on related party transactions. When the related party transactions were considered at the Shareholders’ general meeting of the Company, the related shareholders shall abstain from voting; When the related party transactions were considered by the Board of the Company, the related directors shall abstain from voting and must not act on behalf of other directors for voting. During the Reporting Period, the review, decision-making, approval procedures on related party transactions of the Company were in compliance with the laws and regulations, normative documents, as well as the Articles of Association and the Decision-Making Policy on Related Party Transactions of the Company, effectively safeguarding the Company’s legitimate rights and interests and the shareholders’ interests.

(VI) Made compliant and efficient information disclosure to continuously improve the transparency of the Company

The Board of the Company attached great importance to the standardization of information disclosure, strictly complied with the regulatory requirements in both Shanghai and Hong Kong and the Management Methods on Information Disclosure and the Articles of Association of the Company and registration management and confidentiality system for internal information insider, and comprehensively regulated to make true, accurate and complete disclosure of information, thus ensuring the timeliness and fairness of information disclosure and the transparency of the Company.

In 2018, the Company published 180 A-Share announcements and 199 H-Share announcements in Chinese and English during the year. All announcements were made in compliance with the regulations with true, accurate and complete disclosure in a timely manner to ensure the transparency, equality and fairness of the information disclosed. There was no dealing in the Company's Shares by any persons with inside information by making use of inside information prior to the disclosure of major sensitive information. The equal rights of all Shareholders, especially the minority Shareholders, to access relevant information of the Company were safeguarded.

(VII) Improved the communication with investors and maintained the good market image of the Company

The Board has attached great importance to the management of investor relations and actively promoted the competitive edges of the Company to pioneer the market and establish a good market image for the Company as an A+H large listed securities firm. During the Reporting Period, the Company had contacts with 574 local and international institutional investors on 70 occasions through the annual results presentation and promotion at the interim results analyst meeting, giving speeches at investment strategy seminars and forums organized by domestic and foreign securities firms, reception of visits from institutional investors and participation in analyst seminars of the securities industry. We also had communicated with 344 investors via SSE E-Interaction, telephone, email and Shareholders' general meeting. The Company insisted on inductive analysis and sorting of various issues raised by investors and researchers, and continuously improved the professionalism and standardization of the Company's investor relations management, thus enhancing the quality of investor relations management.

(VIII) Actively performed corporate social responsibility and increased brand value

The Company conscientiously implemented the guiding ideology of the Party Central Committee and the State Council on serving the national poverty alleviation strategy by making use of the capital market. Leveraging the advantages and characteristics of the industry, the Company actively performed its corporate social responsibility by giving financial support to poverty alleviation and increased its brand value.

In 2018, the charity donation approved by the Board of the Company amounted to RMB10 million, which were fully donated to “Shenzhen China Merchants Securities Charity Fund” (深圳市招商證券公益基金會) for the organization of charity programs. Adhering to the principle that “a man shall be taught how to fish instead of being given fish”, the Company fully utilized its professional advantages in financial services and social resources to help impoverished areas establish long-term poverty alleviation mechanism and mode that were specific to the realities of each region, through assistance measures in the development of industry, finance, consumption and education.

During the Reporting Period, the Company carried out the following poverty alleviation works: the Company helped enterprises in impoverished areas to obtain facilities of RMB2.777 billion by providing investment banking and introducing strategic investors services; helped Neixiang County of Henan Province, a targeted county for poverty alleviation, formulate its three-year action plan on financial poverty alleviation and development, and provided a training course with the theme of “Understanding the capital market and developing county economy” for cadres of Neixiang County; provided grants to impoverished college students through the “Flowers Blooming at Midsummer — College Dream Project for Impoverished Students ” and initiated the joint movement “One Thousand Schools, Ten Thousand Jobs” with the China Youth Venture Foundation to help with college student employment; funded the “Poverty Alleviation Training Program for Kindergarten Principals and Backbone Teachers in Makit County of Xinjiang”; donated to “Great Walker — Hiking Event in Xi County of Shanxi” to help the county in the form of the hiking competition; provided scholarship to 30 high school students with financial difficulties in Xing He No. 1 Secondary School (興和一中) in Xinghe County of Inner Mongolia, a state-level poverty stricken county, for three consecutive years, etc..

(IX) Strictly implemented the resolutions approved at Shareholders’ general meetings and actively protected the legal interests of Shareholders

In 2018, the Company convened 1 Shareholders’ general meeting, at which 10 resolutions were considered and approved, all of which were carefully implemented as follows: first, according to the Profit Distribution Plan of the Company for 2017, the Company distributed a total cash dividend of RMB2.318 billion (including tax) to all shareholders, and the dividend rate reached 40.06%. Second, according to the resolution on the Budget for Proprietary Investment of the Company for 2018, the

aggregate amount of proprietary investment in equity securities and its derivatives of the Company shall not exceed 100% of the net capital of the Company as at the relevant times, where A Share directional investment cost shall not exceed 25% of the net capital as at the end of 2017; the aggregate amount of proprietary investment in non-equity securities and its derivatives shall not exceed 400% of the net capital of the Company as at the relevant times. Third, according to the resolution on the Contemplated Ordinary Related Party Transactions of the Company for 2018, the Company's ordinary related party transactions were carried out standardly and disclosed completely. Fourth, according to the resolution on the Engagement of Annual Auditors of the Company, the Company appointed Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the Company's auditors for financial report and internal control of the Company during the year of 2018. Fifth, the relevant provisions on the change of registered address in the Articles of Association were approved by CSRC Shenzhen Office in November 2018 and the procedures for registration were completed.

II. DUTY PERFORMANCE OF DIRECTORS

(I) Assessment on overall duty performance

During the Reporting Period, the Board of the Company convened a total of 9 meetings and the special committees under the Board convened a total of 21 meetings to review a total of 67 resolutions (proposals) and debrief 35 reports. All directors actively attended the Board meetings and decision-makings, which were made in lawful manners, and made practical efforts in determining the new five-year development strategies, appointment of senior management and performance evaluation, system construction, business innovation, technology innovation, risk management, internal control system, audit and supervision and social responsibilities etc.. The five special committees of the Board effectively fulfilled their professional duties based on their respective expertise, which helped the Board make more scientific and forward-looking decisions. Independent Directors of the Company actively attended Board meetings and various meetings of special committees, in which they provided independent and objective opinions. Through channels such as on-site research and seminars, they gained an insight into the operating condition of the Company. As such, independent judgments and decisions were ensured when studying and reviewing major matters.

In daily work, all directors kept abreast of the latest policies and regulations of the securities market, industry development trends and operation and management of the Company through the correspondence of directors and supervisors and weekly report on strategic information sent by the Company and participation in relevant professional training and business research, continuously improved their performance and actively provided advice and suggestions, thereby making important contributions to the sustainable and healthy development of the Company.

(II) Attendance at Board meetings

During the Reporting Period, The attendance of Directors at the Shareholders' general meetings, Board meetings and voting for resolutions of the Company was as follows:

								Attendance of Shareholders' general meeting
Attendance of Board meetings								
Name of Director	Whether an Independent Director	Board Meetings requiring attendance in current year (times)	Attendance in person (times)	Attendance through correspondence (times)	Attendance by proxy (times)	Absence (times)	Whether not attending in person for two consecutive meetings	Attendance of Shareholders' general meeting (times)
HUO Da	No	9	9	4	0	0	No	1
SU Min	No	9	9	4	0	0	No	1
SU Jian	No	9	9	7	0	0	No	1
XIONG Xianliang	No	9	9	8	0	0	No	1
XIONG Jiantao	No	9	9	4	0	0	No	1
PENG Lei	No	9	9	7	0	0	No	1
HUANG Jian	No	9	9	6	0	0	No	1
WANG Daxiong	No	9	9	7	0	0	No	1
CHEN Zhigang	No	9	9	8	0	0	No	1
XIANG Hua	Yes	9	9	4	0	0	No	1
XIAO Houfa	Yes	9	9	6	0	0	No	1
XIONG Wei	Yes	9	8	6	1	0	No	1
HU Honggao	Yes	9	9	7	0	0	No	1
WONG Ti	Yes	8	8	3	0	0	No	1
WANG Yan (resigned)	No	5	5	4	0	0	No	1
YANG Jun (resigned)	Yes	1	1	1	0	0	No	0

III. WORKING PLAN OF THE BOARD OF THE COMPANY FOR 2019

In 2019, the downside risks facing the global economy increase and the domestic macroeconomic circumstances will become more complicated. The comprehensive and strict supervision of the securities industry according to laws is still the trend. International financial institutions accelerating their entry into the domestic securities industry has a direct impact on the relatively traditional business management mechanism and customer service model of the domestic securities industry. Meanwhile, the macro policy continues to implement a proactive fiscal policy and a prudent monetary policy, striving to maintain economic growth in a reasonable range, which generally provides a favorable macroeconomic environment for capital market and industry development.

2019 marks the first year of the new five-year strategies of the Company, and is also a crucial year for implementing the “Double Hundred Actions”. The Company will regard the “Double Hundred Actions” as the boost for quality and efficiency improvement, and take the opportunity of implementation of the “Double Hundred Actions” to deepen the reform. It will solidly promote various basic works, and make full use of all policies to stimulate innovation vitality. The Board will focus on the following aspects:

(I) Implement the new five-year strategic plan to ensure that “quality and efficiency improvement” will work

In 2019, the Board will guide the Company to complete the formulation of each business line strategy as soon as possible according to the objectives of the new strategic plan and closely around the “quality and efficiency improvement”; guide the Strategy Execution Committee of the Company to do a good job in evaluation, control, resource coordination and other aspects of strategy implementation, strengthen strategic management and control, and make great efforts in strategy implementation, thereby promoting the high quality implementation of the Company’s strategy.

(II) Take the opportunity of implementing the “Double Hundred Actions” to deepen the reform and stimulate organizational vitality

First, the Company will steadily deepen the organizational reform by continuously promoting the formulation of various systems, norms, and processes after structure adjustment, and ensuring a smooth transition and switch of personnel, systems and customer services. Second, the Company will focus on improving “quality and efficiency”, fully promote the professional manager system, and implement the human resources mechanism with “six functions” as the core. Third, in line with the Company’s responsible attitude toward shareholders and employees, the Company will prudently implement the repurchase of A shares and actively study and implement the employee incentive programs to stimulate the Company’s reform vitality and create greater value for shareholders. Fourth, the Company will undertake a rights issue of its A shares and H shares to strengthen capital strength and expand business scale.

(III) Promote the new layout of financial technology and realize the business empowerment with technology

The Board will guide the Company to promote the deep integration of financial technology and corporate strategy. First, the Company will refine and improve the Management Measures for Financial Technology Innovation Funds and promote the establishment of project investment funds. Second, the Company will release the Management Methods on the IT Business Partner Model (ITBP) as early as possible, give full play to the two-way role of talents, and make great efforts in seamless connection and collaboration between IT and business departments. Third, the Company will explore to establish an information technology subsidiary to

carry innovation achievements of financial technology, and also serve as a carrier for commercial cooperation and synergy with external institutions. Fourth, the Company will study to set up a CTO (Technology) office to help the Company master the technological advantages, empowering the business with new technology.

(IV) Complete data management and process reengineering and implement the “client-oriented” service requirements

First, the Company will make great efforts in data management to make customer data “alive”. The Company will tease out customer data, integrate customer information systems, and promote basic projects such as customer grouping, stratification and attribution; strengthen application of financial technology to identify sales opportunities with data and improve cross-selling accuracy, and quality and efficiency of integrated services; clarify the management processes and responsibilities for business data statistics, key indicator tracking, management report generation, etc. based on data management so as to improve data management and application capabilities and operational efficiency. Second, the Company will do a good job in process reengineering to make the process “smooth”.

The Company will make the shift to the “customer perspective” from the “business perspective”, and integrate cross-line resources to build the “end-to-end” customer service process; sort out key processes such as business operation, customer services, risk management and control, and unified operation management, identify and prioritize process reengineering and promote it from the top down, improving operational management efficiency and reducing operating and management costs.

(V) Attach greater importance to risk management to safeguard the Company’s development

Preventing risks is the eternal theme of financial enterprises. The Board will always maintain strong risk awareness and actively respond to adverse external environments. The Company will strengthen macroeconomic, market and industrial researches, make proper allocation of assets and risk resources, optimize business structure, and reduce profitability fluctuations; integrate the CMS-Risk risk management system platform by improving risk preference and risk management mechanism to create a professional and refined comprehensive risk management system, and strengthen the efforts to use digital and intelligent means and tools to achieve risk management empowerment, striving to survive periodic market fluctuations.

In 2018, the securities industry was confronted with severe challenges from the internal and external environment, with the domestic economy declining, stock and fund, trading volume falling and the Sino-US trade friction escalating in the world. At the same time, the Company has become the pilot institution of the two major reform projects of the State-owned Assets Supervision and Administration Commission of the State Council such as “Double-Hundred Action” for state-owned enterprise reform and the “1% Quality and Efficiency Promotion Project” of China Merchants Group. The Company took this as an opportunity to carry out a series of reforms, the management team is subject to open market competition, and the organization setting made a major adjustment. The Company achieved an annual operating income of RMB11.322 billion and a net profit attributed to the shareholders of the Company of RMB4.425 billion. Although the operating income and net profit decreased year on year, the decrease was better than the top ten industries and the average of the whole industry. To some extent, the gap with major competitors has been narrowed down, while the Company’s operating income and net profit proportion to those in the industry made a significant year-on-year increase. The Company actively responded to the test of comprehensive and strict supervision according to law, the pressure of market downturn on the business of stock pledge, and the constant impact of bond default risks, so as to strictly guard against and control all kinds of risks. Without major risk compliance events occurring throughout the year, the Company has obtained an “AA” rating of the highest Class-A in the industry by the China Securities Regulatory Commission in 11 consecutive years.

The Supervisory Committee of the Company in 2018 fully performed its duties in corporate governance in accordance with the relevant laws and regulations such as the Company Law and Securities Law and the related provisions regarding the responsibilities of the Supervisory Committee under the Articles of Association. The Supervisory Committee supervised the Board and senior management of the Company in respect of their implementation of resolutions of the general meetings, inspected the daily operation and financial position of the Company, paid close attention to the risk control and compliance of the Company, conducted investigations and researches on frontline staff, actively provided advices and safeguarded the legal interests of the Company, its Shareholders and all investors, all of which help to ensure the normative operation of the Company.

I. MEETINGS OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

In 2018, the Supervisory Committee of the Company held 5 meetings with details as follows:

1. The fourth meeting of the sixth session of the Supervisory Committee was held on March 26, 2018 in Shenzhen. Nine Supervisors should attend the meeting, and nine Supervisors attended the meeting. Nine resolutions were considered and approved: (1) work report of the Supervisory Committee of the Company for 2017; (2) annual report of the Company for 2017; (3) 2017 operational report of the Company; (4) internal control assessment report of the Company for 2017; (5) compliance management report of the Company for 2017; (6) social responsibility report of the Company for 2017; (7) Report on the Deposit and Use of Proceeds from the Offering of H Shares of the Company in 2017; (8) report on changes in accounting policies of the Company; (9) assessment report on the effectiveness of the Company's compliance management for 2017. Voting results for all of these proposals were the same as follows: 9 for, 0 against and 0 abstain. The meeting also debriefed a comprehensive summary of the work of financial department for 2017 and annual report on internal audit for 2017 and working plan on internal audit in 2018.
2. The fifth meeting of the sixth session of the Supervisory Committee was held on April 26, 2018 in the form of correspondence. Nine Supervisors should attend the meeting, and nine Supervisors attended the meeting. One resolution was considered and approved: First Quarterly Report of the Company for 2018. Voting results for the proposal were the same as follows: 9 for, 0 against and 0 abstain.

3. The sixth meeting of the sixth session of the Supervisory Committee was held on August 28, 2018 in Shenzhen. Nine Supervisors should attend the meeting, and nine Supervisors attended the meeting. Three resolutions were considered and approved: (1) Interim Report of the Company for 2018; (2) Interim operational report of the Company for 2018; (3) Interim Report on the Deposit and Use of Proceeds from the Offering of H Shares of the Company in 2018. Voting results for all of these proposals were the same as follows: 9 for, 0 against and 0 abstain. The meeting also debriefed the reports on the financial work of the Company in the first half of the year and internal auditing work in the first half of the year.
4. The seventh meeting of the sixth session of the Supervisory Committee was held on October 29, 2018 in the form of correspondence. Nine Supervisors should attend the meeting, and nine Supervisors attended the meeting. One resolution was considered and approved: the Third Quarterly Report of the Company for 2018. The voting result was as follows: 9 for, 0 against and 0 abstain.
5. The eighth meeting of the sixth session of the Supervisory Committee was held on December 24, 2018 in the form of correspondence. Nine Supervisors should attend the meeting, and nine Supervisors attended the meeting. One resolution was considered and approved: the auditing report on the former President and CEO Wang Yan. The voting result was as follows: 9 for, 0 against and 0 abstain.

II. OPINIONS OF THE SUPERVISORY COMMITTEE ON RELEVANT ISSUES OF THE COMPANY IN 2018

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

1. Legal operation of the Company

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

2. Inspection of the financial position of the Company

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

3. Examination of the implementation of resolutions of the Shareholders' general meetings

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

4. Related party transactions

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

5. Review of relevant reports

The Supervisory Committee reviewed the 2018 Operational Report of the Company, Report on the Deposit and Use of Proceeds from the Offering of H Shares of the Company in 2018, Internal Control Assessment Report of the Company for 2018, Compliance Management Report of the Company for 2018 and Social Responsibility Report of the Company for 2018, and had no objection to such reports.

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

In 2018, the Supervisory Committee of the Company supervised the enforcement of the Registration System for Persons with Inside Information. The Supervisory Committee was of the view that the Company has formulated the Registration System for Persons with Inside Information of China Merchants Securities Co., Ltd. in accordance with the Regulation on the Establishment of Registration System for Persons with Inside Information by Listed Companies, relevant laws and regulations and the Articles of Association. The Supervisory Committee has not identified any violation of the Registration System.

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

In 2018, despite severe challenges from the external environment, all Directors and senior management members of the Company held fast to the strategic focus, leading all employees of the Company to carry out the strategy of “taking a long-term stand and grasping the present”. On the one hand, the Company mastered the present with the stable current operation. The Company had a lower year-on-year decline in operating income and net profit than top ten of the industry and the average level of the industry and had a significant year-on-year increase in operating income and net profit in the industry. On the other hand, based on the long-term, the Company promoted the transformation, deeply implemented the quality and efficiency promotion project, promoted the reform of “Double-Hundred Action” to solve the deep-seated difficulties that have long plagued the development of the Company, and promoted the transformation to break the situation with the force of transformation, so as to accumulate energy for the long-term development of the Company. The Company has not had any major risk compliance events throughout the year, maintained the “AA” rating for classified regulation, and kept basically stable overall management. The Supervisory Committee highly appreciated the works of the Directors and all senior management of the Company in 2018.

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

III. DAILY DUTIES OF THE SUPERVISORY COMMITTEE IN 2018

1. Completed assessment on the effectiveness of the Company’s compliance management in 2017 and formulated the work plan for 2018

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

The Company engaged Grant Thornton by means of inquiring for the assessment on the effectiveness of the Company’s compliance management in 2018, and Grant Thornton issued the Assessment Report on the Effectiveness of the Compliance Management of China Merchants Securities Co., Ltd. in 2018 (《招商證券股份有限公司2018年度合規管理有效性評估報告》), which was delivered to and filed with the CSRC Shenzhen Office upon the approval was obtained from the 12th meeting of the sixth session of the Supervisory Committee.

2. Business investigations and assessments

The Supervisory Committee conducted 2 assessments on the business during the year:

The Supervisory Committee went to Shaoxing, Zhejiang and Urumqi, Xinjiang to conduct assessments on the operation of the branches and business departments in Shaoxing, Zhejiang as well as Urumqi, Xinjiang and listened to their reports on the overall business operation in April and June 2018, respectively. The Supervisory Committee fully communicated and discussed with the frontline staff of the branches and put forward specific guidance or suggestions on works such as wealth management, comprehensive operation, benchmarking management, marketing, personnel recruitment and compensation, commission rate management, the conduct of precise poverty alleviation projects in the business department, tax incentives and market potential in Khorgas. The questions raised by the frontline staff were reflected to the management of the Company in the assessment reports or through face-to-face communications with the management with ongoing follow-ups.

3. Completed the departure audit of Mr. WANG Yan (王岩), the former President and Chief Executive Officer of the Company

The Supervisory Committee of the Company engaged ShineWing Certified Public Accountants LLP by way of bid invitation to conduct a departure audit of Mr. WANG Yan (王岩), the former President and Chief Executive Officer of the Company. The audit report was filed with CSRC Shenzhen Office upon the approval by the eighth meeting of the sixth session of the Supervisory Committee.

4. Deployed the departure audit of Mr. SUN Yizheng (孫議政), the former vice President of the Company

The Company engaged ShineWing Certified Public Accountants LLP by way of inquiry to conduct a departure audit of Mr. SUN Yizheng (孫議政), the former vice President of the Company. The audit report was filed with CSRC Shenzhen Office upon the approval by the tenth meeting of the sixth session of the Supervisory Committee.

5. Other daily duties

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

IV. MAJOR TASKS OF THE SUPERVISORY COMMITTEE IN THE YEAR 2019

In 2019, the Company's operating environment is still intricate. The global economy is moving toward a common downward trend, and the downward pressure on the domestic macro economy is increasing, and the complexity and uncertainty are further highlighted. The comprehensive and strict supervision of the securities industry is still the trend of the times. International financial institutions have accelerated the entry into the domestic securities industry, which has a direct impact on the relatively traditional business management mechanism and customer service model of the domestic securities industry. The business model and organizational operation mode of securities companies need to be upgraded. Meanwhile, the national macro policy will continue to promote high-quality development, continue to implement a proactive fiscal policy and a prudent monetary policy, and strive to maintain a reasonable range of economic operations, so as to provide a favorable macroeconomic environment for capital markets and industry development as a whole. 2019 is the beginning of the Company's new five-year reform and strategy, and the Company's Supervisory Committee will carefully study the industry's regulatory policies based on changes in the international and domestic environment, pay close attention to the Company's operations and compliance risk control, and actively fulfill its duties to give full play to the role of the Supervisory Committee in the corporate governance structure. Major tasks to be conducted are as follows:

1. Supervision over legal operation of the Company. The Supervisory Committee will supervise the daily operation and financial condition, risk management and internal control of the Company, as well as the duty performance of the Board and senior management through various ways, including convening meetings of the Supervisory Committee, attending or observing the Shareholders' general meetings and meetings of the Board, special committees under the Board and the management, reviewing various documents and information submitted by the Company, and debriefing the working reports and special reports of the management team, in order to ensure the legal operation of the Company.
2. The Supervisory Committee will pay attention to the information disclosure of the Company to ensure the truthfulness, accuracy and completeness of information disclosed, in order to safeguard the legal interests of Shareholders and investors.
3. The Supervisors will continue to carry out business investigations and assessments, including special assessments on the operation of business departments and the corporate business.
4. Enhancement of education and training of business knowledge for Supervisors. The Supervisory Committee will further improve its knowledge regarding the regulatory policies, laws and regulations of the Hong Kong market through various ways. In particular, it will pay special attention to the different supervision and inspection requirements for H Shares and A Shares as well as the fulfillment of the new regulatory requirement after the listing of the Company's H Shares, so as to improve the capabilities of Supervisors to perform their duties.
5. The Supervisory Committee will carry out assessment on the effectiveness of compliance management of the Company for 2018 and formulate the work plan for 2019.
6. The Supervisory Committee will enhance the interaction with other supervisory committees in the industry for discussion and research regarding the effective operation and duty performance of the supervisory committee.

In 2018, as the Independent Directors of China Merchants Securities Co., Ltd. (the “Company”), in strict compliance with the Company Law, the Guiding Opinion on the Establishment of Independent Director System of Listed Companies (《關於在上市公司建立獨立董事制度的指導意見》), the Articles of Association of China Merchants Securities Co., Ltd., the Independent Director System of China Merchants Securities Co., Ltd. (《招商證券股份有限公司獨立董事制度》), and other laws, regulations and systems, we fulfilled our responsibilities and performed our duties diligently to regulate the operation of the Company, to safeguard the interests of all Shareholders of the Company, especially minority Shareholders, and to fully perform the functions of Independent Directors in corporate governance of the Company. The work report for 2018 is as follows:

I. BASIC INFORMATION ABOUT INDEPENDENT DIRECTORS

(I) Basic information about the Independent Directors in 2018

In 2018, the Independent Directors of the Company comprises five members, respectively Mr. XIANG Hua, Mr. XIAO Houfa, Mr. XIONG Wei, Mr. HU Honggao, Mr. WONG Ti (the successor of Mr. Yang Jun on January 29, 2018). All the Independent Directors are qualified to be engaged as an independent director and they have remained independent throughout the Reporting Period. The profile and professional background of the Independent Directors is as follow:

Mr. XIANG Hua has served as our Independent Non-executive Director since July 2017. Mr. XIANG has experience in foreign exchange practices and capital market management. Specifically, he has been chief executive officer of Turui Investment Management Co., Ltd. (圖瑞投資管理有限公司) since January 2018. Mr. XIANG served as chief executive officer and chief operating officer of Deepwater Capital Limited from October 2014 to November 2017; general manager of SAFE Investment Company Limited from July 2009 to February 2014; and head of the Central Foreign Exchange Business Center of the State Administration of Foreign Exchange from March 2004 to July 2009. Mr. XIANG successively acted as officer and deputy head of the Balance of Payments Department and General Affairs Department of the State Administration of Foreign Exchange from August 1994 to March 2004. Mr. XIANG obtained a bachelor’s degree in economics from Beijing Normal University and a master’s degree in economics from Renmin University of China in 1994 and 2001, respectively.

APPENDIX III	DUTY REPORT OF INDEPENDENT DIRECTORS OF THE COMPANY FOR 2018
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Mr. XIAO Houfa has served as our Independent Non-executive Director since July 2017. Mr. XIAO has experience in the practices and management of accounting firms. Specifically, he has been principal partner of HuaPu TianJian Certified Public Accountants LLP since January 2014. Mr. XIAO served as chief accountant of HuaPu TianJian Certified Public Accountants (Beijing) Co., Ltd. (華普天健會計師事務所北京有限公司) from December 2008 to December 2013; chief accountant of Anhui HuaPu Certified Public Accountants (安徽華普會計師事務所) from September 1999 to December 2008; founder and deputy chief accountant of Anhui HuaPu Certified Public Accountants (安徽華普會計師事務所) from January 1999 to August 1999; and staff member in Anhui Certified Public Accountants (安徽會計師事務所) from July 1988 to December 1998. Mr. XIAO obtained a bachelor's degree in accounting from Shanghai University of Finance and Economics in July 1988. Mr. Xiao was awarded the title of senior accountant and was certified as a certified public accountant.

Mr. XIONG Wei has served as our Independent Non-executive Director since August 2017. Mr. XIONG has experience in conducting researches on economics and finance via teaching at Princeton University since July 2000 where he has become professor of economics in July 2007 and Trumbull-Adams Professor of Finance in July 2014; and via serving as director of Shenzhen Finance Institute at The Chinese University of Hong Kong, Shenzhen ("CUHK(SZ)") since January 2016, academic dean of the School of Economics and Management, CUHK(SZ) since June 2015, and academic advisor at Hong Kong Institute for Monetary Research since July 2012. Mr. XIONG obtained a bachelor's degree in physics from the University of Science and Technology of China, a master's degree in physics from Columbia University in the United States and a doctoral degree in finance from Duke University in the United States in July 1993, May 1995 and May 2001, respectively.

Mr. HU Honggao has served as our Independent Non-executive Director since July 2017. Mr. HU has experience in conducting researches on and practising law. Specifically, Mr. HU has been professor of law and doctoral advisor at Fudan University since January 2008, while concurrently serving as independent director of Shanghai Tofflon Science and Technology Co., Ltd. (上海東富龍科技股份有限公司) (listed on the SZSE, stock code: 300171) and independent director of Shanghai Amarsoft Information & Technology Co., Ltd. (上海安碩信息技術股份有限公司) (listed on the SZSE, stock code: 300380) since March 2014 and March 2017 respectively; Mr. HU was vice dean, professor of law and doctoral advisor of Fudan Law School at Fudan University from January 2001 to December 2007; head, professor of law and doctoral advisor of faculty of law at Fudan University from December 1996 to December 2000. Mr. HU obtained a bachelor's degree in law from Peking University in 1983.

APPENDIX III DUTY REPORT OF INDEPENDENT DIRECTORS OF THE COMPANY FOR 2018

Mr. WONG Ti has served as our Independent Non-executive Director since January 2018. Mr. WONG has experience in the practices and management of accounting firms. Specifically, he has served as the independent non-executive director of 51 Credit Card Inc.(listed on the Hong Kong Stock Exchange (stock code: 2051)) since July 2018; and independent director of Fosun United Health Insurance Co., Ltd. (復星聯合健康保險股份有限公司) since July 2017, the independent director of AsiaPacific Property & Casualty Insurance Co., Ltd. since April 2016 and supervisor of Vivasolis Biotechnology Co., Ltd. (中國台灣旭昶生物科技股份有限公司) since August 2016. Mr. WONG was also a partner of PricewaterhouseCoopers (PwC) China from 1998 to 2015, manager of Coopers & Lybrand China (中信永道會計師事務所) from 1990 to 1998, and auditor of Coopers & Lybrand Los Angeles (中信永道會計師事務所) from 1987 to 1990. Mr. WONG obtained a bachelor's degree in accounting from the Department of Business Administration of National Taiwan University in 1982 and a Master of Business Administration (MBA) degree from University of California, Los Angeles in 1986. Mr. WONG was qualified as a certified public accountant in China in October 2002.

(II) Positions held by Independent Directors in the special committees under the Board

Independent directors of the Company have held office in the Strategy Committee, Risk Management Committee, Audit Committee, Nomination Committee and Remuneration and Appraisal Committee under the Board. More than half of the members of the Audit Committee, Remuneration and Appraisal Committee and Nomination Committee are Independent Directors and the committees have an Independent Director acting as the convener.

The positions of Independent Directors in each of the special committees under the Board are as follows:

No.	Special Committee	Independent Director	Convener
1	Strategy Committee	XIANG Hua	–
2	Risk Management Committee	XIANG Hua	–
3	Audit Committee	XIAO Houfa, HU Honggao, WONG Ti	XIAO Houfa
4	Remuneration and Appraisal Committee	XIANG Hua, XIONG Wei, WONG Ti	XIANG Hua
5	Nomination Committee	XIONG Wei, XIAO Houfa, HU Honggao	XIONG Wei

APPENDIX III	DUTY REPORT OF INDEPENDENT DIRECTORS OF THE COMPANY FOR 2018
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II. PERFORMANCE OF INDEPENDENT DIRECTORS DURING THE YEAR

(I) Attendance at Board meetings and Shareholders' general meetings

During the Reporting Period, the Company had convened 9 Board meetings and 1 Shareholders' general meeting. The attendance of all Independent Directors at Board meetings and Shareholders' general meetings is as follows:

Name	Attendance of Board meetings					Attendance of Shareholders' general meeting	
	Number of Board Meetings requiring attendance	Resolution voted on (number)	Attendance in person (times)	Attendance by proxy (times)	Absence (times)	Voiting Results	
XIANG Hua	9	31	9	0	0	agree	1
XIAO Houfa	9	31	9	0	0	agree	1
XIONG Wei	9	31	8	1	0	agree	1
HU Honggao	9	31	9	0	0	agree	1
WONG Ti	9	31	9	0	0	agree	1

To be better prepared for making decisions at Board meetings, all Independent Directors read the resolutions carefully before every Board meeting, proactively made enquiry to have a better understanding and, where necessary, required the Company to provide supplementary information. The Independent Directors made positive contribution to the scientific decisions of Board meetings by carefully reviewing each resolution, actively participating in discussions and making practicable suggestions. During adjournment of Board meetings, the Independent Directors irregularly made enquiries on the implementation of resolutions of Board meetings.

APPENDIX III DUTY REPORT OF INDEPENDENT DIRECTORS OF THE COMPANY FOR 2018

(II) Presiding over and attending meetings of the special committees under the Board

During the Reporting Period, all Independent Directors presided over and attended meetings of the special committees to duly perform their relevant duties in accordance with the Rules of Procedures of the special committees under the Board. In 2018, a total of 21 meetings were convened by the special committees under the Board, including 3 meetings by the Strategy Committee, 4 meetings by the Risk Management Committee, 7 meetings by the Audit Committee, 5 meetings by the Remuneration and Appraisal Committee and 2 meetings by the Nomination Committee. The attendance of all Independent Directors at the meetings of the special committees under the Board is as follows (actual attendance/attendance required):

Name	Strategy Committee	Risk Management Committee	Audit Committee	Remuneration and Appraisal Committee	Nomination Committee
XIANG Hua	3/3	4/4	-	5/5	-
XIAO Houfa	-	-	7/7	-	2/2
XIONG Wei	-	-	-	5/5	2/2
HU Honggao	-	-	7/7	-	2/2
WONG Ti	-	-	7/7	5/5	-

Meetings of the Strategy Committee in 2018

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

APPENDIX III DUTY REPORT OF INDEPENDENT DIRECTORS OF THE COMPANY FOR 2018

Meetings of the Risk Management Committee in 2018

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

APPENDIX III DUTY REPORT OF INDEPENDENT DIRECTORS OF THE COMPANY FOR 2018

Meetings of the Audit Committee in 2018

No.	Session	Date	Proposal	Report
1	The third meeting of the Audit Committee of the sixth session of the Board	January 29, 2018	-	Main audit finding of the Company for 2017
2	The fourth meeting of the Audit Committee of the sixth session of the Board	March 13, 2018	The change of auditor of the Company for the year	-
3	The fifth meeting of the Audit Committee of the sixth session of the Board	March 26, 2018	2017 Audit Report of the Company; 2017 internal control assessment report of the Company; 2017 audit report on internal control of the Company; 2017 report on the use of proceeds from issuance of H shares; changes in accounting policies of the Company; the contemplated ordinary related party transactions of the Company for 2018; 2017 work performance report of Audit Committee	Report on audit of the annual report of the Company for 2017; final accounts report of the Company for 2017; work report on internal audit of the Company for 2017 and work plan of the internal audit for 2018; review and application of comprehensive performance of audit department for 2016; guidance for performance evaluation score of audit department for 2017;
4	The sixth meeting of the Audit Committee of the sixth session of the Board	April 26, 2018	First quarterly report of the Company for 2018	-
5	The seventh meeting of the Audit Committee of the sixth session of the Board	August 28, 2018	2018 interim internal audit report of the Company, 2018 interim report of A Share and the interim review report of H Share of the Company, 2018 interim report on deposit and use of proceeds from issuance of H Shares	Interim report on financial work of the Company for 2018

APPENDIX III	DUTY REPORT OF INDEPENDENT DIRECTORS OF THE COMPANY FOR 2018
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No.	Session	Date	Proposal	Report
6	The eighth meeting of the Audit Committee of the sixth session of the Board	September 25, 2018	2018 working schedule on internal control assessment report of the Company	-
7	The ninth meeting of the Audit Committee of the sixth session of the Board	October 29, 2018	2018 third quarterly internal audit report of the Company, 2018 third quarterly financial statement of the Company	The audit plan of the Company for 2018

Meetings of the Remuneration and Appraisal Committee in 2018

No.	Session	Date	Proposal	Report
1	The second meeting of the Remuneration and Appraisal Committee of the sixth session of the Board	March 26, 2018	-	Work debriefing of eight senior officers of the Company, including HUO Da (Chairman of the Board), WANG Yan (President and CEO), XIONG Jiantao (Vice President and COO), DENG Xiaoli (Vice President and CRO), SUN Yizheng (Vice President), LI Zongjun (Vice President), Mr. WU Huifeng (Secretary of the Board) and ZHAO Bin (Chief Compliance Officer).
2	The third meeting of the Remuneration and Appraisal Committee of the sixth session of the Board	April 16, 2018	Trial implementation of special assessment method on the regulation compliance of senior management of the Company	-
3	The fourth meeting of the Remuneration and Appraisal Committee of the sixth session of the Board	April 27, 2018	2017 assessment report on compliance officer of the Board of Director	-
4	The fifth meeting of the Remuneration and Appraisal Committee of the sixth session of the Board	October 16, 2018	2016 total remuneration of the senior management of the Company	-
5	The sixth meeting of the Remuneration and Appraisal Committee of the sixth session of the Board	November 23, 2018	Distribution of bonus balances to the Senior Management of the Company	-

APPENDIX III	DUTY REPORT OF INDEPENDENT DIRECTORS OF THE COMPANY FOR 2018
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Meetings of the Nomination Committee in 2018

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

(III) Audit of annual report

On March 26, 2018, the Independent Directors met with the auditors, and were debriefed by SHINEWING with regard to the audit of the 2017 annual report. SHINEWING, the accountant responsible for the annual audit, reported to the Independent Directors the audit of the 2017 annual report of the Company and introduced the major areas of their work, such as findings and major data of the audit, key audit matters, audit of internal control, and issues required the close attention of the Audit Committee and Independent Directors. The Independent Directors highly recognized the 2017 audit by SHINEWING and discussed with SHINEWING on the advantages of the Company compared to the peer benchmarking, the business needed to be improved, and the implement of internal control procedure of the company.

On October 29, 2018, the Independent Directors and the Audit Committee had a meeting with the accountant of annual audit, to listen to the report of Deloitte Touche Tohmatsu Certified Public Accountants (thereafter “Deloitte”) on the audit plan for the annual report of the Company for 2018. Deloitte reported on the work plan of the audit for the annual report of the Company for 2018 from the project scope and team, the time arrangement, the introduction of industry environment, the overall audit plan, the evaluation and response to the material mistaken reporting risk, other important matters, claims of independence and other communication matters. The Independent Directors mainly discussed with Deloitte on the risk of the pledge-style share repurchase business and other major concerns. The Independent Directors put forward following suggestions on the audit of the Company for 2018: auditor must pay further attention to notice that whether the internal control system of the Company is well-established and whether the internal control system is well implemented. The audit plan for the annual report of the Company for 2018 by Deloitte was approved during the meeting.

(IV) Investigations and assessments

Independent directors XIAO Houfa and WONG Ti visited Shenzhen and Hong Kong to conduct business investigation on May 10 and 11, 2018. During the investigation, they debriefed the report pertaining to the investment bank, risk management and international business of the Company and conducted in-depth communication on issues such as NEEQ market-making business, high veto rate of investment bank projects, talent team construction for investment bank business, subsequent supervision of bond projects, treatment of problems identified in the internal audit, the procedure for Risk Management Department to conduct risk management of the Company, adjustments for risk authority, key risk areas monitored by the company, talent team construction for risk management, the risk management system platform, adjustments of risk preference indicators, the coordination of Hong Kong branches with various business departments under the headquarter of the Company, IT system construction in Hong Kong, communication with employees, the support and favorable policies to the business of Hong Kong branch. They also visited Hong Kong Stock Exchange and discussed with its director of Corporate Activities Planning Management Department, exchanging opinions on issues such as the attitude of Hong Kong Stock Exchange to mainland companies listing in and delisting from the Hong Kong Stock Exchange, the loosening restrictions of the IPO of biotechnology companies and international business.

III. PERFORMANCE HIGHLIGHTS OF INDEPENDENT DIRECTORS

(I) Related party transaction

The Independent Directors were in strict compliance with the laws and regulations, including the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, the Guidelines for the Implementation of Related Party Transactions of Listed Companies (《上市公司關聯交易實施指引》) and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the requirements of the Decision Making System of Related Party Transactions (《關聯交易決策制度》) of the Company to judge the necessity, objectivity and fairness of related party transactions of the Company and whether the pricing of the related party transactions have prejudiced the interests of the Company and its Shareholders and review those related party transactions according to relevant procedures.

Before the eighth meeting of the sixth session of the Board, the Independent Directors carefully considered the resolution regarding contemplated ordinary related party transactions for 2018 and the related party transaction regarding signing business cooperation agreement with China Merchants Bank and granted their consent prior to the board meeting. Based on independent judgment and careful study, the Independent Directors delivered their independent opinions.

Each of Independent Directors believed that the related party transactions of the Company were determined through proper procedures with a fair price, and were implemented strictly under relevant agreements with accurate disclosure, thus would not prejudice the interests of the Company and its Shareholders.

(II) External guarantees and occupation of funds

According to the Guidance Opinions on the Establishment of Independent Director System by Listed Companies (《關於在上市公司建立獨立董事制度的指導意見》), Notice of Certain Issues in relation to the Regulation on Capital Flow between Listed Companies and its Related Parties and External Guarantee of Listed Companies (《關於規範上市公司與關聯方資金往來及上市公司對外擔保若干問題的通知》) ([2003] No. 56) and Notice on Regulation of External Guarantee Acts of Listed Companies (《關於規範上市公司對外擔保行為的通知》) ([2005] No.120) by the CSRC, the Independent Directors carefully examined the external guarantees by the Company and the occupation of funds by the related party.

The Independent Directors explained the external guarantees of the Company in 2018 and delivered their independent opinions. They believed that, during the Reporting Period, the Company did not provide guarantees for the actual controller and its subsidiaries, any unincorporated units or individuals, which fully protected the legal interests of the Company and all Shareholders.

(III) Use of proceeds

The Independent Directors, having reviewed the Report on the Deposit and Use of Proceeds from Issuance of H Shares in 2018 of China Merchants Securities Co., Ltd. prepared by the Company and the Verification of the Deposit and Use of Proceeds of China Merchants Securities Co., Ltd in 2018 (《招商證券股份有限公司2018年度募集資金存放與使用情況鑒證報告》) prepared by Deloitte, were of the view that the Report on the Deposit and Use of Proceeds of the Company has been prepared in strict compliance with the No.2 Regulatory Guidelines for Listing Company – Regulatory Requirement for Use and Management of Proceeds (No. [2012]44 Announcement of CSRC) issued by the China Securities Regulatory Commission and other relevant regulations, and has made genuine reflection of the deposit and use of proceeds of the Company in all material aspects.

(IV) The appointment of senior management of the Company

1. The Independent Directors carefully considered resolution on appointment of senior management members of the Company (《關於聘任公司高級管理人員的議案》) proposed at the fourteenth meeting of the sixth session of the Board of the Company and delivered their independent opinions.
2. The Independent Directors carefully considered resolution on change of the Chief Compliance Director and Chief Risk Director of the Company (《關於變更公司合規總監、首席風險官的議案》) proposed at the fifteenth meeting of the sixth session of the Board of the Company and delivered their independent opinions.

(V) Change of the auditor

According to the resolution of the Shareholders' general meeting for 2017, the Company has replaced SHINEWING with Deloitte as auditor of the Company for 2018 with an audit fee of no more than RMB3.1 million. The Independent Directors were of the view that the Company has informed the change of accountant to them in advance and the decision-making procedure was in compliance with relevant laws and regulations, hence the interests of the Company and the Shareholders were not prejudiced. While serving as the auditor of the Company's financial report for 2018, Deloitte duly performed their duties in a professional manner and the report prepared by them was objective and fair and reflected the results of the Company during the Reporting Period.

(VI) Cash dividend and other distributions for investors

The eighth meeting of the sixth session of the Board proposed the profit distribution plan for 2017 for approval at the 2017 Shareholders' general meeting of the Company. Based on the total share capital of 6,699,409,329 shares, a cash dividend of RMB3.46 (before tax) will be distributed to every 10 shares. The actual total cash dividend distributed for the period amounted to RMB2,317,995,627.83, representing 40.06% of the net profit attributable to the owners of the parent company for 2017.

The Independent Directors considered the proposal on profit distribution before the Board meetings and delivered independent opinions. They were of the view that the profit distribution plan of the Company for 2017 were reasonable, in line with the long-term interests of the Company and in compliance with the Company Law, the Securities Law, Notice regarding Further Implementation of Cash Dividends Distribution of Listed Companies (Zheng Jian Fa [2012] No. 37) (《關於進一步落實上市公司現金分紅有關事項的通知》(證監發[2012] 37號)) of the CSRC, Guidelines on the Distribution of Cash Dividends by Listed Companies of the Shanghai Stock Exchange (Shang Zheng Gong Zi [2013] No.1) (《上海證券交易所上市公司現金分紅指引》(上證公字[2013]1號)) and the Articles of Association of China Merchants Securities Co., Ltd.

(VII) Performance of undertakings by the Company and Shareholders

The Independent Directors closely monitored the performance of undertakings by the Company and Shareholders, including the prevention of competition in relation to the initial public offer, lock-up of Shares in relation to re-financing and other undertakings to minority Shareholders, in order to uphold the interests of the Company as a whole, in particular ensuring that the legal interests of minority Shareholders are not infringed. The Independent Directors were of the view that, during the Reporting Period, the Company and Shareholders were in strict compliance with the relevant laws and regulations and did not breach the undertakings.

(VIII) Execution of information disclosure

During the Reporting Period, the Company duly disclosed information in strict compliance with the laws, regulations and regulatory documents, including the Company Law, the Securities Law, Rules Governing the Listing of Stocks on the Shanghai Stock Exchange and Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as well as the Articles of Association and other internal regulations. The Company has published 180 announcements on A Shares and a total of 199 announcements on H Shares during the year. All information disclosure documents were normative, true, accurate, complete and were timely and fairly disclosed.

(IX) Execution of internal control systems

Having studied and investigated the internal control of the Company and reviewed the Assessment Report on Internal Control of the Company for 2018 (《公司2018年度內部控制評價報告》) issued by the Board, the Independent Directors were of the opinion that, as of the date of internal control assessment report, the Company did not have any material deficiency in the internal control for financial reporting. Based on the regulations of corporate internal control systems and requirements of the related regulations, the Company has maintained efficient internal control for financial reporting in all material aspects and was not aware of any material deficiency in the internal control for non-financial reporting aspects.

(X) Operation of special committees under the Board

The Board of the Company had five special committees, namely the Strategy Committee, Risk Management Committee, Audit Committee, Remuneration and Appraisal Committee and Nomination Committee. During the Reporting Period, 21 meetings were convened by the committees, including 3 meetings of the Strategy Committee, 4 meetings of the Risk Management Committee, 7 meetings of the Audit Committee, 5 meetings of the Remuneration and Appraisal Committee and 2 meetings of the Nomination Committee. The special committees under the Board convened meetings in strict compliance with the Articles of Association, Rules of Procedures for the Board and the regulations of committees, and performed their duties in line with the laws and regulations, which significantly enhanced the efficient and scientific decision making of the Board.

(XI) Opinions and suggestions proposed by Independent Directors to the Company

During the Reporting Period, the Independent Directors paid close attention to the development strategies, operation and management and risk control of the Company, and actively proposed the following suggestions, together with the Company's response:

1. *The medium and long term development strategies of the Company for 2019-2023*

In terms of the development strategy plan of the Company, the Independent Directors pointed out that the plan should stress the leading and driving effect of advantaged business sectors, providing distinctive incentives to key staff, through which to facilitate the company to seize the opportunity and to achieve strategic breakthrough.

Measures taken by the Company: In the Five Year Medium and Long Term Development Strategies of the Company for 2019-2023, the Company has taken full account of the strategic leading position of the investment bank business and core development measure for key staff.

2. *Risk Management*

When debriefing the risk management evaluation of the Company, the Independent Directors held a pessimistic forecast to the risk of downward adjustment of the market and suggested to reduce the risk expose of A Share directional investments and share pledge of the Company and keep monitoring those businesses.

Measures taken by the Company: the Company has taken the corresponding pressure relief and risk control measures in terms of its A Share directional investments and share pledge businesses.

3. *Reasonable division of responsibility of the senior management*

When debriefing the senior management of the Company on their duty report for 2017, the Independent director advised to properly assign the authorities of the senior officers who are overloaded to their subordinates, which can not only relief the burden of the senior officers but also provide an opportunity to cultivate the capability of the subordinates.

Measures taken by the Company: the Company has properly adjusted the division of responsibility of the senior officers.

In addition, the Independent director also provided recommendation on the internal audit plan and its coordination with other internal control department, application of big data system, recruitment of internal auditors and the risk on company bond underwriting, to which the Company has responded and put into practice.

IV. OVERALL EVALUATION

During their terms of office, all Independent Directors were in compliance with the laws, regulations and the Articles of Association and devoted adequate time and attention to perform their duties independently. While making independent judgments, the Independent Directors seriously upheld the legal interests of the Shareholders as a whole, particularly the minority Shareholders. They also thoroughly considered all resolutions, and fully employed their expertise to make contributions to the Company, facilitate the rationality and efficiency of the Board's decision making and duly performed their duties as Independent Directors.

2018 witnessed stable and slower economic growth, gradually escalating Sino-US trade conflicts, further enhancement of prevention and mitigation of major risks and financial deleveraging, continuously stricter supervision, a sharp decline of Shanghai Stock Exchange Composite Index, Shenzhen Stock Exchange Component Index, NEEQ Index and Hang Seng Index by 24.59%, 34.42%, 27.65% and 13.61%, intensified competition in the securities industry, depression in the operation performance, and decrease in the profitability as compared to last year.

Under the severe market and supervision environment, the Company proactively created revenue and strictly controlled risks. The final account of the Company in 2018 was reported as follows:

I. CONSOLIDATED OPERATING CONDITIONS OF THE COMPANY

(I) Financial indicators and operating performance of the Company

In 2018, the Company recorded an operating revenue of RMB11.322 billion, and net profit attributable to the parent company of RMB4.425 billion with a respective year-on-year decrease of 15% and 24%; ROE was 5.58% with a year-on-year decline of 33%;

As at the end of 2018, the total assets of the Company amounted to RMB304.931 billion with a year-on-year increase of 7%; net assets amounted to RMB80.792 billion with a year-on-year increase of 2%; net capital reached RMB52.816 billion with a year-on-year decrease of 3%; and the leverage ratio was 3.17 with a year-on-year increase of 7%.

Form 1: Overall financial conditions and key indicators of operation performance of China Merchants Securities Co., Ltd.:

Item name (RMB0.1 billion)	2018	2017	Change in current year	Change ratio in current year
Operating revenue	<u>113.22</u>	<u>133.53</u>	<u>-20.31</u>	<u>-15%</u>
Total profits	<u>54.47</u>	<u>71.07</u>	<u>-16.60</u>	<u>-23%</u>
Net profits	<u>44.46</u>	<u>58.05</u>	<u>-13.59</u>	<u>-23%</u>
Net profits attributable to the parent company	<u>44.25</u>	<u>57.86</u>	<u>-13.61</u>	<u>-24%</u>
Including: Non-recurring profit or loss	0.05	0.02	0.03	150%
Net profits (after non-recurring profit or loss)	<u>44.20</u>	<u>57.84</u>	<u>-13.64</u>	<u>-24%</u>
Earnings per share (RMB)	0.54	0.78	-0.24	-31%
Earnings per share (after non-recurring profit or loss) (RMB)	<u>0.54</u>	<u>0.78</u>	<u>-0.24</u>	<u>-31%</u>
Return on net asset	<u>5.58%</u>	<u>8.39%</u>	<u>-2.81%</u>	<u>-33%</u>
Total assets	<u>3,049.31</u>	<u>2,856.44</u>	<u>192.87</u>	<u>7%</u>
Net assets	<u>807.92</u>	<u>793.34</u>	<u>14.58</u>	<u>2%</u>
Net assets attributable to the parent company	<u>807.23</u>	<u>792.30</u>	<u>14.93%</u>	<u>2%</u>
Net capital	<u>528.16</u>	<u>541.81</u>	<u>-13.65</u>	<u>-3%</u>
Leverage ratio (consolidated)	<u>3.17</u>	<u>2.96</u>	<u>0.21</u>	<u>7%</u>
Net stable funding ratio (NSFR)	<u>159.64%</u>	<u>132.69%</u>	<u>26.95%</u>	<u>20%</u>
Liquidity coverage ratio (LCR)	<u>277.30%</u>	<u>392.17%</u>	<u>-114.87%</u>	<u>-29%</u>

(II) Assets and liabilities*1. Total assets and total liabilities*

As at the end of 2018, the total assets of the Company reached RMB304.931 billion with an increase of RMB19.287 billion as compared with the beginning of year, and the total liabilities were RMB224.138 billion with an increase of RMB17.829 billion as compared with the beginning of year, among which, the customer deposits reduced by RMB2.184 billion; the self-owned assets and self-owned liabilities respectively increased by RMB21.471 billion and RMB20.012 billion as compared with the beginning of year, and the net assets increased by RMB1.458 billion as compared with the beginning of year.

Form 2: Assets and liabilities of China Merchants Securities Co., Ltd.

Item name (RMB0.1 billion)	End of 2018	End of 2017	Change in current year	Change ratio in current year
Total assets	3,049.31	2,856.44	192.87	7%
Including: Self-owned assets	2,560.19	2,345.48	214.71	9%
Total liabilities	2,241.38	2,063.10	178.29	9%
Including: Self-owned liabilities	1,752.27	1,552.15	200.12	13%
Accounts payable to brokerage clients	489.12	510.95	-21.84	-4%
Net assets	807.92	793.34	14.58	2%
Net capital (as with the parent company)	528.16	541.81	-13.65	-3%
Total assets per share (RMB)	45.52	42.64	2.88	7%
Net assets per share (RMB)	12.06	11.84	0.22	2%
Leverage ratio (Consolidated)	3.17	2.96	0.21	7%
The Company's own gearing ratio	68.44%	66.18%	2.27%	3%

2. *The Company's own assets and liabilities*

As at the end of 2018, the Company's own total assets reached RMB256.019 billion with an increase of RMB21.471 billion or 9% as compared with the beginning of year, among which:

The financial assets amounted to RMB161.846 billion with an increase of RMB48.935 billion or 43% as compared with the beginning of year, mainly due to the increase in the fixed-income investment; the cash and bank balances amounted to RMB11.203 billion with a decrease of RMB2.912 billion or 21% as compared with the beginning of year;

Affected by the decline of the market stock index and depression of trading, the capital-based intermediary business experienced a sharp decline at the end of the period: the advance to customers amounted to RMB42.976 billion with a decrease of RMB16.259 billion or 27% as compared with the beginning of year; the self-owned funds of securities backed lending reached RMB22.682 billion with a decrease of RMB7.874 billion or 26% as compared with the beginning of year;

The long-term equity investment amounted to RMB8.288 billion with an increase of RMB798 million as compared with the beginning of year, among which, the equity investment in Bosera Funds increased by RMB344 million; the equity investment in China Merchants Fund increased by RMB403 million; and the equity investment in Qingdao Asset Management Co., Ltd. by the subsidiary CMS Investment increased by RMB58 million.

The Company's own liabilities amounted to RMB175.227 billion with an increase of RMB20.012 billion or 13% as compared with the beginning of year, among which:

The financing liabilities amounted to RMB156.018 billion with an increase of RMB18.834 billion or 14% as compared with the beginning of year, among which the repurchase size increased by RMB27.885 billion, the bonds payable increased by RMB14.190 billion, the principal of structured notes decreased by RMB11.985 billion, and the short-term financing bills payables and short-term bond payables decreased by RMB8.211 billion;

Other liabilities amounted to RMB19.209 billion, mainly including financial liabilities held for trading were RMB9.529 billion, the employee benefits payable were RMB4.442 billion, the payables were RMB2.240 billion, and the derivative financial liabilities were RMB1.306 billion. Other liabilities increased by RMB1.178 billion as compared with the beginning of year, among which, the financial liabilities held for trading increased by RMB4.036 billion, the interest payable decreased by RMB2.045 billion, and the employee benefits payable decreased by RMB986 million.

The Company's own consolidated assets and liabilities after assets and liabilities of customers:

Form 3: Self-owned assets and liabilities of China Merchants Securities Co., Ltd.

Item (RMB100 million)	End of 2018	End of 2017	Change in current year	Change ratio in current year	Proportion in current year	Change in proportion in current year
Total self-owned assets	2,560.19	2,345.48	214.71	9.2%	100.0%	0.0%
Including: Cash and bank balance	112.03	141.14	-29.12	-20.6%	4.4%	-1.6%
Financial assets	1,618.46	1,129.11	489.35	43.3%	63.2%	15.1%
Advance to customers	429.76	592.35	-162.59	-27.4%	16.8%	-8.5%
Advance from securities-backed lending	226.82	305.56	-78.74	-25.8%	8.9%	-4.2%
Long-term equity investment	82.88	74.89	7.98	10.7%	3.2%	0.0%
Fixed assets and construction project	16.29	18.32	-2.03	-11.1%	0.6%	-0.1%
Total self-owned liabilities	1,752.27	1,552.15	200.12	12.9%	68.4%	2.3%
Including: Financing liabilities	1,560.18	1,371.84	188.34	13.7%	60.9%	2.5%
Repurchase	612.68	333.83	278.85	83.5%	23.9%	9.7%
Short-term borrowings	15.82	66.11	-50.30	-76.1%	0.6%	-2.2%
Short-term financing bills and short-term bond payable	147.99	230.10	-82.11	-35.7%	5.8%	-4.0%
Long-term borrowings	13.80	14.44	-0.64	-4.4%	0.5%	-0.1%
Borrowings from other financial institutions	15.19	14.70	0.49	3.3%	0.6%	0.0%
Margin and securities refinancing	20.00		20.00		0.8%	0.8%
Principal of structured notes	200.51	320.36	-119.85	-37.4%	7.8%	-5.8%
Bonds payable	534.19	392.30	141.90	36.2%	20.9%	4.1%
Other liabilities	192.09	180.31	11.78	6.5%	7.5%	-0.2%

3. *Equity Attributable to the Owner*

Combined net assets for the end of 2018 was RMB80.792 billion, representing an increase of RMB1.458 or 2% as compared to the beginning of the year.

Table 4: Statement of Changes in Equity Attributable to the Owner of China Merchants Securities Co., Ltd.:

Item (RMB'00 million)	At the beginning of the year	Increase for the year	Decrease for the year	At the end of the year	Change
Share capital	66.99			66.99	
Other equity instruments	150.00			150.00	
Capital reserve	275.34			275.34	
Surplus reserve	43.06	3.56		46.62	3.56
General reserves	84.84	7.19		92.03	7.19
Retained profits	169.23	44.25	41.95	171.53	2.30
Other comprehensive income	2.84	1.87		4.71	1.87
Minority interest	1.04	0.21	0.55	0.70	-0.34
Total equity attributable to the owner	793.35	57.08	42.50	807.92	14.58

4. *Retained Profits*

The balance of retained profits at the end of 2018 was RMB17.153 billion, representing an increase of RMB230 million as compared to the beginning of the year.

Table 5: Statement of Retained Profits of China Merchants Securities Co., Ltd.:

Item (RMB'00 million)	Amount
Retained profits at the beginning of the year	169.23
Add: Profits for the year changeover in	44.25
Less: Appropriation of surplus reserve	3.56
Less: Appropriation of general reserves	7.19
Less: Distribution of dividends	23.18
Less: Others	8.02
Balance at the end of the year	171.53

5. *Impairment of Assets*

Impairment provisions for the year was mainly made for financial assets held under resale agreements and margin loans, among which, the impairment provision for financial assets held under resale agreements was the impairment provision for securities-backed lending, while the impairment provision for margin loans includes the impairment provision for margin financing and securities lending as well as for the margin financing in Hong Kong.

Impairment provisions have been fully made for the assets of the Company as below:

Table 6: Statement of Movements of Impairment Provisions of Assets of China Merchants Securities Co., Ltd.:

Item (RMB0'000)	At the end of 2017	Impacts of new standards	Increase	Reversal	Write-off	Exchange rate difference	At the end of 2018
Impairment provisions for financial assets							
held under resale agreements	14,030	50	5,920	27			19,973
Bad-debt provision	417			55			361
Impairment provisions for available-for-sale financial assets	6,674	-6,674					
Impairment provisions for other debt investments		722		103			619
Impairment provisions for debt investments		135	465			11	610
Impairment provisions for margin loans	8,301	80	5,904			61	14,347
Impairment provisions for long-term equity investments	66,915						66,915
Impairment provisions for fixed assets	1,769						1,769
Impairment provisions for goodwill	2,287						2,287
Impairment provisions for intangible assets			321			8	329
Total	100,392	-5,687	12,610	185		80	107,209

(III) Gains and Losses**1. Revenue**

In 2018, the Company recorded revenue of RMB11.322 billion, representing a decrease of RMB2.031 billion or 15% as compared to last year;

From the perspective of income composition, the percentage of net profit from fee and commission income was decreased by 2%, which was mainly due to decreases in commission rates and trading volume of brokerage business; and the percentage of net profit from funding-category business was increased by 2%, which was mainly due to a greater increase in investment income of fixed income business during the year.

Table 7: Statement of Revenue Composition of China Merchants Securities Co., Ltd.:

Item (RMB'00 million)	2018	2017	Change in current year	Change ratio in current year	Proportion for the year	Changes in proportion
Net profit from fee and commission income	64.48	79.37	-14.89	-19%	57%	-2%
Among which: Net profit from brokerage business	31.54	40.36	-8.82	-22%	28%	-2%
Net profit from investment banking business	14.46	21.98	-7.52	-34%	13%	-4%
Net profit from asset management business	12.02	11.45	0.57	5%	11%	2%
Net profit from investment consulting business	6.46	5.57	0.89	16%	6%	2%
Sub-total of net profit from funding-category business	48.84	55.19	-6.35	-12%	43%	2%
Among which: Net profit from interests	18.46	17.96	0.5	3%	16%	3%
Investment income	36.80	27.12	9.68	36%	33%	12%
Investment income from associates and joint ventures	9.17	8.45	0.72	9%	8%	2%
Gains from changes in fair value	-6.42	10.10	-16.52	-164%	-6%	-13%
Total revenue	113.22	133.53	-20.31	-15%	100%	

2. Operating Costs

For the year, our operating costs decreased by RMB368 million or 6% as compared to last year, in which business and administrative expenses decreased by RMB447 million, primarily due to a decrease in the performance bonus; tax expenses decreased by RMB8 million; and the impairment of assets was RMB124 million.

Table 8: the Statement of Operating Cost of China Merchants Securities Co., Ltd.:

Items(RMB'00 million)	2018	2017	Year-on-year change	Change
Tax and surcharges	0.88	0.96	-0.08	-9%
Business and administrative expenses	56.65	61.12	-4.47	-7%
Asset impairment losses	1.24	0.41	0.84	206%
Total operating costs	58.81	62.49	-3.68	-6%
Operating cost ratio	51.94%	46.80%	5.15%	11%

3. Profits

For the year, the gross profits were RMB5.447 billion, and the net profits were RMB4.446 billion, representing a decrease of 23% as compared to last year, respectively, and the net profit margin decreased by 10% year on year.

Table 9: the Statement of Net Profit of China Merchants Securities Co., Ltd.:

Items(RMB'00 million)	2018	2017	Change in current year	Change ratio in current year
Operating revenue	113.22	133.53	-20.31	-15%
Operating costs	58.81	62.49	-3.68	-6%
Gross profits	54.47	71.07	-16.6	-23%
Income tax	10.01	13.02	-3.01	-23%
Net profits	44.46	58.05	-13.59	-23%
Profit margin before taxation	48.12%	53.22%	-5.10%	-10%
Net profit margin	39.27%	43.47%	-4.20%	-10%
Extraordinary items	0.05	0.02	0.03	150%
Net profits attributable to owners of the parent (excluding extraordinary items)	44.20	57.84	-13.64	-24%

(IV) Net capital and indicators for liquidity risk control

As at the end of 2018, the net capital and indicators for liquidity risk control had all fulfilled relevant required standards. As at the end of the year, the net capital was RMB52.816 billion, of which the net core capital was RMB35.210 billion, representing a decrease of RMB2.871 billion year on year, mainly attributable to the increase of exposure of long-term equity investment of RMB2.6 billion as a result of capital contribution to Hong Kong subsidiary.

Table 10: the Statement of Net Capital and Indicators for Liquidity Risk Control of China Merchants Securities Co., Ltd.:

Items (RMB100 million)	2018	2017	Year-on-year variable	Warning standard	Regulatory standard
Net capital	528.16	541.81	-13.65	RMB240 million	≥RMB200 million
Net assets	755.18	751.77	3.41		
Net core capital	352.10	380.81	-28.71		
Net supplementary capital	176.05	161.00	15.05		
Total provisions for all risk capital	170.90	180.60	-9.70		
Total of balance sheet assets and off-balance sheet assets in aggregate	2,514.22	2,258.41	255.81		
Risk coverage ratio	309%	300%	9%	≥120%	≥100%
Gearing ratio	16%	19%	-3%	≥9.6%	≥8%
Net capital/assets	69.94%	72.07%	-2.13%	≥24%	≥20%
Net capital/liabilities	31.77%	38.10%	-6.33%	≥9.6%	≥8%
Net assets/liabilities	45.42%	52.87%	-7.45%	≥12%	≥10%
Self-operated equity securities and derivatives/net capital	22.27%	30.77%	-8.50%	≤80%	≤100%
Self-operated non-equity securities and derivatives/net capital	246.47%	148.89%	97.58%	≤400%	≤500%
Net stable funding ratio	159.64%	132.69%	26.95%	≥120%	≥100%
Liquidity coverage ratio	277.30%	392.17%	-114.87%	≥120%	≥100%

(V) Cash Flow

Operating cash flow of securities company consists of cash flows from self-owned funds and funds from customers. In particular, changes in customers' funds could result from trading of securities and the transfer in or out of margin. The changes of customers' funds are mainly affected by the market conditions;

For the year, the net cash inflow from operating activities was RMB34.166 billion, mainly due to the decrease of lending by RMB17.2 billion, net increase of repurchase funds by RMB30.9 billion and net increase of financial assets by RMB17.5 billion;

For the year, the net cash outflow from investing activities was RMB18.268 billion, mainly attributable to the cash payment of RMB19.7 billion for investments in financial assets, cash payment of RMB500 million for purchase and construction of fixed assets, intangible assets and other long-term assets, and cash received from obtaining investment return of RMB1.9 billion;

For the year, the net cash outflow from financing activities was RMB21.083 billion, mainly attributable to the repayment of debts of RMB92.9 billion, and distribution of dividends and profits or payment of interest of RMB7.5 billion, and receipt of cash from issuance of bonds of RMB78.9 billion.

Items(RMB'00 million)	2018	2017	Change in current year	Change ratio in current year
Cash flow from operating activities				
Cash inflow	669.48	181.58	487.9	269%
Cash outflow	327.83	607.12	-279.29	-46%
Net cash flow	<u>341.66</u>	<u>-425.54</u>		
Cash flow from investing activities				
Cash inflow	19.01	9.33	9.68	104%
Cash outflow	201.70	85.64	116.06	136%
Net cash flow	<u>-182.68</u>	<u>-76.32</u>		
Cash flow from financing activities				
Cash inflow	792.35	1,126.99	-334.64	-30%
Cash outflow	1,003.18	760.39	242.79	32%
Net cash flow	<u>-210.83</u>	<u>366.60</u>	<u>-577.43</u>	<u>-158%</u>
Effect of fluctuation of exchange rates on cash and cash equivalents	4.31	-6.71		
Net increase of cash and cash equivalents	-47.54	-141.97		
Balance of cash and cash equivalents as at the end of the period	<u>611.71</u>	<u>659.24</u>	<u>-47.53</u>	<u>-7%</u>

I. CONTEMPLATED ORDINARY RELATED PARTY TRANSACTIONS OF THE
COMPANY FOR 20191. Contemplated ordinary related party transactions with China Merchants
Bank Co., Ltd.

Type of Related Party Transaction	Item	Estimated amount for the year (RMB10,000)	Actual amount for previous year (RMB10,000)	Percentage in the same type of business
Financial services	Interest income from deposit	The actual amount shall be disclosed due to the difficulty in the estimation of the self-owned deposits and deposits from customers	37,577.04	25.19%
	Income from underwriting service	The actual amount shall be disclosed due to the difficulty in the estimation of the actual business scale	3,807.70	3.14%
	Income from financial consulting service	The actual amount shall be disclosed due to the difficulty in the estimation of the actual business scale	7,693.99	22.70%
	Income from targeted asset management service	The actual amount shall be disclosed due to the difficulty in the estimation of the actual business scale	5,518.96	21.77%
	Interest expenses on loans for the construction of China Merchants Securities Building	0	950.59	100%
	Interest expenses on borrowings	The actual amount shall be disclosed due to the difficulty in the estimation of the actual business scale	78.86	0.61%
	Interest expenses for placements	It shall be based on the national interbank interest rate for loans, and the actual amount shall be disclosed due to the difficulty in the estimation of the amount and interest rate of loans	1,743.11	11.97%
	third-party custodian service fee	The sum of the two does not exceed RMB500 million	3,794.86	56.03%
	Fee for wealth management products custodian and agency sales		22,123.33	56.37%

APPENDIX V
**CONTEMPLATED ORDINARY RELATED PARTY
TRANSACTIONS OF THE COMPANY FOR 2019**

Type of Related Party Transaction	Item	Estimated amount for the year (RMB10,000)	Actual amount for previous year (RMB10,000)	Percentage in the same type of business
Securities and financial products and transactions	Interbank market lending	20,000,000 (capital inflow), 20,000,000 (capital outflow)	11,000,000.00 (capital inflow), 10,851,680.61 (capital outflow)	–
	Bond trading and interest rate swap	The actual amount shall be disclosed due to the difficulty in the estimation of the actual items and scale	404,606.36 (capital inflow), 96,411,214.64 (capital outflow)	–
	Bond repurchase		6,481,181.00 (capital inflow), 6,482,664.40 (capital outflow)	–
	Related parties purchase, redeem products managed by the Company and subsidiaries under its control		376,926.92 (capital inflow), 335,495.76 (capital outflow)	–
	The Company and subsidiaries under its control purchase and redeem products managed by related parties		25,306.48 (capital inflow), 11,353.75 (capital outflow)	–
	Related parties purchase and redeem the non-publicly issued financial products of the Company and subsidiaries under its control		0	–
	The Company and subsidiaries under its control purchase and redeem the non-publicly issued financial products of related parties		0	–
	Over-the-counter derivatives transactions with related parties		307.64 (capital inflow), 239.43 (capital outflow)	–
	Equity swap with related parties		0	–
Other related party transactions	Lease expense	6,000	5,208.25	12.44%

Note: Securities and financial products and transactions mainly represent fixed-income products or transactions, equity products or transactions, financing transactions, other related securities and financial products and derivative products, sic passim.

2. Contemplated ordinary related party transactions with China Merchants Group Limited and its subsidiaries

Type of Related Party Transaction	Item	Estimated amount for the year (RMB10,000)	Actual amount for previous year (RMB10,000)	Percentage in the same type of business
Financial services	Income from underwriting service	The actual amount shall be disclosed due to the difficulty in the estimation of the actual items and scale	269.32	0.22%
	Income from financial consulting		5,433.02	16.03%
	Income from agency sales of financial products		14.40	0.09%
Securities and financial products and transactions	Related parties purchase, redeem products managed by the Company and subsidiaries under its control		13,640.14 (capital inflow), 33,473.95 (capital outflow)	–
	The Company and subsidiaries under its control purchase and redeem the non-publicly issued financial products of related parties		13,950 (capital inflow), 200,000 (capital outflow)	–
	Commodity transactions with related parties		500.1 (capital inflow), 0 (capital outflow)	–
Joint investment	Joint investment with related party		0	–
Other related party transactions	Lease expense, property management fees, vehicle operating expenses, etc.		1,540.22	3.55%
	Administrative office procurement		1,060.51	10.69%

3. Contemplated ordinary related party transactions with China Merchants Fund Management Co., Ltd.

Type of Related Party Transaction	Item	Estimated amount for the year (RMB10,000)	Actual amount for previous year (RMB10,000)	Percentage in the same type of business
Financial services	Commission from trading of mutual funds	The actual amount shall be disclosed due to the difficulty in the estimation of the actual items and scale	2,076.57	5.53%
	Income from agency sales of financial products		629.28	3.95%
Securities and financial products and transactions	Bond trading and repurchase		1,981.34 (capital inflow), 0 (capital outflow)	–
	The Company and subsidiaries under its control purchase and redeem products managed by related parties		83,500.00 (capital inflow), 130,850.00 (capital outflow)	–
	Related parties purchase and redeem the non-publicly issued financial products of the Company and subsidiaries under its control		0	–
	Market-making for gold ETFs, money funds of related parties		7,954 (capital inflow), 29,214 (capital outflow)	–
	Commodity transactions with related parties		0 (capital inflow), 1,598.02 (capital outflow)	–
Other related party transactions	Income from server cabinet of custody business service	200	111.44	100%

4. Contemplated ordinary related party transactions with Bosera Asset Management Co., Ltd.

Type of Related Party Transaction	Item	Estimated amount for the year (RMB10,000)	Actual amount for previous year (RMB10,000)	Percentage in the same type of business
Financial services	Commission from trading of mutual funds	The actual amount shall be disclosed due to the difficulty in the estimation of the actual items and scale	5,785.67	15.41%
	Income from agency sales of financial products		405.64	2.55%
Securities and financial products and transactions	Bond trading and repurchase		0	–
	The Company and subsidiaries under its control purchase and redeem products managed by related parties		62,000.00 (capital inflow), 82,000.00 (capital outflow)	–
	Related parties purchase and redeem the non-publicly issued financial products of the Company and subsidiaries under its control		0	–
	Market-making for gold ETFs, money funds of related parties		59 (capital inflow), 69,362 (capital outflow)	–
	Commodity transactions with related parties		1160.16 (capital inflow), 1300.22 (capital outflow)	–

5. Contemplated ordinary related party transactions with Great Wall Securities Co., Ltd.

Type of Related Party Transaction	Estimated amount for the year (RMB10,000)	Actual amount for previous year (RMB10,000)	Percentage in the same type of business
Securities and financial products and transactions	The actual amount shall be disclosed due to the difficulty in the estimation of the actual business items and scale	43,517.65 (capital inflow), 38,579.97 (capital outflow)	–

6. Contemplated ordinary related party transactions with China COSCO Shipping Corporation Limited and other related parties controlled by it

Type of Related Party Transaction	Estimated amount for the year (RMB10,000)	Actual amount for previous year (RMB10,000)	Percentage in the same type of business
Financial services	The actual amount shall be disclosed due to the difficulty in the estimation of the actual business items and scale	Income from underwriting service 9.91	0.01%
Securities and financial products and transactions		0	–
Joint investment with related party		0	–

7. Contemplated ordinary related party transactions with PICC Life Insurance Company Limited, PICC Health Insurance Company Limited, PICC Pension Company Limited, and PICC Health Pension Management (Guangzhou) Co., Ltd.

Type of Related Party Transaction	Estimated amount for the year (RMB10,000)	Actual amount for previous year (RMB10,000)	Percentage in the same type of business
Securities and financial products and transactions	The actual amount shall be disclosed due to the difficulty in the estimation of the actual business items and scale	Bond trading with 3,938.20 (capital inflow), 2,057.58 (capital outflow)	–

8. Contemplated ordinary related party transactions with related natural persons

Type of related party transaction	Estimated amount for the year (RMB10,000)	Actual amount for previous year (RMB10,000)	Percentage in the same type of business
Securities and financial products and transactions	The actual amount shall be disclosed due to the difficulty in the estimation of the actual business items and scale	Related natural persons purchased and redeemed products managed by the Company with 1,546.15 (capital inflow), 1,146.18 (capital outflow)	–

9. Contemplated ordinary related party transactions with other related parties

The contemplated ordinary related party transactions with other related parties are mainly ordinary related party transactions entered into with, other than the aforementioned related parties, related legal persons and other organizations of which the directors or senior management serve as the Director, Supervisor or senior management of our company or have served/will serve as the Director, Supervisor or senior management of our company in the past/next twelve months. The actual amount shall prevail due to the difficulty in the estimation of the actual item and scale.

II. MAJOR RELATED PARTIES AND THE RELATIONSHIP

- China Merchants Bank Co., Ltd. is under significant influence by the de facto controller of the Company. SU Min and WANG Daxiong, Directors of the Company, also serve as its directors. It is listed on the Shanghai Stock Exchange (stock code: 600036) and Hong Kong Stock Exchange (stock code: 3968). Please refer to its announcement for its profile.
- China Merchants Group Limited is the de facto controller of the Company. Its registered capital was RMB16.7 billion and the major business scope includes sea and land transportation and agency of goods, leasing and agency of sea and land transportation tools and equipment, investment in and management of port and warehouse businesses; sea rescue, salvage, towing; manufacturing; building, repair, inspection and sale of vessels and offshore oil drilling equipment; repair and inspection of oil rigs and containers; contracting and construction of and back office services for sea and land construction projects and offshore oil exploitation projects; procurement,

supply and sale of sea and land transportation equipment and relevant supplies; import and export transportation businesses; investment in and management of businesses in the financial, insurance, trust, securities and futures industries; investment in and management of businesses in the tourism, hotel, catering and relevant services industries; real estate development and property management and consultancy business; investment in and management of petrochemical business; investment in and operation of transportation infrastructure; operation of offshore assets; development, operation and management of Shekou Industrial Zone in Shenzhen and Zhangzhou Development Zone in Fujian.

3. China Merchants Fund Management Co., Ltd. is an associate of the Company. The Company holds 45% equity interests in it. Ms. DENG Xiaoli, the Vice President of the Company, serves as its vice chairman. Its registered capital was RMB1.31 billion and the major business scope includes fund management, promotion and establishment of funds, and other businesses approved by the CSRC.
4. Bosera Asset Management Co., Limited is an associate of the Company. The Company holds 49% equity interests in it. Su Min, an Director of the Company, is one of its directors. Its registered capital was RMB250 million and the major business scope includes fund raising, sales of funds, asset management and other businesses approved by the CSRC.
5. China COSCO Shipping Corporation Limited, is a shareholder of the Company which indirectly holds more than 5% equity interests in the Company. Its registered capital was RMB11 billion and the major business scope includes international shipping, auxiliary business for international maritime transportation; import and export of goods and technologies; international maritime, land and air freight agency business; leasing of self-owned vessels; sales of vessels, containers and steel; design of maritime engineering equipment; investment in docks and ports; sales of communication equipment, information and technology services; warehousing (other than hazardous chemicals); technological development, technology transfer, technological consultancy and technological services in relation to shipping, spare parts and related fields; equity investment funds.

III. PARTICULARS AND PRICING OF THE RELATED PARTY TRANSACTIONS

1. Interest income from deposit: interest income for deposits of certain funds of the Company and subsidiaries under its control as well as funds from customers placed with China Merchants Bank shall be determined based on the market interest rate for interbank deposits.
2. Interest expenses on loans for the construction of China Merchants Securities Building: interests payable by the Company for loans from China Merchants Bank in relation to the construction of China Merchants Securities Building shall be determined based on the 3-5 years loan interest rate set by the People's Bank of China.

3. Interest expenses on borrowings: interest payable to China Merchants Bank or its offshore branches for the borrowings of the Company and subsidiaries under its control shall be determined based on the market interest rate.
4. Interest expenses on placements: the interest payable by the Company for placements from China Merchants Bank through the national interbank funding center shall be determined based on the interest rate of national interbank funding center.
5. Income from underwriting service: the income received from underwriting services provided by the Company and subsidiaries under its control to related parties shall be determined based on the market rates and industry practice.
6. Income from financial consulting: the income received from financial consulting provided by the Company and subsidiaries under its control to related parties shall be determined based on the market rates and industry practice.
7. Third-party custodian service fees: the third-party custodian service fees payable in relation to the transaction settlement funds deposited by customers of the Company and subsidiaries under its control with China Merchants Bank shall be determined based on the pricing standard of China Merchants Bank charged on other comparable securities firms.
8. Fee for custody and agency sales of wealth management products: custodian fees for collective wealth management products and relevant fees for agency sales of wealth management products payable by the Company and subsidiaries under its control to China Merchants Bank shall be determined based on the market rates and industry practice.
9. Income from targeted asset management services: service fees from targeted asset management provided by the Company and subsidiaries under its control to China Merchants Bank shall be determined based on the market rates and industry practice.
10. The Company and subsidiaries under its control and related parties purchase and redeem the products managed by each other: the prices shall be determined based on the market rates and industry practice.
11. The Company and subsidiaries under its control and related parties purchase and redeem the non-publicly issued financial products of each other: the prices shall be determined based on the market rates and industry practice.
12. Bond trading and sales: The prices of bond spot transactions between the Company and subsidiaries under its control and related parties, and sales of bonds by the Company to related parties, shall be determined based on the market rates and industry practice.

13. Bond repurchase: The Company and subsidiaries under its control engages in bond transactions with related parties and agrees that the seller must repurchase bonds from the purchaser at an agreed price within the time period in the future agreed by both parties, and pay interest at the agreed interest rate (price), with reference to the market rates and industry practice.
14. Joint investment with related parties: prices of joint investment that may be made by the Company and subsidiaries under its control with related parties shall be determined based on the market rates and industry practice.
15. Commission income from trading of mutual funds: commission from securities transactions such as the trading of stock and bonds that may be made by fund products of related parties through leasing of participant business unit of the Company and subsidiaries under its control shall be determined based on the market rates and industry practice.
16. Income from agency sales of financial products: attributable income from management fees, subscription fees and redemption fees payable by related parties to the Company in respect of the agency sales services provided by the Company and subsidiaries under its control as a distribution channel for the fund products issued by related parties shall be determined based on the market rates and industry practice.
17. Lease expense: the expenses paid by the Company and subsidiaries under its control to related parties for leasing its business premises shall be determined based on the market rates and industry practice.

IV. REASONS FOR THE RELATED PARTY TRANSACTIONS AND IMPACT ON THE COMPANY

1. The pricing of the abovementioned related party transactions is determined in accordance with the market rates on a reasonable and fair basis without prejudicing the interests of the non-related Shareholders of the Company. The relationship between the Company and the related parties is mutually beneficial and fair and equal to both parties without causing any harm to the interest of the Company.
2. The abovementioned related party transactions are conducted in the Company's ordinary course of business which are beneficial to its business development and enhancement of overall competitiveness.
3. The abovementioned related party transactions do not affect the independence of the Company. Major business of the Company has not been in reliance on the related parties due to these related party transactions.

The Directors:

Pursuant to the requirements of Rule 19A.38 of the Listing Rules, and in order to grasp market opportunity, ensure flexibility in issuing new Shares and in line with the A+H listed company practices, the Board intends to propose to the general meeting to approve the grant of an unconditional General Mandate to the Board by a special resolution to authorize the Board to decide to, subject to market condition and the needs of the Company, separately or concurrently issue, allot and deal with additional Shares not exceeding 20% of the respective amount of A Shares and/or H Shares in issue at the date of the passing of such resolutions and also authorize the Board to approve and execute necessary document(s), submit all necessary application procedures to relevant institutions and take other necessary steps to complete the aforesaid matters.

1. THE CONTENTS OF THE MANDATE

Details of the contents of the Mandate include but not limited to:

- (1) Granting of an unconditional and General Mandate to the Board (or the Director(s) authorized by the Board) to, subject to market condition and the needs of the Company, separately or concurrently issue, allot and deal with additional Shares of the share capital of A Shares and H Shares of the Company and make or grant offers, agreements, or options in relation to such Shares during the relevant period (as defined below).
- (2) The aggregate nominal value of the A Shares and/or H Shares to be allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to the exercise of options or otherwise) by the Board shall not respectively exceed:
 1. 20% of the aggregate nominal value of the existing A Shares in issue at the date of the passing of this resolution at the general meeting; and/or
 2. 20% of the aggregate nominal value of the existing H Shares in issue at the date of the passing of this resolution at the general meeting.
- (3) The Board be authorized to, upon the exercise of the aforementioned General Mandate, formulate and implement detailed issuance plan, including but not limited to the class of new Shares to be issued, pricing mechanism and/or issuance price (including price range), number of Shares to be issued, allottees and use of proceeds, etc., and to determine the time of issuance, period of issuance and whether to allot Shares to existing Shareholders.
- (4) The Board be authorized to engage the agents for share issuance related matters, and to approve and execute all acts, deeds, documents and other matters necessary, appropriate, required or relevant for share issuance; and to consider, approve and execute, on behalf of the Company, agreements related to issuance, including but not limited to underwriting agreement and engagement agreements of agents, etc..

- (5) The Board be authorized to consider, approve and execute, on behalf of the Company, statutory documents in relation to issuance to be submitted to regulatory authorities; to carry out approval procedures required by regulatory authorities and venues in which the Company is listed; and to complete all necessary filings, registrations and records with the relevant governmental authorities of Hong Kong and/or any other regions and jurisdictions (if applicable).
- (6) The Board be authorized to amend, as required by regulatory authorities within or outside the PRC, agreements and statutory documents referred to in (4) and (5) above.
- (7) The Board be authorized to increase the registered capital of the Company after the new share issuance, and to make corresponding amendments to the Articles of Association relating to total share capital and shareholdings structure, etc.; and the operation management be authorized to carry out the relevant procedures pursuant to the requirements within or outside PRC.

2. VALIDITY OF THE GENERAL MANDATE

Except that the Board may make or grant offers, agreements, or options during the relevant period in relation to the issue of A Shares and/or H Shares, which might require further promotion or implementation after the end of the relevant period, the exercise of the powers referred to above shall be within the relevant period. "Relevant period" means the period from the passing of this resolution as a special resolution at the general meeting until whichever is the earliest of:

- (1) the conclusion of the next annual general meeting of the Company;
- (2) the expiration of the 12-month period following the passing of this resolution as a special resolution at the general meeting; or
- (3) the date of the revocation or variation of the authority under this resolution by passing of a special resolution in any general meeting of the Company.

Should the Board or the authorized persons, during the relevant period, sign the necessary documents, complete the necessary formalities or take relevant steps which might require to be performed or carried out upon or after the end of the relevant period or continued until the end of the relevant period, the relevant period of the authorization will be extended accordingly.

Exercise of the power granted under the above mentioned General Mandate by the Board is subject to all necessary approvals of the China Securities Regulatory Commission and/or the relevant governmental authorities of the People's Republic of China and in accordance with the Company Law, Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time) and the Articles of Association.