



中信证券股份有限公司  
CITIC SECURITIES CO.,LTD.

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

(STOCK CODE : 6030)

2012

INTERIM REPORT

## IMPORTANT NOTICE

The board of directors (the “**Board**”) and supervisory committee (the “**Supervisory Committee**”) of the Company and its directors (the “**Director(s)**”), supervisors (the “**Supervisor(s)**”) and senior management warrant that there are no false representations, misleading statements contained in or material omissions from this report and assume joint and several liabilities for the truthfulness, accuracy and completeness of the contents disclosed herein.

Mr. WANG Dongming, Chairman of the Company, and Mr. GE Xiaobo, the person-in-charge of accounting affairs and head of the financial department of the Company, warrant that the financial statements set out in this interim report are true and complete.

This report was considered and approved at the 3rd Meeting of the 5th Session of the Board, and the 2nd Meeting of the 5th Session of the Supervisory Committee of the Company.

There was no appropriation of funds of the Company for non-operating purposes by the substantial shareholder or any connected party.

There was no external guarantee provided by the Company against the stipulated decision-making process.

The financial report of the interim report of the Company was unaudited. Ernst & Young Hua Ming Certified Public Accountants and Ernst & Young LLP issued review opinions in accordance with the Accounting Standards for Enterprises of China and the International Financial Reporting Standards, respectively.



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# Company Information

Registered Name in Chinese:	中信証券股份有限公司
Abbreviation in Chinese:	中信証券
Registered Name in English:	CITIC Securities Company Limited
Abbreviation in English:	CITIC Securities Co., Ltd.
Legal Representative:	WANG Dongming
Authorized Representatives:	YIN Ke, ZHENG Jing
President:	CHENG Boming
Secretary to the Board, Company Secretary:	ZHENG Jing
Registered Address:	North Tower, Excellence Times Plaza II, No. 8 Zhong Xin San Road, Futian District, Shenzhen, Guangdong Province (Postal Code: 518048)
Office Address:	CITIC Securities Tower, No. 8 Zhong Xin San Road, Futian District, Shenzhen, Guangdong Province (Postal Code: 518048) CITIC Securities Tower, No. 48 Liangmaqiao Road, Chaoyang District, Beijing (Postal Code: 100125)
Place of Business in Hong Kong:	Floor 26, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong
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Asset Management Customer Service Hotline:	+86-10-6083 6688
Newspapers for Information Disclosure:	China Securities Journal, Shanghai Securities Journal, Securities Times
Websites for Information Disclosure:	Website designated by the CSRC: <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> Website designated by the SEHK: <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
Places Where Interim Report is Available:	Floor 16, CITIC Securities Tower, No. 8 Zhong Xin San Road, Futian District, Shenzhen, Guangdong Province Floor 15, CITIC Securities Tower, No. 48 Liangmaqiao Road, Chaoyang District, Beijing Floor 26, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong

## Company Information

Legal Adviser as to PRC Laws:	Beijing Jiayuan Law Firm
Legal Adviser as to Hong Kong Laws:	Baker & McKenzie
Domestic Auditor:	Ernst & Young Hua Ming Certified Public Accountants Floor 16, Ernst & Young Tower, Oriental Plaza, No. 1 East Chang'an Avenue, Dongcheng District, Beijing
International Auditor:	Ernst & Young LLP Floor 22, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong
A Share Registrar:	China Securities Depository and Clearing Corporation Limited Shanghai Branch Floor 36, China Insurance Building, 166 Lujiazui East Road, Pudong New Area, Shanghai
H Share Registrar:	Computershare Hong Kong Investor Services Limited Floor 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Places of Listing, Stock Name and Stock Code:	A Shares Shanghai Stock Exchange CITIC SECURITIES 600030 H Shares The Stock Exchange of Hong Kong Limited CITIC SEC 6030
Date of First Registration:	25 October 1995
Date of Latest Change in Registration:	6 June 2012
Registration Number of Corporate Legal Person Business License:	100000000018305
Tax Registration Number:	Shen Guo Shui You Zi 440300101781440; Shen Di Shui Zi 440300101781440
Certificate of Organization Code:	10178144-0

# Financial Summary

## Key financial data and indicators

*In RMB thousands*

Items	30 June 2012	31 December 2011	Variance
			in comparison with the end of last year (%)
Total assets	<b>149,243,120</b>	148,280,380	0.65
Total liabilities	<b>64,736,076</b>	61,290,177	5.62
Equity attributable to owners of the parent	<b>84,156,697</b>	86,587,285	-2.81
Issued share capital	<b>11,016,908</b>	11,016,908	—
Net assets per share attributable to owners of the parent (in RMB yuan)	<b>7.64</b>	7.86	-2.80
Gearing ratio (%)	<b>25.50</b>	22.19	Increased by 3.31 basis points

Items	Six months ended 30 June 2012	Six months ended 30 June 2011	Variance
			in comparison with the corresponding period of last year (%)
Total revenue and other income	<b>6,432,972</b>	8,377,041	-23.21
Operating profit	<b>2,652,704</b>	3,995,791	-33.61
Profit before income tax	<b>2,904,388</b>	3,996,611	-27.33
Net profit attributable to owners of the parent	<b>2,248,748</b>	2,973,413	-24.37
Net cash outflow from operating activities	<b>-6,435,992</b>	-315,818	-1,937.88
Basic earnings per share (in RMB yuan)	<b>0.20</b>	0.30	-33.33
Diluted earnings per share (in RMB yuan)	<b>0.20</b>	0.30	-33.33
Return on weighted average equity (%)	<b>2.56</b>	4.25	Decreased by 1.69 basis points

*Note:* In calculating the gearing ratio for the above reporting periods, the assets and liabilities have excluded the amounts of cash held on behalf of customers, customers' refundable deposits and accounts payable to customers.

## Net capital and relevant risk control indices of the parent company

As at 30 June 2012, the net capital of the parent company was RMB44,437 million, representing a decrease of 11.18% compared with that of RMB50,030 million as at 31 December 2011. The decrease was mainly due to the realisation of net profit, dividends payable, and increase of capital contributions to the subsidiaries of the Company.

Items	<i>In RMB thousands</i>	
	<b>30 June 2012</b>	31 December 2011
Net capital	<b>44,436,923</b>	50,029,843
Net assets	<b>71,088,089</b>	73,770,509
Net capital/total risk capital reserves (%)	<b>895.10</b>	618.93
Net capital/net assets (%)	<b>62.51</b>	67.82
Net capital/total liabilities (%)	<b>147.39</b>	213.69
Net assets/total liabilities (%)	<b>235.78</b>	315.09
Value of equity securities and derivatives held/net capital (%)	<b>73.61</b>	56.86
Value of fixed income securities held/net capital (%)	<b>66.58</b>	52.74

Note: The risk control indices for various businesses of the Company comply with the relevant requirements of *Measures for the Risk Control Indices of Securities Companies of the PRC* issued by China Securities Regulatory Committee ("CSRC").

# Management Discussion and Analysis

## Business overview

The investment banking business of the Group consists of equity finance, debt and structured finance, as well as financial advisory services. The Group provides capital-raising and financial advisory services to a wide range of corporate and other institutional clients in China and globally.

The brokerage business of the Group mainly engages in dealing and broking of securities and futures and agency sale of securities investment funds.

The trading business of the Group primarily engages in trading and market-making of equity products, fixed income products and derivatives, as well as margin financing and securities lending business.

The Group provides asset management services and products to clients in China and globally. Asset management business already commenced by the Group include: collective asset management (“**CAM**”), targeted asset management (“**TAM**”), specified asset management (“**SAM**”) and other investment accounts management.

The investment business of the Group mainly engages in private equity investments, principal investments and other businesses.

## Analysis of principal businesses

### Investment banking

#### Equity Finance

##### Market Conditions

Affected by volatile overseas markets and slowdown in the growth of domestic economy, the A-share market continued to sustain fluctuations and adjustments in the first half of 2012 with greater pressure on equity financing issuance projects. At the same time, originations of mega-sized IPO projects continued to decline and policy restrictions on real estate financing and other industries remained. Structural reforms initiated by CSRC in new equity issue, such as lowering of price-earnings

ratios and restrictions on fund raising sizes, have led to reduction in the average fund raising sizes of IPOs. Compounded by the impacts of the above factors, sizes of A-share IPOs and follow-on offerings continued to wither with slowdown in project offerings and some offerings were even postponed.

In terms of the financing structure, fund raisings in the Small and Medium Enterprise (“**SME**”) Board and the ChiNext Board retained its leading position, accounting for 63.31% of the total funds raised in the market. The concentration level of the underwriting market has increased with the market share of the underwriting amount of the top ten investment banks during the first half of 2012 increased to 76.39% from 52.88% in 2011.

#### Actions and achievements

To counter the challenges in the ferocious market environment, the Company’s investment bank equity financing business has undergone a realignment of its organisational structure in the first half of 2012 by optimising its customer service flows, enhancing its service efficiency and expanding its customer service coverage in order to better meet its customers’ needs and adjust its product strategies. Full product coverage by IBS and specialised division of execution are the core of the organizational framework. Apart from undertaking the equity finance business, all industry teams of IBS are required to be customer-oriented, to have full understanding of their customers’ needs and to explore various business opportunities for target customers. They are also required to organise and deploy all internal and external resources of the Company in order to provide all-rounded capital market product services to customers. The realignment of organisational structure has not only enhanced the efficiency in equity financing execution, but also deepened the exploration of business opportunities and customers. Currently, the Company has a relatively abundant pipeline of IPO and refinancing projects, assuring a solid advantage in market shares for the future.



## Management Discussion and Analysis

In respect of the small-to-medium projects, through over six years of intensive hard work, the SME service team has grown in size and the Company has built good profile and reputation in the small-to-medium project sector, with distinct competitive advantages in sectors such as consumer goods, advanced equipment manufacturing, electronic information technology, and pharmaceutical and medical care. Against the backdrop of lowering valuation and increased offering risks in the ChiNext Board in the first half of 2012, the Company has successfully underwritten innovative boutique IPOs of SMEs, such as Ourpalm Co., Ltd. and Shenzhen Dongjiang Environmental Company Limited, by capitalising on our in-depth understanding of the industry and markets, thereby continuously strengthening our influential market position.

During the first half of 2012, the Company completed 15 equity underwriting projects as the lead underwriter, with the total amount underwritten amounting to approximately RMB25,352 million, representing

approximately 11.22% of the market share, and ranked number one in the market. Of which, 11 were IPOs, with the total amount lead underwritten amounting to approximately RMB13,848 million, and the remaining four were follow-on offering projects, with the amount lead underwritten amounting to approximately RMB11,504 million. Three of the 11 IPOs were listed on the ChiNext Board, with the amount lead underwritten amounting to approximately RMB2,293 million, and ranked third in the ChiNext IPO market in terms of the amount lead underwritten, while securing a market share of 9.03%.

In respect of the international business, by leveraging on its competitive advantages in terms of customers, projects and capital accrued in the PRC market, the Company continued increasing its efforts in international business development and in building up the international business network, advanced its business development in the equity finance market of Hong Kong as well as the global merger and acquisition market.

Projects	First half of 2012		First half of 2011	
	Amount lead underwritten (RMB million)	Number of Issues	Amount lead underwritten (RMB million)	Number of Issues
IPOs	13,848	11	4,576	3
Follow-on offerings	11,504	4	21,607	5
Convertible bonds	—	—	3,833	1
<b>Total</b>	<b>25,352</b>	<b>15</b>	<b>30,017</b>	<b>9</b>

Source: Wind Information Technology Co., Ltd. ("Wind Info") and Company's internal data

# Management Discussion and Analysis

## Outlook for Second Half of 2012

In the second half of 2012, the Company will continue to uphold its competitive edges in the traditional investment banking business, increase the number of projects in the pipeline, closely follow new products, develop innovative business, and achieve better interaction between the international and domestic markets. To sustain our leading market position in the underwriting business, the Company still needs to focus on its strategic customers, and at the same time to explore business opportunities of niche sectors and regional leading enterprises, by providing capital market overall solutions and creating added value to and achieving mutual growth with our customers. In respect of its SME customers, the Company will capture the financing opportunities which may arise as a result of the restructuring of the economy and industry upgrading, in order to sustain its competitive advantages in sectors, such as consumer goods, advanced equipment manufacturing, electronic information technology, and pharmaceutical and medical care, strengthen its capability to explore quality customers, enhance customer and regional coverage in the industry chains, as well as to strengthen its capability to capitalise on the economic cycles and develop quality projects. In addition, in the high standard principle of

“selecting the best among the best”, the Company will continue to strengthen its project quality control, establish a multi-tier quality control system, upgrade quality standards and enhance the market influence of its brand name.

## Debt and Structured Finance

### Market Conditions

During the first half of 2012, declines in yields and increases in supply of the domestic bonds have put considerable pressures on bond underwriting. With the successive lowering in deposit reserve ratios and benchmark interest rates by the People’s Bank of China in May and June 2012, the yields of bonds have significantly decreased compared to the previous period.

### Actions and Achievements

During the first half of 2012, the Company completed a total of 45 lead underwriting transactions, including lead underwriting for enterprise bonds, corporate bonds, financial bonds of commercial banks, medium-term notes and commercial papers, amounting to RMB82,967 million or representing 5.09% of the market share in terms of the amount lead underwritten and ranked first in terms of the number of issues and amount underwritten.

Projects	First half of 2012		First half of 2011	
	Amount lead underwritten (RMB million)	Number of Issues	Amount lead underwritten (RMB million)	Number of Issues
Enterprise bonds	18,833	10	1,500	2
Corporate bonds	8,250	6	1,333	1
Financial bonds	31,834	9	44,135	6
Medium-term notes	18,300	14	3,445	6
Commercial papers	5,750	6	1,950	3
Collective notes	—	—	—	—
<b>Total</b>	<b>82,967</b>	<b>45</b>	<b>52,363</b>	<b>18</b>

Source: Wind Info and Company's internal data

# Management Discussion and Analysis

During the first half of 2012, the Company completed a total of 11 structured finance transactions, with an aggregate size approaching RMB7.0 billion, and became the leader of structured finance business among investment banks in China.

In respect of the RMB-denominated bond business in Hong Kong, benefiting from such factors as intensive anticipation of RMB appreciation, rapid increase in RMB deposits and limited quality investment channels available, RMB-denominated bond products in Hong Kong have distinct advantages with obvious cost savings over the counterpart market in the PRC. In 2012, the State policies are to encourage more domestic financial institutions and to approve non-financial enterprises to issue RMB-denominated bonds in Hong Kong, in order to steadily expand the overall size of RMB-denominated bond issues in Hong Kong by domestic enterprises. Aided by such preferential policies, the RMB-denominated bonds led underwritten by the Company in Hong Kong maintained its position at the forefront of the market. Capitalising on the opportunity created by RMB-denominated bond issues in Hong Kong, the Company will diversify its business structure, expand its all-encompassing business vision, establish a customised domestic and international platform for underwriting and enhance its reputation, making positive and forward-looking investigations for the advancement of the internationalisation development strategy.

## ***Outlook for Second Half of 2012***

Coupled with the new phase of the market reform on interest rates and the re-trial of credit asset-backed securitisation, the room for development of bond and structured finance will further broaden in the second half of 2012. The Company will further fortify its efforts on the bond market in line with the market development trend and realignment of regulatory policies, further explore customer demand for debt and structured finance and other fixed income businesses, maintain

its leading market position and influence, and strive to make further breakthroughs in product innovation. On 22 August 2012, the Company obtained the qualification to undertake pilot underwriting of private placement of SME bonds. The Company, by further development of this business, will endeavour to provide new financial channels for the healthy and speedy development of SMEs.

## **Financial Advisory**

### ***Market Conditions***

The uneasy recovery of the global economy, the unfolding European debt crisis and the slowdown of the US economy have affected the size of the merger and acquisition market. In the first half of 2012, global merger and acquisition deals were not active as exemplified by the decrease in the number of such transactions in all regions. According to Mergermarket, 13,019 merger and acquisition transactions have been announced with an aggregate amount of US\$980.1 billion, representing a decrease of 28.5% over the corresponding period of 2011. On a sector basis, merger and acquisition activities in the finance sector declined significantly, and the transaction size decreased by 26% year-on-year, whereas the performance of the energy and raw material sectors was comparatively better, accounting for 39.3% of all mergers and acquisitions.

### ***Actions and Achievements***

The Company has set higher demands in respect of the branding of its financial advisory business: firstly, to solidify its leading position in domestic mergers and acquisitions with dedicated efforts to secure mega-sized “deals”; secondly, to create a premier brand-name in cross-border mergers and acquisitions while at the same time, enhance significantly project profitability. In respect of buy-side business, the Company looks for synergy with the development of the sell-side business in order to further lift up our professional standard.

# Management Discussion and Analysis

In the first half of 2012, the Company took the lead of the industry in completing 6 domestic merger and acquisition deals and at the same time actively developed its cross-border merger and acquisition financial advisory services by completing 6 cross-border deals, spanning Europe, North America and Asia Pacific. The overseas network of the Company is the key stepping stone for the rapid development of our cross-border merger and acquisition financial advisory business. Since the beginning of 2012, through continual deployment of its overseas teams and further consolidation of all-round strategic cooperation with its overseas partners, the Company has further fortified its coverage of merger and acquisition opportunities in Europe.

In addition, the Company strives to explore innovative financial advisory business with a view to developing it as a new driver for profit growth.

## **Outlook for Second Half of 2012**

In the second half of 2012, the Company will continue to consolidate its leading position in the domestic merger and acquisition market. Leveraging on the quality services for its existing clients, the Company seeks to provide more value-added merger and acquisition and restructuring financial advisory services and to develop a more diversified merger and acquisition and restructuring service profile. The Company will also strive to enhance our competitiveness by providing more comprehensive and diversified applications of financial instruments in the merger and acquisition deals to identify more business growth niches.

In respect of overseas merger and acquisition market, the Company will, through gradually participating in influential cross-border mergers and acquisitions, raise its brand-name and influence on the international merger and acquisition market.

## **Brokerage**

### **Market Conditions**

During the first half of 2012, the Shanghai and Shenzhen stock-markets succumbed to their respective lows with thin trading. The total turnover of A-shares in the secondary market for the period was merely RMB17.68 trillion, representing a year-on-year decrease of approximately 28.72%. Having undergone successive slides of around 20% in each of 2009 to 2011, the percentage decrease in commission rates narrowed in 2012 and showed stabilizing signs. The average net commission rates fell industry wide to approximately 0.076% in the first half of 2012, representing a decrease of 5.0% over 2011.

### **Actions and Achievements**

During the first half of 2012, the brokerage business of the Group continued to sustain its industry leadership and ranked first in its market position with a total turnover of RMB2.02 trillion in securities and mutual funds trading on the Shanghai and Shenzhen stock exchanges.

The Group was proactive in transforming and upgrading its brokerage business from a traditional licence business to a business with dual emphasis on both traditional licence and innovative businesses, and advanced transformation of license business as well as overall upgrading in customer services.

The development and management committee of brokerage business has four subdivisions, namely, financial product development, sales and marketing management, customer service and operation management. In the first half of 2012, through specialised division and coordination of duties of undertaking internal and external businesses and through integration of the resources channels of each branch, the Company has established an industry value chain with a new business perspective. On the branch level, through

## Management Discussion and Analysis

rational delegation and optimal allocation of resources, the Company has further strengthened the front line functions of a regionalised operation and management of the five branch companies in Beijing, Shanghai, Jiangsu, Guangdong and Hubei. By optimising the organisation structures of the two subsidiaries, namely, CITIC Securities (Zhejiang) Co., Ltd (“**CITIC Securities (Zhejiang)**”), and CITIC Wantong Securities Co., Ltd (“**CITIC Wantong**”), the Company has enhanced the coordinating efficiency for new businesses between their respective regions and the headquarters.

In 2012, the Group continued to enlarge the number of branches and reinforce regional coverage. At present, the Group has a total of 167 securities branches and 21 futures branches in Mainland China and Hong Kong, representing increases of 7 and 3 offices over the end of 2011 respectively.

The Group continued to upsize its investment consultant team which now has a count of 1,106 registered investment consultants. In the first half of 2012, through optimizing the appraisal and incentive mechanisms for investment consultants, setting up of investment research team to support investment consultants, perfecting the service and product system and centralising the operation of a customer relationship centre, the Company continuously enhanced the experience of and created value for our customers.

The Group was actively exploring a comprehensive financial service format to cater for its high-net-worth clients. It has established wealth management centres in economically developed areas, such as Beijing, Shanghai and Guangzhou, which provide personalised services for high-end clients through high quality dedicated teams.

For institutional clients, the Company steadily advanced its traditional services while at the same time, actively

developed innovative services. In respect of traditional services, the commission income from mutual funds continued to be the largest in the industry. The number of its QFII clients grew by 50% to 60 over the end of last year. The Company has also extended its scope of services to institutional clients in order to develop clients in insurance, social security funds, mega-sized state-owned enterprises and hedge funds. In respect of innovative services, the Company tried to develop algorithmic trading business to increase its client stickiness.

In respect of its futures brokerage business, the Company will increase its investments and supports by injecting RMB700 million of funds in CITIC Futures Co., Ltd (“**CITICS Futures**”) in order to promote the development of its innovative business.

As for internationalisation of its business, the Company continued to strengthen the interactions and cooperation between its domestic and Hong Kong brokerage operations. Subject to the compliance with the relevant regulatory requirements, the Company will provide differentiated services for its high-end corporate clients.

### **Outlook for Second Half of 2012**

In the second half of 2012, the Group will continue to maintain its leading market position and enhance the service experience and level of satisfaction of its clients. Meanwhile, the Group will also strive to cover various types of institutional clients nation wide in order to capture new clients and generate additional streams of revenues on top of its traditional commission income business. The Company will strive to expand its overseas clients and to proactively seek cross-border business opportunities. The Group will capitalise on functions of its product committee to integrate internal and external resources and to enrich the number and types of financial product offerings to meet diversified

# Management Discussion and Analysis

client needs. In addition, the Group will continue to devote efforts in building its professional sales team as well as to increase the size of its product offerings. The Company will accelerate the transformation of the traditional businesses and focus on changes in the mix of dominant investors in the market. The Group strives to avoid homogenous competition and achieve a thorough upgrade in customer services through a differentiated business model.

## Trading

### Market Conditions

During the first six months of 2012, the A-share market showed signs of slight rebound after searching for the bottom, with the index fluctuating and consolidating within a narrow band. Benefiting from the moderate easing of China's macro-economic policies and optimization in the design mechanism at the top-level of the securities markets, a structural rebound emerged in the blue-chip sector led by non-ferrous metal, real estate and power generation sectors. However, influenced by comprehensive factors such as the slowdown of economic growth and the extent of policy easing falling short of expectation, the A-share market dropped substantially again.

### Actions and Achievements

#### *Flow-based Business*

The Company reported rapid development in its flow-based business in the first six months of 2012.

For equity flow-based business, the Company provided customers with equity management services such as equity financing, stock repo and market value management, as well as a full spectrum of market-making services, such as block trades, provision of liquidity to exchange-traded funds ("**ETF**") and structured products building. In April 2012, the Company established a wholly-owned subsidiary known as CITIC Securities Investment Limited ("**CITIC Securities**

**Investment**"), which is built as an important platform to develop its flow-based business, including providing equity management services such as equity financing and market cap management, and offering structured products to customers. Along with the commencement of operation of CITIC Securities Investment, the Company remarkably strengthened its capability to provide flow-based products.

As one of the first securities companies to undertake trial operation of the stock repo trading business, the Company leveraged its first-mover advantage to expand its stock repo operation during the first six months of 2012. In respect of liquidity service, the revenue from block trading business has increased to provide a new niche for growth, thanks to the adoption of innovative business modes for and the commitment of additional funds to this business. The Company participated in the secondary ETF market as a "market-maker" and fulfilled the needs of ETF investors to buy or sell through the provision of liquidity by way of making two-way ETF quotes with its own funds. Following the launch of products such as the cross-market CSI 300 Index ETF, the Company's ETF market-making services were further developed. In tandem with ongoing innovations in the capital market in the first half of 2012, the Company has participated in the development of numerous exchange-traded or over-the-counter products such as options and swaps, and has increased its product offerings as a result.

For fixed income products, in the first half of 2012, the Company leveraged on the extensive clientele network to actively develop new clients, and enhanced the capability in product structuring. Specifically, these include providing market-making and transaction services for wealth management pool; promoting self-branded and self-managed wealth management products by fully capitalising the extensive client base and product design ability; offering bond block repurchase services to

## Management Discussion and Analysis

the Company's customers; serving clients by providing interest rate swap, brokering and market-making to meet the demand of clients in risk management, investment and financing. The establishment of CITIC Securities Investment further broadened the spectrum of fixed income product investment and market-making, and reinforced the client base and product pipeline. In the first half of 2012, the Company continuously ranked first in terms of trading turnover in the interbank bond market.

For the margin financing and securities lending business, as at the end of June 2012, the Company, CITIC Securities (Zhejiang), and CITIC Wantong had opened

16,129 credit accounts in total, representing a 255.73% growth compared to the end of 2011. The balance of our margin financing and securities lending amounted to RMB5,014 million, growing by 91.66% compared to the end of 2011 and accounting for a market share of approximately 8.22%. With the approval of CSRC, CITIC Securities (Zhejiang) and CITIC Wantong officially commenced their margin financing and securities lending on 11 June 2012 and got off a positive start with 3,005 and 2,468 credit accounts holding margin financing and securities lending balances of RMB306 million and RMB149 million, respectively, as at the end of June 2012.

Item	Company	30 June 2012	31 December 2011
Number of credit accounts opened	CITIC Securities	10,656	4,534
	CITIC Securities (Zhejiang)	3,005	—
	CITIC Wantong	2,468	—
	Total	16,129	4,534
Balance of margin financing and securities lending accounts (in RMB millions)	CITIC Securities	4,559	2,616
	CITIC Securities (Zhejiang)	306	—
	CITIC Wantong	149	—
	Total	5,014	2,616

The Company also made significant progress in its prime service business during the reporting period, and has formed preliminary operating regimes for product sales, research services, technological development, business operation and risk control. It has also developed a number of institutional customers including mutual funds, private equity funds, insurance companies and asset management institutions, which has further advanced the Company's margin financing and securities lending business in the domestic as well as overseas markets.

### **Securities Proprietary Investment**

With a view to ensuring a strategic shift of focus in proprietary stock trading, the Company selectively invested in blue-chip stocks in the non-ferrous, power and advanced equipment industries during the first six months of 2012 with satisfactory investment gains. Moreover, the Company continued to strengthen its risk control initiatives, with focused efforts in risk forecasts, key risk controls and overall position management.

# Management Discussion and Analysis

During the first six months of 2012, the Company established an alternate investment business line aiming at the pursuit of extra gains through means of proactive risk management, such as hedging, arbitrage and quantitative investment. Characterized by low risks and stable income, this alternative investment business line has since 2012 commenced four principal trading strategies: domestic stock index and futures arbitrage, fundamental quantitative investment, statistical arbitrage and foreign convertible bond arbitrage. Currently, this business line is also actively preparing for the development and stockpiling of new trading strategies.

## **Outlook for Second Half of 2012**

With the commencement of operation of CITIC Securities Investment, the Company's ability to provide flow-based products will be enhanced in the second half of 2012. In addition to expanding the current size of our business, the Company also looks to structure and offer more customized and tailor-made products and solutions that would meet the financing and investment requirements of customers. In connection with fixed income products, the Company will increase its efforts in the development of cross-border businesses under the FICC (Fixed Income, Currencies and Commodities) structure.

In the second half of 2012, the A-share market will continue to be primarily characterised by opportunities arising from industry restructuring. The Company will continue to follow the investment opportunities of sector rotation in public utilities, non-banking financing, resources and equipment manufacturing, with a special emphasis on the investment value of the advanced equipment manufacturing sector. The focus in the remaining six months is on the prudent expansion of the scale of various businesses. Some of the key tasks in this connection include: improved product optimization; swift launch of online trading functions for the stock repo business to facilitate increased trading volume; roll-out of flow-based trading through CITIC Securities Investment; steady expansion of ETF market-making and high-

frequency trading; as well as the research, development and launch of new products.

The Company will phase in a new trading strategy that comprises portfolio funds and long-short equity positions. Meanwhile, the Company will also focus on building a cross-border trading platform and grooming abilities in alternative cross-border investment management, so that the Company could gradually establish a platform for flow-based business where multiple options for domestic and/or overseas asset allocation will be made available to customers.

In connection with margin financing and securities lending, the Group will increase its in-depth marketing effort for the margin financing and securities lending business and exercise stringent control over business risks to ensure sustainable and stable growth in the margin financing and securities lending business of CITIC Securities (Zhejiang) and CITIC Wantong. The Company will step up its efforts to grow institutional clients and further enlarge its market share by offering technical support, product collaboration and integrated services. Currently, all the preparatory work has been basically completed for undertaking refinancing pilot business. On 27 August 2012, the Company signed a refinancing business contract with China Securities Finance Corporation to determine the Company's line of credit for refinancing business, opened related capital and securities accounts, commenced collateral transfer, in preparation for conduct of refinancing transactions by the Company.

## **Asset management**

### **Market Conditions**

The asset management business continued to face tremendous challenges in first six months of 2012: first of all, the securities market for a relatively long period failed to provide good returns for investments. With narrow profit margin over the past six months, investors are becoming more conservative in their investments, being



## Management Discussion and Analysis

inclined to investing in fixed-income or cash products that carried lower risks, thereby making it difficult to promote the sales of equity-related wealth management products. Secondly, there was growing competition in the market for asset management business, with mutual funds, securities houses, banks and trust companies competing against each other. Thirdly, although there has been faster development of innovative products in asset companies management, significant improvement in revenue is unlikely in the short-to-medium term.

### Actions and Achievements

As of 30 June 2012, the Company's total assets under management ("AUM") amounted to RMB71,839 million, comprising collective asset management ("CAM"), targeted asset management ("TAM") (including enterprise annuity and National Social Security Fund ("NSSF")) and specified asset management ("SAM") with the amounts of RMB13,085 million, RMB56,887 million and RMB1,867 million, respectively.

Type	30 June 2012	From January to June 2012	30 June 2011	From January to June 2011
	AUM (in RMB millions)	Management fees (in RMB millions)	AUM (in RMB millions)	Management fees (in RMB millions)
CAM schemes	13,085	77.97	15,479	92.82
TAM schemes	56,887	17.24	39,526	13.58
SAM schemes	1,867	0.40	206	0.40
Total	71,839	95.61	55,211	106.80

Source: Internal Data of the Company

During the first six months of 2012, more than 15 new enterprises annuity accounts were opened with the Company with an aggregate amount of approximately RMB5 billion. The AUM of its TAM (excluding enterprise annuity and NSSF) increased by approximately RMB6 billion. The Company also obtained the entrusted stock portfolios of NSSF as its domestic investment manager.

The Company has enhanced its business innovation and product innovation in asset management. The Company actively participated and advanced innovation programmes promoted by regulatory authorities, stock exchanges and industry associations, such as cash management products and classified collective schemes, while launching CAM schemes in selected funds and

convertible bonds, etc in an ongoing endeavour to perfect its product line.

At a time when it was generally difficult in the market to launch new CAM schemes, the extension of existing CAM schemes which had reached maturity became all the more important. The Company's strong efforts in securing the term extension of "CITIC Wealth Management #2" and "CITIC Securities #3" were met with positive response, with over 85% and 65%, respectively, of the investors opting for extension.

# Management Discussion and Analysis

## **Outlook for Second half of 2012**

On 27 June 2012, the Company obtained the approval to launch cash management pilot products, and to establish CITIC Securities Cash Value-added Collective Asset Management Scheme, which would further enrich the variety of asset management products of the Company. Currently, the scheme is in the process of proactive fund raising.

In the second half of 2012, the Company will strive to launch more innovative products in its asset management business by continuously rolling out new CAM schemes which meet investors' requirements and make special efforts to ensure smooth subscription; actively promote large scale institutional investors such as enterprise annuities and NSSF; selectively push forward QDII overseas investment business at opportune moment; raise investment management standards for the Company's various accounts and in particular, the CAM schemes, and leverage on the leading position and brand name of its traditional products to effectively drive for overall business growth.

## **Investment**

### **Private Equity Investment**

#### **Market Conditions**

As a result of the slowdown in China's macro-economic growth, the market for equity investment generally cooled down in the first half of 2012, with substantial cutbacks in various indicators. According to the statistics of Zero2IPO, 71 private equity investment funds, which have been authorized to invest in Mainland China, completed their subscription during the first six months of 2012, representing a decrease of 38.26% from the 115 private equity investment funds in the first six months of 2011. Of the 68 funds which have disclosed the subscription amounts, the aggregate amount of subscription was USD5,214 million, representing a decrease of 77.1% compared to the same period last year or a decrease of 67.6% compared to the previous six months. In the first six months of 2012, a total of 252 investment

transactions were recorded in the private equity market in the PRC. Of the 218 transactions which have disclosed the investment amounts, the aggregate investment amount was USD7,321 million, representing year-on-year declines in terms of investment transactions and investment amounts of 22.5% and 51.8%, respectively. While there were sharp declines in subscriptions and investments, a decline in divestments was also noted.

#### **Actions and Achievements**

In April 2012, GoldStone Investment Co., Ltd ("**GoldStone Investment**") obtained the approvals to set up CITIC GoldStone Investment Fund (a direct investment fund), and to invest proprietary fund in RMB equity investment funds in China.

The hybrid investment strategy of GoldStone Investment, with emphasis on both direct investments and fund investments, represents a distinctive investment approach in the PRC equity investment market. It leverages on the network of CITIC Securities, the strengths of the GoldStone Investment team and the project resources of the RMB equity investment funds which it invested, and, by implementing the club trade strategy (i.e. by fully utilizing the investments of the RMB equity investment funds invested by CITIC Securities and the channels of CITIC Securities), it focuses on and invests in opportunities arising from major equity investments in the PRC market.

In the first half of 2012, GoldStone Investment invested in five companies and partially or fully exited from 5 companies. In the first half of 2012, GoldStone Investment obtained the approval to set up CITIC GoldStone Investment Fund and CITIC Buyout Fund, marking the approvals given to GoldStone Investment to raise and manage third party funds.

#### **Outlook for Second Half of 2012**

In response to intense competition in the market, GoldStone Investment will actively pursue strategic

# Management Discussion and Analysis

transformation, shifting from a single capital investment business to a business with dual emphasis on proprietary capital investment and third-party asset management. It will take full advantage of the opportunities presented by the rapid expansion of China's equity investment market and fulfill its strategic goals of achieving economies of scale and brand recognition.

GoldStone Investment, in accordance with the regulatory approval, is scheduled to complete the first closing of the subscriptions of CITIC GoldStone Investment Fund in 2012. It will focus on the investments by institutional investors on RMB equity investment funds by striving to foster a matrix network of investors' relations that will facilitate interaction, enhance communications and strengthen cooperation between the Company and the institutional investors of CITIC GoldStone Investment Fund.

In the second half of 2012, GoldStone Investment will incorporate by way of promotion and manage the CITIC Buyout Fund in accordance with the approval by the regulatory authorities. Currently, the CITIC Buyout Fund is under active preparation.

In the latter half of 2012, GoldStone Investment will adopt an investment approach that focuses on shareholders' value for strategic investors, enhancement of industry knowledge and judgment, active participation in the corporate governance of the target company, and increase the long-term value of investee company through detailed post-investment planning. GoldStone Investment will actively implement its hybrid investment strategy to seize investment opportunities arising from start-up enterprises in the market of China, and at the same time attempt other investment approaches, such as investment in SOE restructuring and mergers and acquisitions, and through strengthening the organization and reaching out ability of its club-trade strategy, build up a comprehensive and multi-level equity investment capability.

## **Principal Investment**

### ***CITIC PE Fund***

CITIC Private Equity Funds Management Co., Ltd. ("**CITIC PE Fund**", in which the Company holds 35% equity interests) manages two funds, namely Mianyang Science and Technology City Private Investment Fund and Beijing CITIC Investment Center (Limited Partnership). Currently, five of the enterprises invested by the two funds have been listed.

In the second half of 2012, CITIC PE Fund will continue to enhance exchanges and cooperation with leading domestic and foreign investment institutions, and work vigorously to identify opportunities for investment so as to increase its project portfolios in pipeline. In the meantime, through its professional management teams, it will offer a full range of value-added services in strategic development, branding, marketing, merger and acquisition and treasury operations, etc, as well as comprehensive corporate growth solutions to the invested enterprises to maximize the long-term value of the investee enterprises.

Looking ahead, CITIC PE Fund will draw upon the experience from international institutions and by combining the characteristics and development trend of the domestic market, actively explore the competing strategy based on differentiation and maintain its core competitive strengths through continuously strengthening its innovative practices in the areas of team-building, value-added services and business models.

### ***China AMC***

As the largest fund management company in China, China Asset Management Co., Ltd. ("**China AMC**", in which the Company holds 49% equity interests) managed mutual fund assets with an approximate total fund size of RMB199.7 billion as at 30 June 2012. It offers a diversified product portfolios comprising 24 open-end funds and 2 closed-end funds, each with

# Management Discussion and Analysis

distinctive risk and return features. China AMC has been appointed as the investment manager for the enterprise annuity funds of over 150 medium or large enterprises.

Difficulties associated with proactive investment increased as a result of weak market sentiments of the securities investment fund industry over the past several years. In the second half of 2012, China AMC will remain committed to investment research as a core task in order to increase the level of its overall financial performance. It will also steadily develop the mutual fund and institutional business and strive to maintain its industry leadership in terms of the size of AUM. Practical and effective measures will continue to be adopted to enhance standardized operations, while stronger efforts will be made in brand building and the fulfillment of social responsibility.

## Research

In the first half of 2012, based on further consolidating its leading edge in the domestic market, the Company is actively pushing forward the internationalisation and transformation of its research business. In line with the Company's dual focus on stock and bonds, it is deepening its search for investment opportunities in the stock and the bond markets, with a view to offering differentiated and customised research products and services to a much broader community of investors. At the same time, the Company is also setting stage for the overseas market by continuously expanding the research coverage of overseas Chinese concept stocks, embarking on global roadshows, and targeting a research coverage of 140 overseas Chinese concept stocks (excluding A+H shares) by the end of 2012, with a view to increasing the influence of the Company's research business in the overseas market and providing research support for the "going global" steps of its other businesses.

Meanwhile, benefiting from its first-hand market information and swift response, the Company's Research

Department continues to provide government authorities, regulatory entities, group companies and academic institutions with special reports on latest market development and policy recommendations, with a view to becoming a reputed non-government economic think tank.

## Financial statement analysis

### Analysis on the profitability of the Group during the reporting period

In the first half of 2012, with the continuous slump in the securities market, intensified market competition and the substantial decline in the revenue of the Group's asset management business after the deconsolidation of China AMC from the Group's financial statements, the Group recorded a slide in total revenue and other income, even though the Group topped the league in various business segments in terms of market shares and ranking in the domestic capital market.

From January to June 2012, the Group recognized total revenue and other income of RMB6,433 million, representing a decrease of 23.21% as compared to the same period of the previous year. Net profit attributable to owners of the parent amounted to RMB2,249 million, representing a decrease of 24.37% as compared with the same period in 2011. Basic earnings per share were RMB0.20, return on weighted average equity was 2.56%, representing a decrease of 33.33%, a decrease of 1.69 basis points respectively as compared with the same period of the previous year.

### Asset structure and asset quality

The Group maintained its profitability and strived to realize capital preservation and appreciation. As at 30 June 2012, the equity attributable to owners of the parent amounted to RMB84,157 million, representing a decrease of RMB2,430 million, or 2.81% compared to the end of 2011, mainly due to the Group's proposed dividends of RMB4,737 million, which had been proposed but not yet paid.

## Management Discussion and Analysis

The Group maintained a healthy assets structure, with good assets quality and liquidity. As at 30 June 2012, total assets of the Group, excluding cash held on behalf of customers and customers' refundable deposits, amounted to RMB113,439 million, representing an increase of RMB1,636 million or 1.46% compared to RMB111,803 million at the end of 2011. Of which, cash and bank balances, represented 25.28% of the total assets. Investments, which mainly were financial assets with high liquidity and include investments in subsidiaries, associates and jointly controlled entities and financial assets, represented 63.62% of the total assets. Fixed assets, construction in progress, intangible assets and investment properties in aggregate represented 3.37% of the total assets.

Gearing ratio of the Group remained stable. As at 30 June 2012, liabilities of the Group, excluding accounts payable to customers, were RMB28,932 million, representing an increase of RMB4,119 million or 16.60% compared to RMB24,813 million as at the end of 2011. Such increase was mainly attributable to the RMB4,737 million of dividends proposed but not paid as at the end of the reporting period. Based on the assets and liabilities with cash held on behalf of customers, customers' refundable deposits and accounts payable to customers (customer deposits) excluded, the gearing ratio of the Group as at 30 June 2012 was 25.50%, which was slightly higher than 22.19% reported at the end of 2011, while long-term liabilities remained stable.

### Formulation and implementation of the cash dividend distribution policy

The Company has always attached great importance to cash dividend distribution, and has implemented a continued and stable profit distribution policy. Since its establishment, the Company distributes cash dividend on annual basis, and the cash dividend declared by the Company represented over 30% of the net profit distributable to investors in each of the years from 2008 to 2010.

In June and July of 2012, as required by the "Notice concerning Further Implementation of Proceedings pertaining to Cash Dividend Distributions by Listed Companies" (《關於進一步落實上市公司現金分紅有關事項的通知》) issued by the CSRC, "Notice concerning Diligent and Persistent Implementation of Relevant Requirements of 'Notice concerning Further Implementation of Proceedings pertaining to Cash Dividend Distributions by Listed Companies'" (《關於認真貫徹落實〈關於進一步落實上市公司現金分紅有關事項的通知〉有關要求的通知》) (Shen Zheng Ju Gong Si Zi [2012] No. 43) issued by the Shenzhen Bureau of the CSRC and other pertinent documents, the Company organised the Board of Directors' Office and Financial Planning Department to carry out a specific research on the matter and has formulated the "Scheme of Shareholders' Return for 2012–2014" ("**Shareholders' Return Scheme**").

During the period from 1 August to 10 August 2012, the Company invited comments on the Shareholders' Return Scheme from all Directors and shareholders by way of personal delivery, emails and disclosures on the Company's website. During the period of solicitation for comments, no Directors or shareholders had expressed any disapproval for the scheme. The Company listened to the views and requests of minority shareholders via its investors' hotline and email correspondence. In their feedback, most minority shareholders expressed their approval of and support for the Company's cash dividend distribution policy over the years, hoping that the Company will enhance its business development and profitability to maintain long-term stability and continuity of its cash dividend distribution. The Directors of the Company are of the view that the Shareholders' Return Scheme has established a sustainable, stable and transparent profit distribution mechanism for investors in fulfillment of shareholders' demand for reasonable investment returns as well as requirements for the Company's long-term development, taking into account

## Management Discussion and Analysis

the Company's profitability, business development plans, shareholders' return, public funding costs and conditions in the market for financing. The Independent Directors of the Company have expressed their approval of the Company's continued, stable and proactive profit distribution policy, and have recommended that the Company's profit distribution should be institutionalised in accordance with pertinent national regulations, and that profit distribution plans should be determined in a prudent manner taking into consideration the actual conditions of the Company, while ensuring stable investors' expectations for investment returns, so as to foster the concept of long-term and rational investments on the part of investors.

Taking into account the feedback from Directors and shareholders, existing conditions and regulatory requirements, the Company drafted the "Case Report on the Company's Scheme of Shareholders' Return 2012-2014," which noted that the formulation and implementation of the Company's existing cash dividend distribution policy was in compliance with the provisions of the Articles of the Company, although the profit distribution policy in the Articles of the Company has to be supplemented by adding a provision on the ratio of cash distribution as follows:

"The Company should, when implementing cash dividend distribution, take into account internal and external factors, Directors' opinions and shareholders' expectations, and ensure on a best-effort basis that the cash dividend declared accounts for no less than 25% of the distributable profit for each year, and the average cash dividend declared per year account for no less than 30% of the same for three consecutive years. The Company is entitled to adjust the ratio of cash dividend distribution as approved by two-thirds or more of the equity interests carrying voting rights that are represented at the shareholders' meeting in any of the following

events: changes in the relevant laws and regulations, the Company's net capital risk control indicators reaching warning levels, deteriorations in the Company's operating conditions, or if recommended by the Directors."

Currently, the case report and the proposed amendments to the Articles have been considered and approved at the 3rd Meeting of the 5th Session of the Board of the Company. The proposed amendments to the Articles are subject further to consideration at the General Meeting of the Company.

### Risk management

#### Overview

In the opinion of the Company, effective risk management and internal control are critical to the Company's successful operation. The Company has established comprehensive risk management and internal control processes, through which the Company monitors, evaluates and manages financial, operational, compliance and legal risks that it is exposed to in the business activities.

The Company has established a complete and effective governance structure in accordance with relevant laws, regulations and regulatory requirements. The Company's general meeting of shareholders, the Board and the Supervisory Committee perform their duties in accordance with the requirements of the *Company Law of the PRC*, *Securities Law of the PRC*, and the *Articles of Association of the Company*, by overseeing and managing the operations of the Company. The Board has strengthened the Company's relevant internal control arrangements and improved the Company's control environment and internal control structures. Internal control and risk management have become an essential element in the Company's decision-making process.

# Management Discussion and Analysis

## Structure of risk management

The major framework of the risk management of the Company consists of the Risk Management Committee under the Board, related professional committees under the Executive Committee, and departments responsible for internal control together with business lines. The relatively comprehensive three-level risk management system enables a network of collective decision making between the respective committees, and closer cooperation between internal control functions and business lines, and manages the risks through consideration and approval, decision-making, execution and supervision.

### Level 1: Board of Directors

The Risk Management Committee of the Board supervises the overall risk management of the Company and controls the risk exposure within a reasonable limit so as to ensure the smooth implementation of effective risk management plans over the Company's operational activities. It also formulates the Company's overall risk management policies for the Board's review, identifies the strategic structure and resources to be allocated for risk management purposes and keeps them in line with the internal risk management policies; sets the limits for major risk indicators; supervises and reviews on the risk management policies and makes recommendations on such policies to the Board.

### Level 2: Management

The Company has established an Asset Allocation Committee, which reviews and approves, within the limits authorised by the Board and the Executive Committee, major matters relating to the application of the Company's proprietary capital and its related regulations. For the purpose of capital security, the committee, through scientific and regulated procedures and prudent risk control and management, serves to ensure the Company's capital security while optimizes the assets allocation and improves the capital utilization efficiency.

The Company has established a Capital Commitment Committee which provides final risk review and approvals, within the limits authorised by the Board and the Executive Committee, on the capital commitment of the underwriting business. All corporate financing activities involving the application of the capital are subject to the approval by the Capital Commitment Committee to ensure an acceptable level of risk exposure of the corporate financing activities and the capital security of the Company.

The Company has established a Risk Management Committee, which reports to the Risk Management Committee of the Board and to the Executive Committee of the Company, and is responsible, within its designated authority, for the Company's day-to-day risk monitoring and management as well as deciding and approving material matters relating to risk management and relevant system. Risk management sub-working groups, comprising mainly transaction heads of the major business lines and heads of functional departments, are established under the Risk Management Committee, which are coordinating and decision implementing bodies for the daily monitoring and management of the financial risks over the Company's securities investment business. They serve the Risk Management Committee and help to implement the decisions made by the Risk Management Committee.

The Company has established a Product Committee. This committee is responsible, within the authority given by the Board and the Executive Committee, for promotion of new development, including planning, coordination, decision-making and review on major matters relating to design, sales and related systems of the Company's new products. The committee manages new product risks through new product pre-sale quality control and formulation of relevant post-sale risk handling measures. The risk assessment group under the committee is responsible for legal and regulatory compliance review on the agency sales of the financial products by the

## Management Discussion and Analysis

Company, and to investigate into any potential fraud and reveal the risks of such financial products. The product sales panel under the committee is responsible for review on the marketability of such products.

### **Level 3: Department/Business Lines**

At the department and business line level, the Company has segregated the roles and responsibilities of the front office, middle office and back office to ensure the establishment of a system of “checks and balances”.

Front-office business departments of the Company are the first line of responsibility on the risk management. Such departments have established risk management systems to perform supervision, assessment and reporting on the business risks of their respective business with a view to controlling business risks within limits.

The Company has set up a Risk Management Department, which is responsible for identifying, measuring, analysing, monitoring, reporting and managing the risks faced by the Company. It analyses and assesses the overall risks of the Company and each of its business lines and make recommendations on the optimal allocation of risk resources. It also assists the Risk Management Committee of the Company in the preparation of risk management indicators, such as risk limits, as well as supervision and reporting on the execution of the risk limits. It also establishes and improves the timely reporting and feedback mechanism

between front office, the Risk Management Department and the Management, and regularly discloses the general risk portfolios of the Company and makes recommendations on risk management. In addition, it has established a comprehensive stress test mechanism, which serves as a basis for major decision making and daily operational adjustment and which also satisfied the regulatory requirements. It also performs pre-risk assessment and control over new products and businesses.

The Audit Department of the Company has the overall responsibility for internal auditing, organising comprehensive audit of all departments of the Company, monitoring the implementation of internal control systems, preventing various moral and policy risks, and assisting the Company with the investigation of emergency events.

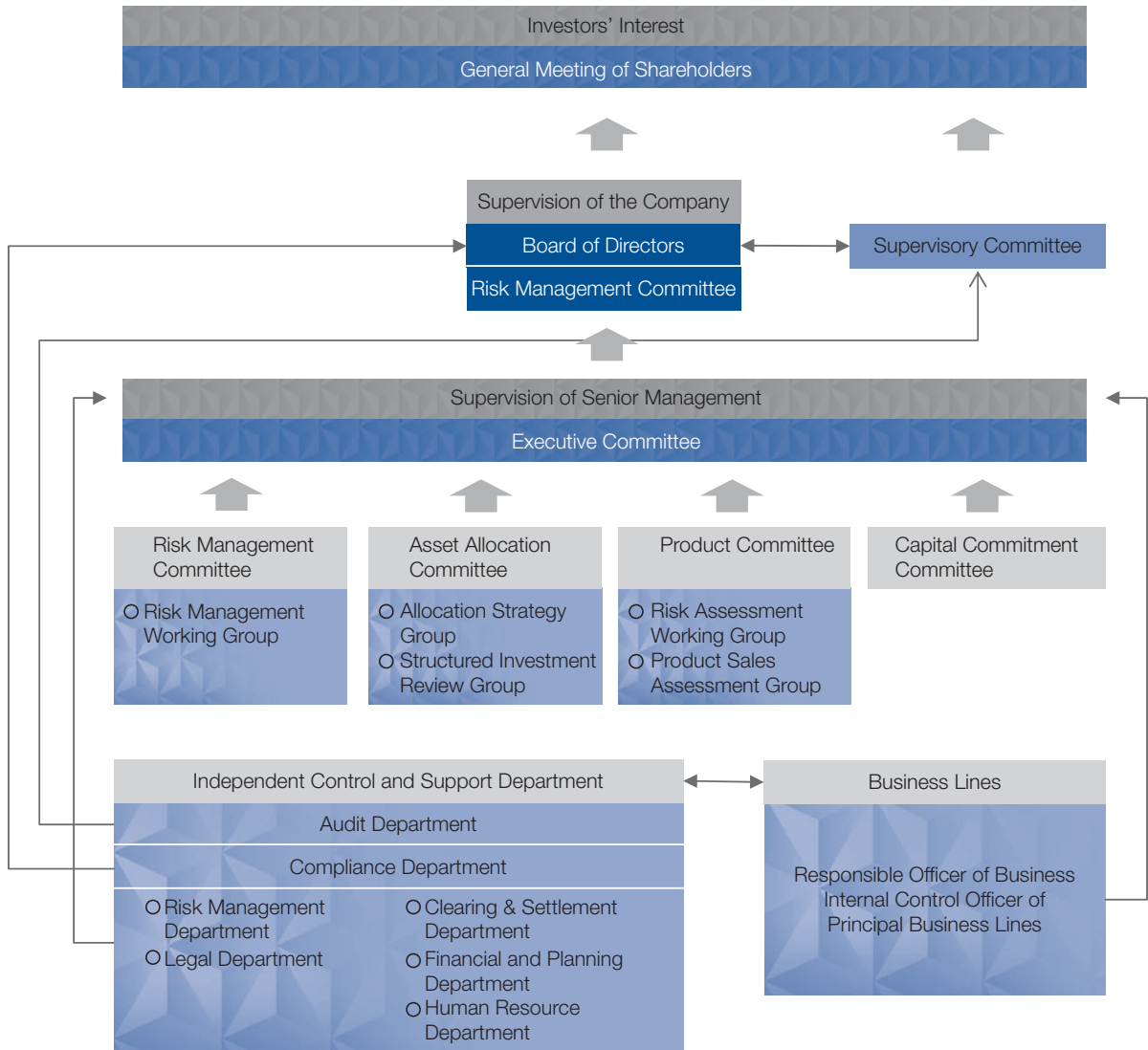
The Company has established the Compliance Department, which organises, formulates and implements the basic compliance policy of the Company, provides compliance advice to management, departments, business lines and branches of the Company, monitors lawful compliance of management and operating activities; supervises and instructs the business departments, business lines and branches to assess, develop, modify and improve internal management policies, procedures and business processes based on changes in laws, regulations and guidelines; performs compliance pre-reviews on new internal management



# Management Discussion and Analysis

policies, important decisions, new products, new businesses and key business activities launched by the Company; and fulfills the regular and non-regular obligations of reporting to regulatory authorities.

The Company has also established the Legal Department, which is responsible for oversight and control of legal risks of the Company and relevant businesses.



**(Structure of Risk Management)**

# Management Discussion and Analysis

## Market risk

Market risks represent potential losses due to movement in market prices of securities held by the Company. Securities held by the Company are derived from proprietary investment, market-making business and other investment activities. Movement in the securities held arises primarily from instructions received from the customers and the relevant strategies of the proprietary investment.

Market risks primarily comprise equity price risk, interest rate risk and foreign exchange rate risk. Equity price risk arises from fluctuation in the price and volatility of equities such as stocks, equity portfolios and stock index futures. Interest rate risk primarily arises from the movements of the yield curve of fixed income investments, fluctuations in interest rates and credit spreads. Exchange rate risk represent exposures arising from changes in non-local currencies.

The Company has established a top-down three-tiered risk prevention defence lines, which is formed by the Board's Risk Management Committee, the Company's Risk Management Committee and all its business lines and internal control departments. Through allocating the overall risk of the Company to different departments, and with the internal control department being responsible for monitoring and implementation and through timely assessment and report of significant risk matters, the Company's overall market risk is controlled within appropriate limit.

The Company assesses, monitors and manages the overall market risk portfolio of the Company through a risk management department independent of the business departments, and findings of the assessment and monitoring are reported to the respective business departments, the management and the Risk Management Committee of the Company. In the implementation of market risk management, the front-

office business departments, as the direct bearer and front-line manager of market risks, dynamically control and adjust the risk exposure arising from its securities portfolios, and will proactively take measures to mitigate or hedge risks, when the exposures are relatively high. Relevant monitoring officers from the Risk Management Department will continuously cooperate and communicate directly with the respective business departments with regard to risk information, and discuss the status of the risk portfolios and the losses in extreme situations.

The Risk Management Department will estimate possible losses arising from market risks through various evaluation measures, including possible losses under normal fluctuations and extreme market volatility. It evaluates the possible losses of the Company in normal market fluctuations in the short term via VaR and sensitivity analysis. At the same time, it evaluates the possible losses of the Company in extreme situations via stress test. The risk report sets out the market risk portfolio and changes in each business department, which will be delivered to the responsible officers and management of the Company on a daily, weekly, monthly or quarterly basis.

VaR represents the potential losses due to movements in market prices over a specified time period and at a given level of confidence. The Company adopts VaR as a major indicator of its market risk measurement. The calculation is based on a holding period of one trading day and a confidence level of 95%. VaR detects exposures such as interest rate risk, equity price risk and exchange rate risk, and measures the movement of market risks such as those arising from changes in interest rate curves, prices of securities and exchange rates. The Risk Management Department constantly inspects the accuracy of VaR through backtesting and improves its calculation in line with the expansion the Company.

## Management Discussion and Analysis

The Company also evaluates the possible losses in its proprietary positions arising from extreme situations through stress tests. The Risk Management Department has established a series of macro and market scenarios to calculate the possible losses to the Company upon occurrence of a single or multiple scenarios. These scenarios include the occurrence of major setbacks in macro-economic conditions, significant and adverse changes in major markets and extraordinary risk events. Stress test constitutes an integral part of the market risk management. Through stress tests, the Company could focus on the possible losses to the Company, analyse its risk return and compare its risk resistant capacities, and evaluates whether the overall market risk portfolio of the Company is within its expected limits.

The Company sets the risk limits for its respective business departments with a view to controlling the level of fluctuations arising from profit or loss and its market exposures. The risk limits are monitored by the Risk

Management Department on a daily basis. When risk level is approaching or exceeds the threshold values, the Risk Management Department will warn the relevant management officers in advance and discuss with the respective business management officers, followed by mitigation measures to adjust the exposures to a level within the limits, or the respective business departments may apply for a temporary or permanent upgrade in the limits, subject to approval by the relevant committees.

The Company continues to modify the risk limits system, and is building up a more comprehensive system with different levels of risk limit indicators for the Company, its respective business departments and investment accounts, with a view to formulating substantive policies or guidelines for its risk management system.

The historical data of the Company's VaR (confidence level of 95% and a holding period of one trading day):

### Overall VaR at the end of the period

	<i>In RMB millions</i>	
	<b>30 June 2012</b>	30 June 2011
Equity price risk	<b>197.03</b>	387.60
Interest rate risk	<b>34.70</b>	15.37
Exchange rate risk	<b>12.42</b>	—
Effect of diversification	<b>-51.75</b>	-26.00
<b>Overall VAR</b>	<b>192.40</b>	376.97

*Note:* Effect of diversification: represents a scenario that a smaller combined VaR than the total VaR of the respective classes of assets is obtained due to the low correlation between the fluctuation in the values of different assets.

## Management Discussion and Analysis

At the end of the period, VaR of the Company decreased from RMB380 million as at 30 June 2011 to RMB190 million as at 30 June 2012. Such changes were mainly attributable to the decrease of the equity exposures and decrease in fluctuations in the stock markets.

In respect of overseas assets, while ensuring sufficiency of funds for overseas business expansion, the Company has implemented centralised management of its exchange rate risk. The Company keeps track of the exchange risk by closely monitoring the assets value in its account on a daily basis. It monitors the exchange risk from different angles, such as assets limit, VaR, sensibility analysis and stress test, and manages its exchange risk exposure through methods such as foreign currency position adjustment, forward exchange contract/option hedging, and currency swap contracts, etc.

### Credit risk

Credit risk is the risk in respect of loss arising from a borrower's or counterparty's inability to meet its obligations.

The credit risk of the Company mostly arises from three aspects. Firstly, in respect of the securities and futures brokerage business, if the Company does not require the clients to pay sufficient margin deposits in advance according to the laws, there may not be sufficient funds in the client accounts to pay for transactions on the settlement date, or if there is insufficient funds in the client's accounts due to other reasons, the Company has the responsibility to settle the account for the client, thereby resulting in losses. Secondly, credit risk arising from the margin businesses including margin financing and securities lending, and stock repo business, refers to the Company's exposure to loss caused by client failure to perform the contracts. Thirdly, default risk from debt securities investment refers to the risk of asset losses and change in yield by reason of default or refusal

to pay principal and interest due by the issuer or the counterparty of the bond invested.

The Company uses its information management systems to monitor its credit risk on real time basis, keep track of the credit risk of the Company's business products and its transaction counterparties, provide analysis and pre-warning reports, and adjust its credit limits in a timely manner. The Company will also measure the credit risks of its major operations through stress test and sensitivity analysis.

In order to manage the credit risk arising from the brokerage business, securities brokerage business transactions in Mainland China are all required to be settled in full by security deposit. Settlement risk associated with brokerage business has been largely controlled by using full security deposit settlement arrangements.

Credit risk arising from the margin businesses, such as margin financing and securities lending, and stock repo businesses, primarily includes clients' provision of false information, failure to make full repayment on time, breach of portfolio limits and contractual provisions, violation of regulatory requirements, and provision of collateral encumbered with legal disputes. Credit risk arising from margin business are mainly managed through educating the customers, credit reference checks, credit approval, daily mark to market, risk reminders to clients, forced liquidation of clients' positions, judicial recourse and other means.

For credit risk associated with debt securities investment, the Company has established the counterparty credit approval policy and the blacklist policy, and developed certain investment restrictions based on the ratings of credit products.

# Management Discussion and Analysis

## Credit risk exposure of debt securities investment

Investment rating	In RMB millions	
	30 June 2012	30 June 2011
China's Sovereign Credit Rating	<b>3,436.73</b>	10,029.88
AAA	<b>7,573.44</b>	4,973.28
AA	<b>8,971.12</b>	12,180.53
A	<b>224.66</b>	298.99
A-1	<b>4,247.05</b>	2,397.79
Others	<b>1,331.07</b>	—
Total exposure	<b>25,784.07</b>	29,880.47

Note: AAA ~ A represent debts with maturity over one year, of which AAA represents the highest rating; A-1 represents the highest rating for debts with maturity within one year. AA: includes products with actual ratings of AA+, AA and AA-. A includes products with actual ratings of A+, A and A-.

As at the end of the reporting period, the outstanding balance of the Company's margin financing and securities lending accounts amounted to RMB4,483.64 million (margin financing) and RMB75.77 million (securities lending), respectively. Total assets of the Company's credit accounts amounted to RMB11,129.74 million. The minimum guarantee ratio for clients of its margin financing and securities lending business with liability was 1.31; the initial trading balance of the Company's clients in stock repo trading amounted to RMB96.95 million, while the value of the subject securities amounted to RMB173.86 million. The value of the collaterals is sufficient to fully cover the credit exposures of such margin businesses.

### Liquidity risk

Liquidity risk is the risk to the Company arising from shortage of funds when fulfilling its obligations relating to financial liabilities. The Company has consistently adhered to a unified liquidity management and operation policy and continues to strengthen its liquidity management system. The responsibilities for fund lending

or borrowing, repurchase and pledged loans are clearly set out and managed by the Treasury Department. In addition, the Company has gradually established a treasury risk assessment and monitoring system, so as to strictly control its liquidity risk. In respect of the domestic stock exchanges and inter-bank market, the Company has a relative high credit rating, and has secured stable channels for short-term financing, such as fund lending or borrowing and repurchases, which enable the Company to maintain its overall liquidity at a relatively secured level.

### Operational Risk

The operational risk of the Company represents the risk of loss arising from the failure of internal workflow management, breakdown of the information system or misconduct of staff. The Risk Management Department and the Compliance Department are co-leading departments for managing operational risk, while the business departments and other supporting departments are responsible for implementing operational risk control at their own business aspects according to their functions.

## Management Discussion and Analysis

In 2011, the Company rationalised the flow process, job description and system framework of its business departments, ascertained the risk control points of its business processes, perfected and rectified the inconsistencies between management and operation conditions in the business process, and, in respect of its operational risks, improved the inadequacies in the work flow and risk management of the Company as a whole and its respective business lines. The above actions avoid operational risks arising from non-compliance operations and insufficient coordination between different departments, ensure the effectiveness of the risk management measures and that the proper implementation of the monitoring measures. In 2012, the Company diligently participated in the internal control and governance activities for securities companies in accordance with pertinent requirements of the Notice concerning the Commencement of Internal Control and Governance Activities for Securities Companies in the Shenzhen Jurisdiction issued by the Shenzhen Securities Regulatory Bureau (Shen Zheng Ju Fa [2012] No. 15). Through organized self-inspection and rectifications by respective business departments and business lines on internal control and internal control security, the Company's standard in operational risk management has been continuously enhanced.

*Note:* On 30 August 2012, as approved by the 3rd meeting of the 5th session of the Board, the Risk Control Department of the Company is re-named as Risk Management Department.

# Changes in Share Capital and Information of Shareholders

## Share Capital Structure

Name of shareholders	Type of the Shares	Number of Shares (share)	Percentage to the total number of shares (%)
CITIC Group <sup>note</sup>	A Shares	2,303,963,550	20.913
A Shares subject to the Share Incentive Arrangement	A Shares	90,000,000	0.817
Public holders of A Shares	A Shares	7,444,617,150	67.574
Public holders of H Shares	H Shares	1,178,327,700	10.696
<b>Total</b>		<b>— 11,016,908,400</b>	<b>100.000</b>

Note: CITIC Group holds such A Shares both directly and indirectly through its subsidiaries, including CITIC Guoan Group and its subsidiaries.

## Changes in share capital

During the reporting period, there is no change in the share capital of the Company.

Class of Shares	Before the change		Change due to this movement (+, -)			After the change	
	Number of shares	Percentage (%)	Issue of new shares	Others	Sub-total	Number of shares	Percentage (%)
I. Shares subject to trading moratorium <sup>note</sup>							
1. Shares held by state	—	—	—	—	—	—	—
2. Shares held by state-owned legal persons	—	—	—	—	—	—	—
3. Shares held by other domestic investors	23,919,000	0.217	—	—	—	23,919,000	0.217
Including: Shares held by domestic legal persons	—	—	—	—	—	—	—
Shares held by domestic natural persons	—	—	—	—	—	—	—
Others	23,919,000	0.217	—	—	—	23,919,000	0.217
4. Shares held by foreign investors	—	—	—	—	—	—	—
Including: Shares held by foreign legal persons	—	—	—	—	—	—	—
Shares held by foreign natural persons	—	—	—	—	—	—	—
Total number of shares subject to trading moratorium	23,919,000	0.217	—	—	—	23,919,000	0.217
II. Shares not subject to trading moratorium							
1. RMB denominated ordinary shares	9,814,661,700	89.087	—	—	—	9,814,661,700	89.087
2. Foreign shares listed in the PRC	—	—	—	—	—	—	—
3. Foreign shares listed overseas	1,178,327,700	10.696	—	—	—	1,178,327,700	10.696
Total number of shares not subject to trading moratorium	10,992,989,400	99.783	—	—	—	10,992,989,400	99.783
III. Total	11,016,908,400	100.000	—	—	—	11,016,908,400	100.000

Note: All the Shares subject to trading moratorium are incentive shares of the Company. For details about the share incentive arrangement of the Company, please refer to *Announcement on the Resolution of the 5th Meeting of the 3rd Session of the Board of Directors of CITIC Securities Company Limited (set out in China Securities Journal, Shanghai Securities News and Securities Times, dated 7 September 2006)*.

# Changes in Share Capital and Information of Shareholders

## Information on shareholders and beneficial controller

As at 30 June 2012, the Company had a total of 640,588 shareholder accounts, including 640,453 A-Share accounts and 135 H-share accounts.

## Shareholdings of the top 10 shareholders of the Company as at 30 June 2012

Name of shareholder	Type of the shareholder	Number of Shares (Shares)	Percentage (%)	Change in the number of Shares during the reporting period (shares)	Number of Shares not subject to trading moratorium held (shares)	Number of Shares subject to trading moratorium held (shares)
CITIC Group <sup>Note 1</sup>	State-owned legal person	2,236,890,620	20.30	–	2,236,890,620	–
	Custodian	23,510,652	0.21	–	–	23,510,652
HKSCC Nominees Limited <sup>Note 2</sup>	Foreign legal person	1,178,087,200	10.69	4,000	1,178,087,200	–
China Life Insurance Company Limited <sup>Note 3</sup>	Domestic non state-owned legal person	497,969,991	4.52	–	497,969,991	–
China Life Insurance (Group) Company – Traditional – General Insurance products		231,141,935	2.10	–	231,141,935	–
China Academy of Launch Vehicle Technology	State-owned legal person	106,478,308	0.97	–	106,478,308	–
Nanjing Xingang High-Tech Co., Ltd. <sup>Note 4</sup>	Domestic non state-owned legal person	91,823,634	0.83	–	91,823,634	–
Everbright Securities Co., Ltd.		67,100,991	0.61	1,457,213	67,100,991	–
Liuzhou LMZ Co., Ltd.		66,499,685	0.60	-3,200,000	66,499,685	–
CITIC Guoan Group	State-owned legal person	63,739,930	0.58	–	63,739,930	–
PICC Property and Casualty Company Limited – Traditional – General Insurance Products – 008C – CT001Hu	Domestic non state-owned legal person	50,084,067	0.45	42,584,067	50,084,067	–

*Note 1:* As a result of the restructuring of CITIC Group and upon CITIC Limited obtaining the qualification to hold shares in a securities company, the shares held by CITIC Group in the Company as mentioned above will be transferred to CITIC Limited. Prior to this transfer, the largest shareholder will remain as “CITIC Group” as shown in the register of members at the Shanghai branch of China Securities Depository and Clearing Corporation Limited. As such, the largest shareholder referred to in this report continues to be as “CITIC Group”.

*Note 2:* Among the H Shareholders of the Company, HKSCC Nominees Limited held shares on behalf of holders who do not register the Shares under their names.

*Note 3:* The Shares held by China Life Insurance Company Limited are the total number Shares held in two securities accounts, namely “China Life Insurance Company Limited – Traditional – General Insurance Products – 005L – CT001Hu” and “China Life Insurance Company Limited – Bonus – Individual Bonus – 005L – FH002Hu”, which held 488,232,765 Shares and 9,737,226 Shares of the Company respectively.

*Note 4:* As at 30 June 2012, except for the 67 million Shares of the Company held by Nanjing Xingang High-Tech Co., Ltd. which have been frozen, no shares of the top 10 shareholders of the Company have been pledged or frozen.



## Changes in Share Capital and Information of Shareholders

### Shareholdings of the top 10 non-restricted shareholders of the Company as at 30 June 2012

Name of shareholder	Number of tradable Shares not subject to trading moratorium held (shares)	Class (A Shares, B Shares, H Shares or others)
CITIC Group	2,236,890,620	A Shares
HKSCC Nominees Limited	1,178,087,200	H Shares
China Life Insurance Company Limited	497,969,991	A Shares
China Life Insurance (Group) Company — Traditional — General Insurance products	231,141,935	A Shares
China Academy of Launch Vehicle Technology	106,478,308	A Shares
Nanjing Xingang High-Tech Co., Ltd.	91,823,634	A Shares
Everbright Securities Co., Ltd.	67,100,991	A Shares
Liuzhou LMZ Co., Ltd.	66,499,685	A Shares
CITIC Guoan Group	63,739,930	A Shares
PICC Property and Casualty Company Limited — Traditional — General Insurance Products — 008C — CT001Hu	50,084,067	A Shares

### Shareholdings of the restricted shareholders of the Company as at 30 June 2012

Name of Shares	Number of Shares subject to trading moratorium held (shares)	Date of listing and trading	Listing and trading of Shares subject to trading moratorium	
			Number of increased Shares eligible to be Listed and traded	Terms of trading moratorium
Incentive shares held under custody and others	23,919,000	Upon implementation of the incentive share arrangement	—	To be determined upon implementation of the incentive share arrangement

During the reporting period, there is no change in the largest shareholder of the Company.

## Changes in Share Capital and Information of Shareholders

### Interest and short positions of substantial shareholder

Pursuant to Section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”), substantial shareholders of the Company are required to disclose their interests, and are required to make further disclosure when the changes of their interest reached the prescribed level. The following table is derived from the interest information disclosed by the substantial shareholders of the Company on the website of The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) as at 30 June 2012.

Name of shareholder	Capacity	Class of Shares	Number of Shares (Shares)	Percentage to the number of		Percentage in total issued share capital as at 30 June 2012 (%)
				A Shares/ H Shares (%)		
CITIC Group <sup>Note 1</sup>	Beneficial owner and interest of controlled corporation	A Shares	2,310,933,872	23.47		20.98
China Life Insurance (Group) Company <sup>Note 2</sup>	Beneficial owner and interest of controlled corporation	A Shares	729,111,926	7.41		6.62
The NSSF	Beneficial owner	H Shares	105,494,000	8.95		0.96
Temasek Holdings (Private) Limited <sup>Note 3</sup>	Interest of controlled corporation	H Shares	87,938,000	8.03		0.80
Banco BTG Pactual S.A.	Beneficial owner	H Shares	58,625,500	5.35		0.53

*Note 1:* In respect of the interest held by CITIC Group, CITIC Group directly held 2,243,667,826 A Shares of the Company, and indirectly held 67,266,046 A Shares through its subsidiaries (including CITIC Guoan Group and its subsidiaries). Such interest does not reflect the effect of the further reduction in state-owned shares carried out by CITIC Group and its subsidiary, CITIC Guoan Group, upon the partial exercise of the over-allotment option by the Company. As at 30 June 2012, CITIC Group and its subsidiary held 2,303,963,550 A Shares of the Company, representing 20.91% of the total number of Shares of the Company.

*Note 2:* China Life Insurance (Group) Company directly held 231,141,935 A Shares of the Company, and indirectly held 497,969,991 A Shares of the Company through its subsidiary China Life Insurance Company Limited. As at 30 June 2012, China Life Insurance (Group) Company and its subsidiary held 729,111,926 Shares of the Company, representing 6.62% of the total number of Shares of the Company.

*Note 3:* Temasek Holdings (Private) Limited was interested in 87,938,000 H Shares of the Company through its controlled corporation Fullerton Management Pte Ltd. and Cairnhill Investments (Mauritius) Pte Ltd., and as such, Temasek Holdings (Private) Limited and Fullerton Management Pte Ltd. were both deemed to be interested in 87,938,000 H Shares of the Company.

*Note 4:* The NSSF, Temasek Holdings (Private) Limited and Banco BTG Pactual S.A. were all non-registered shareholders of the H Shares of the Company, such Shares were held by HKSCC Nominees Limited on their behalf, and as such, the Company did not have knowledge of their respective shareholdings as at 30 June 2012.

All interests stated above represented long positions. Save as disclosed above, as at 30 June 2012, there were no other interests and short positions as recorded in equity interest information disclosed on the website of the Hong Kong Stock Exchange or the register maintained by the Company pursuant to Section 336 of the SFO.

# Directors, Supervisors, and Senior Management

## Shareholdings of Directors, Supervisors and senior management

During the reporting period, there was no change in the shareholdings of Directors, Supervisors and Senior Management.

## Interests and short positions of Directors, Supervisors and senior executives in shares, underlying shares and debentures of the Company

As at 30 June 2012, the interests and the short positions of the Directors, Supervisors and senior executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (as defined in Part XV of the SFO) which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or required, pursuant to the *Model Code for Securities Transactions by Directors of Listed Companies* (“**Model Code**”) of Appendix 10 to the Hong Kong Listing Rules to be notified to the Company and the Hong Kong Stock Exchange were as follows:

Name	Position	Nature of Interest	Class of Shares	Number of Shares (Shares)	Percentage of Total Number of Shares of the Company (%)
WANG Dongming	Chairman and executive Director	Personal Interest	A Shares	2,649,750	0.024
CHENG Boming	Executive Director and President	Personal Interest	A Shares	1,733,160	0.016
NI Jun	Chairman of the supervisory committee	Personal Interest	A Shares	1,728,363	0.016
LEI Yong	Supervisor	Personal Interest	A Shares	483,285	0.004
YANG Zhenyu	Supervisor	Personal Interest	A Shares	108,000	0.001

As at 30 June 2012, no other Directors, Supervisors and senior management of the Company or any of their spouses or children under 18 years of age were granted equity securities or warrants of the Company.

## Changes of directors, supervisors and senior management during the reporting period

### Changes in directors

During the reporting period, a new session of the Board of the Company had been elected. At the 2011 Annual General Meeting of the Company held on 20 June 2012, the members of the 5th session of the Board were elected. The 5th session of the Board comprises nine(9) Directors, including three(3) Executive Directors, two(2) Non-executive Directors and four(4) Independent Non-executive Directors (one Independent Non-executive Director remains to be appointed, and the relevant candidate will be separately submitted to the Board and the general meeting of the Company for consideration), as follows:

Executive Directors (3 members, in ascending order by reference to the number of calligraphic strokes in their Chinese surnames): WANG Dongming, YIN Ke, CHENG Boming

## Directors, Supervisors, and Senior Management

Non-executive Directors (2 members, in ascending order by reference to the number of calligraphic strokes in their Chinese surnames): FANG Jun, JU Weimin

Independent Non-executive Directors (3 members, in ascending order by reference to the number of calligraphic strokes in their Chinese surnames): WU Xiaoqiu, LEE Kong Wai, Conway, RAO Geping

Mr. CHENG Boming, Mr. FANG Jun and Mr. WU Xiaoqiu were newly appointed as Directors. Among members of the 4th Session of the Board of the Company, Mr. ZHANG Jijing, Mr. ZHANG Youjun, Mr. Da Xinya, Mr. YANG Hualiang, Mr. LIU Lefei, Mr. FENG Zuxin and Ms. LI Jian no longer served as the Directors of the Company.

On 20 June 2012, Mr. WANG Dongming and Mr. YIN Ke were elected and re-appointed as Chairman and Vice Chairman, respectively, of the Company at the 1st Meeting of the 5th session of the Board of the Company.

The term of the office of the members of the 5th session of the Board of the Company is three years, commencing from 20 June 2012 to 19 June 2015.

### **No change in the Supervisors of the Company during the reporting period**

During the reporting period, a new session of the Supervisory Committee of the Company had been elected, and all members of the 4th session of the Supervisory Committee were re-elected as the members of the 5th session of the Supervisory Committee and no new Supervisors were appointed. At the 7th Meeting of the 2nd session of the employee congress of the Company held on 15 March 2012, the employee representative supervisors of the 5th session of the Supervisory Committee were elected. Mr. LEI Yong and Mr. YANG Zhenyu, the employee representative supervisors of the 4th session of the Supervisory Committee, were re-elected. At the 2011 Annual General Meeting of the Company held on 20 June 2012, Ms. NI Jun, Mr. GUO Zhao and Mr. HE Dexu, the shareholder representative supervisors of the 4th session of the Supervisory Committee, were re-elected.

On 20 June 2012, Ms. NI Jun was re-elected as the chairperson of the Company's Supervisory Committee at the 1st Meeting of the 5th session of the Supervisory Committee.

The term of the office of the members of the 5th session of the Supervisory Committee of the Company is three years, commencing from 20 June 2012 to 19 June 2015.

### **Changes in senior management**

At the 1st Meeting of the 5th Session of the Board of the Company held on 20 June 2012, the Board considered and approved the *Resolution on the Appointment of Senior Management of the Company* to retain:

Mr. WANG Dongming, Mr. CHENG Boming, Mr. YIN Ke, Mr. TOKUCHI Tatsuhito, Mr. HUANG Weidong, Mr. XU Gang and Mr. GE Xiaobo as members of the Company's Executive Committee;

Mr. CHENG Boming as the President of the Company, responsible for routine business operations;

## Directors, Supervisors, and Senior Management

Mr. GE Xiaobo as the person-in-charge of accounting affairs, responsible for the financial matters of the Company; and

Ms. ZHENG Jing as the Secretary to the Board and Company Secretary of the Company.

Ms. WU Jianwei has resigned from the position of Compliance Officer of the Company for personal reasons. The Company will recommend a new candidate for the position of Compliance Officer for the Board's consideration. During the interim period, the duties of the Compliance Officer will be carried out by Chairman WANG Dongming.

### **Staff headcount, remuneration and training**

As at 30 June 2012, the Group had a total of 11,378 employees (including brokers); 5,189 (including brokers) of which are employees of the Company.

Please refer to the Note 27 to the financial reports of this Report for details of the remuneration of the Company's employees during the reporting period. There were no changes to the remuneration policy and training programmes of the Company as disclosed in the 2011 Annual Report of the Company. For details, please refer to the 2011 Annual Report of the Company.

# Corporate Governance

During the reporting period, the Company strictly complied with the *Company Law of the People's Republic of China*, *Securities Law of the People's Republic of China*, *Code on Corporate Governance Practices* (the "Code") as set out in Appendix 14 of the Hong Kong Listing Rules, and provisions in the Articles of Associations, and continued to improve its corporate governance structure. The Company was in full compliance with all provisions set out in the revised Code (effective from 1 April 2012) as well as the former Code and substantially all recommended best practices set out in the Code.

## Board meetings and attendance of Directors

During the reporting period, the Board of the Company held five meetings:

The 37th Meeting of the 4th Session of the Board of the Company was held on 15 March 2012 by way of teleconference. For details of resolutions approved at the meeting, please refer to the information posted on the respective websites of Shanghai Stock Exchange and The Stock Exchange of Hong Kong in the evening of the same day and published in *China Securities Journal*, *Shanghai Securities Journal* and *Securities Times* on the following day.

The 38th Meeting of the 4th Session of the Board of the Company was held on 29 March 2012 at the conference room, 27th Floor, CITIC Tower, Hong Kong. For details of resolutions approved at the meeting, please refer to the respective websites of Shanghai Stock Exchange and The Stock Exchange of Hong Kong and *China Securities Journal*, *Shanghai Securities Journal* and *Securities Times* on the following day.

The 39th Meeting of the 4th Session of the Board of the Company was held on 27 April 2012 by way of teleconference, at which the *2012 First Quarterly Report of CITIC Securities Company Limited* and the *Commencement and Work Arrangements for the 2012 Internal Control Programme of CITIC Securities Company Limited* were considered and approved.

The 40th Meeting of the 4th Session of the Board of the Company was held on 29 May 2012 by way of teleconference. For details of resolutions approved at the meeting, please refer to the information posted on the respective websites of Shanghai Stock Exchange and The Stock Exchange of Hong Kong in the evening of the same day and published in *China Securities Journal*, *Shanghai Securities Journal* and *Securities Times* on the following day.

The 1st Meeting of the 5th Session of the Board of the Company was held on 20 June 2012 at Hehua Room II, 3rd Floor, Landmark Hotel Conference Centre, Beijing. For details of resolutions approved at the meeting, please refer to the respective websites of Shanghai Stock Exchange and The Stock Exchange of Hong Kong in the evening of the same day and *China Securities Journal*, *Shanghai Securities Journal* and *Securities Times* on the following day.

## Corporate Governance

Details of attendance at Board meetings by the Directors of the Company are set out as follows (In the table below, Executive Directors, Non-executive Directors and Independent Non-executive Directors are separately listed, each in ascending order by reference to the number of calligraphic strokes in their Chinese surnames):

Name of Director	Number of meetings requiring attendance	Number of meetings attended in person	Number of meetings attended by way of teleconference	Number of meetings attended by way of proxy	Number of absences	Whether there are 2 consecutive absences from Board meetings
<b>Executive Directors</b>						
WANG Dongming	5	5	3	—	—	No
YIN Ke	5	5	3	—	—	No
CHENG Boming	1	1	—	—	—	—
<b>Non-executive Directors</b>						
FANG Jun	1	1	—	—	—	—
LIU Lefei	4	3	3	1	—	No
ZHANG Youjun	4	4	3	—	—	No
ZHANG Jijing	4	4	3	—	—	No
JU Weimin	5	4	3	1	—	No
YANG Hualiang	4	4	3	—	—	No
DA Xinya	4	4	3	—	—	No
<b>Independent Non-executive Directors</b>						
FENG Zuxin	4	4	3	—	—	No
WU Xiaoqiu	1	1	—	—	—	—
LI Jian	5	5	3	—	—	No
LEE Kong Wai, Conway	5	5	3	—	—	No
RAO Geping	5	5	3	—	—	No
Number of Board meetings held during the reporting period				5		
Comprising: Number of on-site meetings				2		
Number of meetings held by way of teleconference				3		
Number of meetings held on-site and by way of teleconference				—		

# Corporate Governance

## Specialised Committees under the Board

The Strategy Planning Committee, the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee, the Risk Management Committee, and the Related Party Transactions Control Committee have been formed under the Board to assist in the performance of the duties of the Board in different aspects. The composition of each committee is set out as follows:

No.	Specialised Committees under the Board	Names of the Committee Members <sup>Note 1</sup>
1	Strategy Planning Committee	WANG Dongming, JU weimin, FANG Jun, CHENG Boming, YIN Ke, WU Xiaoqiu
2	Audit Committee	LEE Kong Wai, Conway, WU Xiaoqiu, RAO Geping, JU weimin
3	Remuneration and Appraisal Committee	RAO Geping, LEE Kong Wai, Conway, WU Xiaoqiu
4	Nomination Committee	WANG Dongming, WU Xiaoqiu, LEE Kong Wai, Conway, RAO Geping
5	Risk Management Committee	CHENG Boming, YIN Ke, JU Weimin, Fang Jun
6	Related Party Transactions Control Committee <sup>Note 2</sup>	LEE Kong Wai, Conway, WU Xiaoqiu, RAO Geping

*Note 1:* In the table above, the first person appearing on the list of members is the chairman elected by the relevant specialised committee under the Board.

*Note 2:* The Related Party Transactions Control Committee was officially established on 6 June 2012.

Meetings of the specialised committees under the Board of the Company were held during the reporting period.

Details of the meetings of the Audit Committee during the reporting period and as at the date of this report are set out as follows:

Date of meeting	Resolutions Passed
12 March 2012	Review of <i>Report of Ernst &amp; Young on the 2011 Preliminary Audit Results of the Company</i> ; Preview of <i>Proposal on the Revision of Accounting Policies and Proposal on the Re-appointment of Accounting Firm</i>
28 March 2012	Review of <i>Summary Report of Ernst &amp; Young's Audit Work and Summary Report on the Performance of Duties by the Audit Committee</i> ; Preview of <i>2011 Annual Report of the Company, 2011 Internal Control and Self-evaluation Report of the Company and 2011 Audit Work for the Company</i>
27 April 2012	Review of <i>2012 Audit Plan for the Company</i> ; Preview of <i>2012 First Quarterly Report of the Company</i> with the written opinion issued
30 August 2012	Preview of <i>2012 Interim Report of the Company</i> with the written opinion issued



## Corporate Governance

The Audit Committee has reviewed the financial statements and interim report of the Company for the first six months ended 30 June 2012, and discussed on the accounting policy and practices which were adopted by the Company.

Details of attendance of Audit Committee meetings by the members are set out as follows:

Name	Position	Number of Attendance/ Expected Attendance	Notes
LEE Kong Wai, Conway	Independent Non-executive Director, chairman of the Audit Committee	4/4	
WU Xiaoqiu	Independent Non-executive Director	1/1	Mr. WU Xiaoqiu, became a member of the Audit Committee since 20 June 2012.
RAO Geping	Independent Non-executive Director	1/1	Mr. RAO Geping, became a member of the Audit Committee since 20 June 2012.
JU Weimin	Non-executive Director	3/4	Mr. JU Weimin appointed Mr. DA Xinya as a proxy in written to vote at the 2012 second meeting of the fourth session of the Audit Committee of the Board due to official business.
LI Jian	Independent Non-executive Director	3/3	Ms. LI Jian ceased to be the Independent Non-executive Director and member of the Audit Committee since 20 June 2012.
FENG Zuxin	Independent Non-executive Director	3/3	Mr. FENG Zuxin ceased to be the Independent Non-executive Director and member of the Audit Committee since 20 June 2012.
DA Xinya	Non-executive Director	2/3	Mr. DA Xinya appointed Mr. JU Weimin as a proxy in written to vote at the 2012 first meeting of the fourth session of the Audit Committee due to official business.  He ceased to be the Director and member of the Audit Committee since 20 June 2012.

### Dealings in securities by Directors, Supervisors and relevant employees

The Company has formulated and adopted the *Measures for the Management of the Holding and Changes in the Holding of the Shares of CITIC Securities Company Limited by the Directors, Supervisors and Senior Management* (the “**Management Measures**”) to regulate the holding and dealing of the Company’s shares by Directors, Supervisors and senior management of the Company. The Management Measures are stricter than the compulsory provisions in the Model Code contained in Appendix 10 to the Hong Kong Listing Rules. After inquiries, all Directors and Supervisors of the Company have confirmed that they have strictly complied with the relevant provisions of the Management Measures and the Model Code.

# Corporate Governance

## Training for Directors

For the purpose of consistently improving the performance of their duties, Directors of the Company attached great importance to the updating of relevant knowledge and skills, while the Board of the Company also arranged appropriate training with a view to enhancing the corporate governance standards of the Company on a continued basis.

## Amendment to the Articles of Association of the Company

On 6 June 2012, the new Articles of Association of the Company (“**AOA**”) officially came into effect, with the following major revisions:

1. Overall amendments to the AOA according to the relevant laws and regulations as a result of the issue of H shares by the Company.
2. The address of the Company has been changed to North Tower, Excellence Times Plaza II, No. 8 Zhong Xin San Road, Futian District, Shenzhen, Guangdong Province.
3. The registered capital of the Company has been changed to: RMB11,016,908,400.
4. The adding of the sentence “the Company may establish subsidiaries to carry out investment business, including investments in financial products” to the business scope in the AOA.

Currently, the Company will make further amendments to the Articles of Association of the Company in accordance with the resolutions of the 2011 Annual General Meeting, which mainly include:

1. The amendments to the relevant provisions of the AOA as the number of the Board has decreased from 13 to 9.
2. The amendments to the relevant provisions of the AOA upon obtaining the business qualification as the Company planned to submit an application to the CSRC for approval for distribution of financial products and expand the business scope.

Amendments to the AOA considered and approved at the 2011 Annual General Meeting will come into effect upon the approval by the CSRC and completion of changes in commercial and industrial registration by the Company.

Pursuant to the 3rd Meeting of the 5th Session of the Board, the Company shall amend the Articles in relation to profit distribution policies and add relevant clauses on the proportion for cash dividend distribution. The said amendment is subject to approval by the general meeting of the Company.

# Significant Events

## Investments during the reporting period

There was no fund raising conducted by the Company during the reporting period, nor were there any proceeds from fundraising conducted in previous periods and carried forward to the reporting period.

Other investing activities of the Company during the reporting period and up to the date of disclosure of this Report are set out as follows:

### Increase of capital contribution to CITICS Futures Company Limited

On 29 May 2012, the 40th Meeting of the 4th Session of the Board considered and approved the *Resolution on the Increase of Capital Contribution to CITICS Futures Company Limited*, whereby an additional capital contribution of RMB700 million to CITICS Futures to increase the registered capital of CITICS Futures Company Limited from RMB800 million to RMB1,500 million was approved. This additional capital contribution has been approved by CSRC, and related formalities are currently underway.

### Increase of capital contribution to GoldStone Investment Company Limited

On 20 June 2012, the 1st Meeting of the 5th Session of the Board considered and approved the *Resolution on the Increase of Capital Contribution to GoldStone Investment Company Limited*, whereby an additional capital contribution of RMB700 million to GoldStone Investment was approved and the management of the Company was authorised to conduct the additional capital contribution to GoldStone Investment subject to regulatory compliance with the benchmarks for the Company's net capital. Currently, the increase of capital contribution has been completed, and the registration formalities required for the change have been completed with the industry and commerce authorities. After the increase in capital contribution, the registered capital of GoldStone Investment increased from RMB5.2 billion to RMB5.9 billion.

### Increase of capital contribution to CITIC Securities International Company Limited

On 16 August 2010, the 18th Meeting of the 4th Session of the Board of the Company considered and approved the *Resolution on the Increase of Capital Contribution to CITIC Securities International Company Limited*, whereby an additional capital contribution of USD400 million to CITIC Securities International Company Limited ("**CITIC Securities International**"), a wholly-owned subsidiary of the Company, for the purpose of enhancing its business capabilities in various aspects was approved. In July 2012, the Company completed the first tranche of additional capital contribution in the amount of USD356.32 million in accordance with the Reply on Approval of Additional Capital Contribution to CITIC Securities International Company Limited by CITIC Securities Company Limited (Ji Gou Bu Bu Han [2011] No. 397) issued by CSRC.

### Increase of capital contribution to CITIC Securities Investment Limited

On 28 July 2011, the 30th Meeting of the 4th Session of the Board of the Company considered and approved the Resolution on the Establishment of a Subsidiary to be Engaged in Financial Product Investments, whereby the Company's application to the CSRC for the establishment of a wholly-owned to be engaged in investments in financial products with an initial investment of RMB3,000 million was approved. Upon the approval of the Shenzhen Bureau of the CSRC, CITIC Securities Investment Limited, a wholly-owned subsidiary, was officially incorporated on 1 April 2012 with an initial tranche of capital contribution of RMB1,500 million from the Company. As CITIC Securities Investment Limited is now in sound operations, the Company plans to contribute the remaining investment amount of RMB1,500 million to the company in accordance with the above resolution.

## Significant Events

### Asset transaction

#### Acquisition of equity interests in CLSA B.V.

On 20 July 2012, the 2nd Meeting of the 5th Session of the Board of the Company considered and approved the Resolution on the Acquisition of 100% Equity Interests in CLSA B.V. by the wholly-owned subsidiary CITIC Securities International, whereby the acquisition of 100% equity interests in CLSA B.V. by CITIC Securities International for a total consideration of USD1,252 million was approved. On the same date, CITIC Securities International completed the acquisition of 19.9% equity interests in CLSA B.V. for an acquisition price of USD310.32 million. Meanwhile, CITIC Securities International granted to Credit Agricole a put option in respect of 80.1% equity interests in CLSA B.V.. On 3 August 2012, CITIC Securities International and the other parties to the Options Deed entered into a supplemental deed (for details, please refer to the announcement of the Company on the same day). Currently, CITIC Securities International is undergoing internal and external approval procedures for the acquisition of the remaining 80.1% equity interests in CLSA B.V..

Save as disclosed, there is no major acquisition, disposal, replacement or merger of the Company during the reporting period and as at the disclosure date of this report.

#### Implementation of the 2011 Profit Distribution Plan

On 20 June 2012, the 2011 profit distribution plan, namely the payment of a cash dividend of RMB4.30 for every 10 shares (tax inclusive), was considered and approved at the 2011 Annual General Meeting of the Company. The cash dividend is denominated and declared in RMB and payable in RMB to A shareholders and in Hong Kong Dollars to H shareholders. The actual amount of cash dividend payment in Hong Kong Dollars, calculated on the basis of the average benchmark RMB/HKD exchange rate published by the People's Bank of China for the 5 working days prior to the convening of the 2011 Annual General Meeting of the Company, namely RMB0.813462: HKD1.00, will be HK\$0.528605 per share (tax inclusive).

On 20 June 2012, the Company announced the record date and period for closure of register for the current H share dividend payment on the website of The Stock Exchange of Hong Kong.

On 26 July 2012, the Company published the *Announcement on the Implementation of 2011 A-share Dividend Distribution of CITIC Securities Company Limited* on the website of Shanghai Stock Exchange, (and on 27 July 2012, published the same on *China Securities Journal*, *Shanghai Securities Journal* and *Securities Times*), and an announcement on distribution of the 2011 H-share final dividend on the website of Hong Kong Stock Exchange. The cash dividend distribution was completed on 9 August 2012.

### Material litigation and arbitration

#### Debt dispute with Shenzhen Jinniu Investment (Group) Limited and Guizhou Aluminum Factory

On 1 June 2012, the Company received Civil Case Ruling [(2011) Shen Zhong Fa Min Er Zhong Zi No. 1938] of Shenzhen Intermediate People's Court, informing the Company of the approval by Shenzhen Intermediate People's Court of the withdrawal by Shenzhen Jinniu Investment (Group) Company, the appellant, of its appeal from the case. Shenzhen Jinniu Investment (Group) Company, the appellant was responsible for payment of the application fee for the second trial of the case. The ruling was final.

### **Commission contract dispute with Guangdong Nanguodesai Law Firm**

On 11 May 2012, the Company received Civil Case Judgment [(2011) Zhu Zhong Fa Min Er Zhong Zi No. 131] of Guangdong Zhuhai Intermediate People's Court, of the rejection by the Zhuhai Intermediate People's Court of the Company's appeal and upholding of the original judgment (namely, the Company shall indemnify Guangdong Nanguodesai Law Firm, the claimant, for losses in legal service fees in an amount in excess of RMB4.90 million and be responsible for payment of litigation costs in the amount of RMB44,300). On 17 May 2012, the Company filed an application for retrial in the Higher People's Court of Guangdong Province, and on 8 August 2012 received Civil Case Ruling [(2012) Yue Gao Fa Min Er Shen Zi No. 299] of the Higher People's Court of Guangdong Province, which ordered a retrial of the case by Guangdong Zhuhai Intermediate People's Court and that the execution of the original judgment be suspended during the period of retrial.

### **Implementation and impact of share incentive arrangement of the Company** **Implementation of share incentive arrangement of the Company**

The Company had not implemented any new share incentive arrangement during the reporting period. The current share incentive arrangement of the Company was implemented after the resolution passed by the 5th Meeting of the 3rd Session of the Board on 6 September 2006. During the reporting period, the Company had not revised the scope of the eligible participants for the share incentives arrangement.

### **Impact on the financial situation and operating results upon implementation of the share incentive arrangement**

The implementation of the share incentive arrangement is to enhance corporate governance of the Company by linking the individual interest of the senior management and key employees with the overall interest of the Company and the shareholders; meanwhile, considering the business volatility of securities companies, the Company specifies in the share incentive arrangement a lock-up period of 60 months for shares granted under such arrangement, thereby guaranteeing the long-term effectiveness of such incentive mechanism.

Along with the massive volatility of the stock market during the reporting period, the competition for high-calibre personnel is intensifying in the industry. The Company stabilizes the key business team through the share incentive arrangement. During the reporting period, there was no mass departure of eligible participants of the share incentive arrangement.

### **Material contracts and their performance**

During the reporting period, the Company was not involved in any material custody, sub-contract or lease agreement.

During the reporting period, there was no subsisting or new material external guarantee.

During the reporting period, the Company had not entrusted others for cash asset management.

During the reporting period, performance of the business contracts by the Company was normal, and there was no other material contract (including guarantees).

## Significant Events

### **Undertakings of the Company or its shareholders with shareholding of 5% or more made or effective during the reporting period**

#### **Undertakings of the Company**

There are three properties that are currently under the process of applying for title certificate or for disposal: the 10 units of Times Plaza located at No. 390 Panyu Road in Shanghai (gross floor area of 1,300 sq.m), the 23 Floor of Jiangsu Huaqiao Plaza (gross floor area of 700 sq.m), and the 6th and 7th Floor of Caiyin Building located at Heping West Street in Beijing (gross floor area of 3,000 sq.m). The Company has undertaken that: the Company will take immediate action to finalize the procedures for the change and transfer of such properties, and ensure that interests of the shareholders will not be prejudiced as a result of such properties.

### **Undertakings of the shareholders with shareholding of 5% or more and their performance**

#### **Undertakings**

Given the share reform implemented by the Company in 2005, the Company's original shareholders of non-tradable shares have undertaken not to list and trade or transfer their shares which are subject to restrictions on sale within the restricted period.

During the Company's implementation of the share reform, the shareholders holding 5% or more of the total shares of the Company, namely CITIC Group, Youngor Group Co., Ltd. and CITIC Guoan Group, have undertaken that: Within 12 months from the listing of their shares, they should not trade or transfer their shares within such period. Upon the expiry of such undertaking period, any disposal of their shares via trading on the stock exchange within 12 months from the expiry shall not exceed 5% of the total share capital of the Company or 10% within 24 months.

Shareholders holding less than 5% of the total shares of the Company which are subject to trading restrictions have also separately undertaken that: They will not list for trading or transfer their non-tradable shares for a period of at least 12 months from the date of approval for listing of their non-tradable shares.

Furthermore, the abovementioned shareholders have undertaken that: subject to compliance with the undertakings set out above, any sale of shares by way of trading on the stock exchange accounting for 1% of the total shares of CITIC Securities will be announced within two business days after the transaction.

None of the shareholders holding 5% or more of the Company's shares has other undertakings during the reporting period or subsisting during the reporting period.

**During the reporting period, there was no matter involving the performance of the undertakings.**

**There were no results undertakings as of the disclosure date of this Report.**

**There is no unfulfilled commitments of capital injection and asset restructuring as of the disclosure date of this Report.**

### Appointment of accounting firms

At the 2011 Annual General Meeting held on 20 June 2012, the Resolution on the Re-appointment of Accounting Firms was considered and approved, pursuant to which Ernst & Young Hua Ming and Ernst & Young were re-appointed as the Company's independent auditors for 2012, to be responsible for the provision of related audit services and review services in accordance with the PRC Accounting Standards for Business Enterprises and the International Financial Reporting Standards, respectively.

Are there any changes in the accounting firms appointed:	No
Information on the incumbent accounting firms:	
Name of PRC accounting firm and duration of service:	Ernst & Young Hua Ming/5 years (Note: acting as the Company's supplementary auditor from 2000 to 2006)
Name of international accounting firm and duration of service:	Ernst & Young/1 year
Remuneration for the accounting firm	In accordance with the resolution of the General Meeting, the audit fees shall be no more than RMB4 million and the review fees shall be no more than RMB2 million for 2012.

### Penalties and rectifications imposed on the Company and its directors, supervisors, senior management, company shareholders or substantial controller

Nil.

**The Company had no entrusted loans during the Reporting Period.**

**The Company had no contingent liabilities during the Reporting Period.**

**The Company had no pledge of assets during the Reporting Period.**

### Interim dividend

The Company does not propose any interim dividend for 2012.

### Repurchase, sale or redemption of the Company's securities

During the reporting period, there was no repurchase, sale or redemption of any of the Company's securities by the Company or its subsidiaries.

### Audit

This interim financial report is unaudited. Each of Ernst & Young Hua Ming and Ernst & Young has furnished review opinions in respect of the interim financial report in accordance with the PRC Accounting Standards for Business Enterprises and International Financial Reporting Standards, respectively.

## Significant Events

### Other significant events during the reporting period and subsequent events

#### Issuance of Commercial Papers

On 23 August 2012, in accordance with the *Notice of People's Bank of China on the Issuance of Commercial Papers by CITIC Securities Company Limited* (Yin Fa [2012] No.197) issued by Peoples' Bank of China, the resolution passed by the 2011 General Meeting of Shareholders, and the resolution passed by the 1st Meeting of the 5th Session of the Board and related authorization, the Company completed the issuance of the first tranche of commercial papers in 2012 (12 CITIC CP001), with a total size of RMB5 billion, a term of 91 days and a coupon rate of 3.84%. For details, please refer to the announcement disclosed by the Company on 24 August 2012.

#### Changes of Branch Outlets for Securities Operation during the Reporting Period up to the Disclosure Date of this Report

The Company did not establish any new securities branch during the reporting period. The Company currently owns 59 securities business departments. During the reporting period up to the date of this report, three of the Company's securities business departments were relocated to new addresses in the same respective cities: Foshan Hujing Road Securities Business Department was relocated to "Level 3, Jinhai Square, 21 Jihua 5th Road, Chansheng District, Foshan" and renamed "Foshan Jihua 5th Road Securities Business Department;" Shanghai Julu Road Securities Business Department was relocated to "units 03B-06, Level 10, 1568 Shiji Avenue, Pudong New Area, Shanghai" and renamed "Shanghai Shiji Avenue Securities Business Department;" Xuzhou Minzhu South Road Securities Business Department was relocated to "Levels 2&3, Ancillary Building, Diwang Building, 303 Jiefang South Road, Yunlong District, Xuzhou" and renamed "Xuzhou Jiefang South Road Securities Business Department."

CITIC Securities Zhejiang established 5 new securities business departments: Jingde Town Changnan Avenue Securities Business Department; Shangrao County Qiliu Road Securities Business Department; Xiamen Canglin Road Securities Business Department; Sanming Xinshi Middle Road Securities Business Department and Anxi Minzhu Road Securities Business Department. Currently, CITIC Securities Zhejiang owns 57 securities business departments.

CITIC Wantong established 2 new business departments during the reporting period: Laixi Qingdao Road Securities Business Department and Chengyang Chuncheng Road Securities Business Department. Currently, CITIC Wantong owns 44 Securities Business Department.

CITICS Futures established 3 new business departments during the reporting period: Shenzhen Business Department, Ningbo Yinzhou Business Department and Hangzhou Fengqi Road Business Department. Currently, CITICS Futures owns 21 business departments and is in the process of establishing 1 new business department.

CITIC Securities International did not establish any new branches during the reporting period. It currently owns 7 branches.

#### Collective Asset Management Scheme

With the approval of CSRC, the Company has launched five new collective asset management schemes during the reporting period up to the date of this report, which include: CITIC Securities Convertible Bond Collective Asset Management Scheme was launched on 2 March 2012 with 612,904,710.66 asset units; CITIC Securities VIP Tailor-



## Significant Events

made #1 Collective Asset Management Scheme was launched on 27 April 2012 with 501,022,590.00 asset units; CITIC Securities VIP Tailor-made #2 Collective Asset Management Scheme was launched on 27 April 2012 with 501,022,590.00 asset units; CITIC Securities VIP #7 Multi-strategic Return Collective Asset Management Scheme was launched on 23 August 2012 with 149,907,960.80 asset units; CITIC Securities VIP #8 Multi-strategic Return Collective Asset Management Scheme was launched on 2 August 2012 with 309,994,315.80 asset units. The Company began to sell CITIC Securities Cash Value-added Collective Asset Management Scheme on 30 July 2012, which is now in the promotional stage.

Currently, the Company has launched 21 collective asset management schemes, among which, one scheme has been liquidated at maturity, 19 schemes are subsisting to date, and one scheme is in the promotional stage promotion. As at 30 June 2012, the Company's asset shares in such collective asset management schemes are as follows:

No.	Name	Asset units (in units)	Note
1	CITIC Wealth Management #2 Collective Asset Management Scheme	2,035,941,674.59	Established on 22 March 2006
2	CITIC Securities Stock — Bond Hybrid Collective Asset Management Scheme	811,636,507.82	Established on 6 April 2007
3	CITIC Securities Bond Optional Collective Asset Management Scheme	1,027,089,014.43	Established on 6 January 2009
4	CITIC Securities Treasure Box Umbrella Collective Asset Management Scheme	1,070,060,658.48	Established on 8 May 2009
5	CITIC Securities Prudent Return Collective Asset Management Scheme	1,076,467,254.53	Established on 25 February 2010
6	CITIC Securities VIP #1 Selected Themes Collective Asset Management Scheme	220,427,937.60	Established on 28 September 2010
7	CITIC Securities Selected Equities Collective Asset Management Scheme	2,539,722,145.90	Established on 10 December 2010
8	CITIC Securities VIP #2 Selected Themes Collective Asset Management Scheme	102,197,089.79	Established on 13 January 2011
9	CITIC Securities VIP #3 Strategic Return Collective Asset Management Scheme	101,408,613.43	Established on 15 April 2011
10	CITIC Securities Superior Growth Equities Collective Asset Management Scheme	1,219,528,414.61	Established on 19 May 2011
11	CITIC Securities VIP #5 Strategic Return Collective Asset Management Scheme	99,417,751.59	Established on 18 July 2011
12	CITIC Securities Dividend Value Equities Collective Asset Management Scheme	323,669,090.49	Established on 25 August 2011
13	CITIC Securities VIP #6 Strategic Return Collective Asset Management Scheme	101,385,979.51	Established on 24 October 2011
14	CITIC Securities Selected Funds Collective Asset Management Scheme	139,893,175.49	Established on 23 December 2011
15	CITIC Securities Convertible Bond Collective Asset Management Scheme	240,300,903.95	Established on 2 March 2012
16	CITIC Securities VIP Tailor-made #1 Collective Asset Management Scheme	989,021,793.27	Established on 27 April 2012
17	CITIC Securities VIP Tailor-made #2 Collective Asset Management Scheme	986,989,068.23	Established on 27 April 2012

Note: CITIC Securities VIP #7 Multi-strategic Return Collective Asset Management Scheme, CITIC Securities VIP #8 Multi-strategic Return Collective Asset Management Scheme are not set out in the above table.

## Significant Events

### Purchase of Properties

On 9 September 2011, the 33th meeting of the 4th Session of the Board of the Company passed the Resolution Relating to the Purchase of Levels 2–5 of Beijing Ruicheng Zhongxin Office Building, approving the Company to purchase the 2nd to 5th Floors of Beijing Ruicheng Zhongxin Office Building (gross floor area of 16,244.12 sq.m), which together with other levels (6th to 23rd floors and the lobby floor) presently owned by the Company in Beijing Ruicheng Zhongxin Office Building, to serve as offices for the relevant entities under CITIC Securities in Beijing. The amount incurred in such purchase did not exceed RMB760 million and will be paid with the Company's own funds by installments. As of 30 June 2012, the Company had paid RMB715 million for its purchase of properties.

On 3 August 2009, the 3rd meeting of the 4th Session of the Board of the Company passed the Resolution Relating to Investment for the Development of Qingdao Training Centre, approving the Company to invest in the construction of CITIC Securities Qingdao Training Centre, which will mainly serve as the training base for staff of the Company and its subsidiaries. On 15 March 2012, the 37th Meeting of the 4th Session of the Board of Directors of the Company considered the Resolution regarding on Increasing the Investment Budget for the CITIC Securities Qingdao Training Center, and approved the increase in the investment budget of the Company in the CITIC Securities Qingdao Training Trading Center by RMB84 million, which will be jointly contributed by the Company, CITIC Securities (Zhengjiang) and CITIC Wantong in the contribution ratio of 4:3:3. In accordance with the above resolution, as of June 30 of 2012, the Company had paid RMB69.36 million for its land transfer fee and construction fee.

### Official Launch of New Trademark Registration and Replacement

During the reporting period, the company completed the basic design of the new trademark. The new trademark was designed on the basis of the original trademark, and under the premise of avoiding legal obstacles. Currently, the Company has officially initiated the registration of the new trademark and the replacement for the original trademark.

## Index of information disclosure

Information disclosures made by the Company on *China Securities Journal*, *Shanghai Securities Journal* and *Securities Times* and the website of Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) during the reporting period are set out as follows:

No.	Date of publication	Subject Matter
1	5 January 2012	H Share Announcement — Monthly Return of Equity Issuer on Movements in Securities for the month ended 31 December 2011
2	12 January 2012	Announcement on the Financial Data for December 2011
3	14 January 2012	Preliminary Financial Data for the Year 2011
4	18 January 2012	Detailed Report of Equity Movements
5	2 February 2012	H Share Announcement — Monthly Return of Equity Issuer on Movements in Securities for the month ended 31 January 2012
6	7 February 2012	Announcement on the Financial Data for January 2012
7	2 March 2012	H Share Announcement — Monthly Return of Equity Issuer on Movements in Securities for the month ended 29 February 2012
8	6 March 2012	Announcement on the Approval of Changes to Important Clauses in the Articles of Association
9	7 March 2012	Announcement on the Financial Data for February 2012
10	16 March 2012	Announcement of Resolutions Passed at the 37th meeting of the 4th session of the Board
11	20 March 2012	H Share Announcement — Notification of Board Meeting
12	24 March 2012	H Share Announcement — List of Directors and their Roles and Functions
13	30 March 2012	2011 Annual Report; Announcement of Resolutions Passed at the 38th meeting of the 4th session of the Board; Announcement of Resolutions Passed at the 14th meeting of the 4th session Supervisory Committee; Projected Continuing Connected Transactions in 2012
14	6 April 2012	Announcement on the Establishment of Wholly-owned Subsidiary CITIC Securities Investment Company Limited; H Share Announcement — Monthly Return of Equity Issuer on Movements in Securities for the month ended 31 March 2012
15	7 April 2012	Announcement on the Financial Data for March 2012
16	18 April 2012	H Share Announcement — Notification of Board Meeting
17	25 April 2012	Announcement — Wholly-owned Subsidiary GoldStone Investment Co., Ltd. Obtained Approval to Set Up CITIC GoldStone Investment Fund
18	28 April 2012	2012 First Quarterly Results; Notice of 2011 AGM
19	3 May 2012	Monthly Return of Equity Issuer on Movements in Securities for the month ended 30 April 2012
20	8 May 2012	Announcement on the Financial Data for April 2012
21	9 May 2012	Announcement — Approval of Qualifications for Margin Trading Business of CITIC Securities (Zhejiang) and CITIC Wantong Securities
22	30 May 2012	Announcement of Resolutions Passed at the 40th meeting of the 4th session of the Board; Supplemental Notice of 2011 Annual General Meeting
23	2 June 2012	Second Notice of 2011 Annual General Meeting; H Share Announcement — Monthly Return of Equity Issuer on Movements in Securities for the month ended 31 May 2012
24	7 June 2012	Announcement — Changes to the Articles of Association and Replacement of New Business License; Announcement on the Financial Data for May 2012
25	20 June 2012	Announcement — GoldStone Investment Co., Ltd. Obtained Approval to Set Up CITIC Buyout Fund
26	21 June 2012	Announcement of Resolutions Passed at the 2011 AGM; Announcement of Resolutions Passed at the 1st meeting of the 5th session of the Board of the Company; Announcement of Resolutions Passed at the 1st meeting of the 5th session of the Supervisory Committee of the Company

Note: The dates set out in the above table under the column entitled "Date of publication" are dates on which the relevant announcements were published in *China Securities Journal*, *Shanghai Securities Journal* and *Securities Times* and the website of Shanghai Stock Exchange. Each of these announcements were published at The Stock Exchange of Hong Kong in the morning on its respective "date of publication" or in the evening on the immediately preceding date.

## Significant Events

Information disclosures made by the Company on the website of The Stock Exchange of Hong Kong (<http://www.hkexnews.hk>) during the reporting period are set out as follows:

No.	Date of publication	Subject Matter
1	4 January 2012	Monthly Return of Equity Issuer on Movements in Securities for the month ended 31 December 2011
2	11 January 2012	Announcement of Financial Data for December 2011
3	13 January 2012	Preliminary Financial Data for the Year 2011
4	17 January 2012	Overseas Regulatory Announcement — Detailed Report of Equity Movements
5	1 February 2012	Monthly Return of Equity Issuer on Movements in Securities for the month ended 31 January 2012
6	6 February 2012	Announcement on the Financial Data for January 2012
7	1 March 2012	Monthly Return of Equity Issuer on Movements in Securities for the month ended 29 February 2012
8	5 March 2012	Announcement — Approval of Changes to Important Clauses in the Articles of Association
9	6 March 2012	Announcement on the Financial Data of February 2012
10	15 March 2012	Overseas Regulatory Announcement — the 4th session of the Board Announcement of Resolutions Passed at the 37th meeting
11	19 March 2012	Notification of Board Meeting
12	23 March 2012	List of Directors and their Roles and Functions
13	29 March 2012	2011 Annual Results Announcement
14	30 March 2012	Proposed Appointments of Members of the 5th Session of the Board; Proposed Appointments of Members of the 5th Session of the Supervisory Committee and Proposed Amendments to the Articles of Association; Overseas Regulatory Announcement — Announcement of Resolutions Passed at the 38th meeting of the 4th session of the Board; Announcement of Resolutions Passed at the 14th meeting of the 4th session of the Supervisory Committee; Projected Continuing Connected Transactions in 2012
15	5 April 2012	Announcement on the Establishment of Wholly-owned Subsidiary CITIC Securities Investment Company Limited; Monthly Return of Equity Issuer on Movements in Securities for the month ended 31 March 2012
16	9 April 2012	Announcement on the Financial Data for March 2012
17	17 April 2012	Notification of Board Meeting
18	24 April 2012	Announcement — GoldStone Investment Co., Ltd. Obtained Approval to Set Up CITIC GoldStone Investment Fund
19	27 April 2012	2011 Annual Report; 2012 First Quarterly Results; Notice of 2011 AGM
20	2 May 2012	Monthly Return of Equity Issuer on Movements in Securities for the month ended 30 April 2012
21	7 May 2012	Announcement on the Financial Data for April 2012
22	8 May 2012	Announcement — Approval of Qualifications for Margin Trading Business of CITIC Securities (Zhejiang) and CITIC Wantong Securities
23	29 May 2012	Overseas Regulatory Announcement — Announcement of Resolutions Passed at the 40th meeting of the 4th session of the Board of the Company
24	29 May 2012	Supplemental Notice of 2011 Annual General Meeting
25	1 June 2012	Second Notice of 2011 Annual General Meeting; Monthly Return of Equity Issuer on Movements in Securities for the month ended 31 May 2012
26	6 June 2012	Announcement — Changes to the Articles of Association and Replacement of New Business License; Announcement on the Financial Data for May 2012
27	19 June 2012	Announcement — GoldStone Investment Co., Ltd. Obtained Approval to Set Up CITIC Buyout Fund
28	20 June 2012	Poll Results of the 2011 AGM; Distribution of the 2011 Final Dividend; Appointments of Chairman, Vice Chairman and Members of the Special Committees of the Board
29	20 June 2012	Overseas Regulatory Announcement — Announcement of Resolutions Passed at the 1st meeting of the 5th session of the Board of the Company; Announcement of Resolutions Passed at the 1st meeting of the 5th session of the Supervisory Committee of the Company
30	20 June 2012	List of Directors and their Roles and Functions

## Results of classified assessment by regulatory authorities

In the 2012 classified assessment of securities companies, the Company was rated A-Class, AA-level together with its subsidiaries CITIC Securities Zhejiang and CITIC Wantong.

## Administrative consents and approvals obtained during the reporting period

No.	Date of approval	Title and number of approval
1	11 January 2012	Approval for Qualification of SU Hong as the Head of a Securities Company's Branch (Guang Dong Zheng Jian Xu Ke [2012] No. 2)
2	19 January 2012	Approval for Change in Business Premises of the Shanghai Pudong Avenue Securities Branch of CITIC Securities Company Limited (Hu Zheng Jian Ji Gou Zi [2012] No. 16)
3	17 February 2012	Letter of Opinion on the Pre-opening Inspection and Acceptance of the Foshan Jihua Fifth Road Securities Branch of CITIC Securities Company Limited (Guang Dong Zheng Jian Han [2012] No. 99)
4	22 February 2012	Approval of Change in Business Premises of the Shanghai Huaihai Middle Road Securities Branch of CITIC Securities Company Limited (Hu Zheng Jian Ji Gou Zi [2012] No. 56)
5	29 February 2012	Approval of Amendment of Material Clauses in the Articles of Association of CITIC Securities Company Limited (Shen Zheng Ju Fa [2012] No. 49)
6	1 March 2012	No Comment Letter on the Provision of Intermediary Business Referrals to Futures Companies by the Xiangyang Jiefang Road Branch of CITIC Securities Company Limited (E Zheng Jian Ji Gou Zi [2012] No.8)
7	23 March 2012	Reply for Amendment of Immaterial Clauses in the Articles of Association of CITIC Securities Company Limited (Shen Zheng Ju Ji Gou Zi [2012] No. 41)
8	5 April 2012	Approval for Qualification of CHEN Shan as the Head of a Securities Company's Branch (Guang Dong Zheng Jian Xu Ke [2012] No. 43)
9	16 April 2012	Reply for Investment in Other Equity Funds by GoldStone Investment Co., Ltd of CITIC Securities Co., Ltd.(Ji Gou Bu Bu Han [2012] No. 186)
10	19 April 2012	Letter of Regulatory Opinion on the Application for the Issue of Commercial Papers by CITIC Securities Company Limited (Ji Gou Bu Bu Han [2012] No. 194)
11	23 April 2012	No Comment Letter on the Establishment of CITIC GoldStone Investment Fund by GoldStone Investment Co., Ltd (Ji Gou Bu Bu Han [2012] No. 200)
12	2 May 2012	Approval for Qualification of ZHENG Yulin as the Head of a Securities Company's Branch (Hu Zheng Jian Ji Gou Zi [2012] No. 175)
13	4 May 2012	Approval of the Relocation of the Shanghai Branch of CITIC Securities Company Limited (Hu Zheng Jian Ji Gou Zi [2012] No. 182)
14	9 May 2012	Approval of the Relocation of the Shanghai Julu Road Securities Branch of CITIC Securities Company Limited (Hu Zheng Jian Ji Gou Zi [2012] No. 186)
15	18 May 2012	Letter of Confirmation on the Qualification of XU Xin as the Head of a Securities Company's Branch (Liao Zheng Jian Han [2012] No. 46)
16	15 June 2012	No Comment Letter on the Establishment of CITIC Buyout Fund by CITIC Securities GoldStone Investment Co., Ltd (Ji Gou Bu Bu Han [2012] No. 329)
17	15 June 2012	Approval for Qualification of WU Xiaoqi as the Independent Director of a Securities Company (Shen Zheng Ju Fa [2012] No. 140)
18	24 June 2012	Approval for the Launch of Cash Management Product Pilot by CITIC Securities Company Limited and the Establishment of CITIC Securities Cash Value-added Collective Asset Management Scheme (Zheng Jian Xu Ke [2012] No. 873)

# Report on Review of Interim Financial Information



22/F, CITIC Tower  
1 TIM Mei Avenue, Central  
Hong Kong

**To the board of directors of CITIC Securities Company Limited**

## **Introduction**

We have reviewed the accompanying interim condensed consolidated financial statements of CITIC Securities Company Limited (the Company) and its subsidiaries (the Group) as at 30 June 2012, comprising of the interim consolidated statement of financial position as at 30 June 2012 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

## **Scope of review**

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

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Certified Public Accountants  
Hong Kong  
30 August 2012

# Unaudited Interim Consolidated Income Statement

For the six months ended 30 June 2012  
(In RMB thousands, unless otherwise stated)

	Notes	Six months ended 30 June 2012 (Unaudited)	2011 (Unaudited)
Revenue			
— Fee and commission income		<b>3,359,161</b>	4,954,901
— Interest income	4	<b>1,075,152</b>	994,863
— Investment income	5	<b>1,875,254</b>	2,342,873
		<b>6,309,567</b>	8,292,637
Other income		<b>123,405</b>	84,404
<b>Total revenue and other income</b>		<b>6,432,972</b>	8,377,041
Fee and commission expense	6	<b>479,529</b>	573,073
Finance costs	6	<b>380,978</b>	291,657
Staff costs	6	<b>1,828,435</b>	2,062,344
Depreciation		<b>141,911</b>	80,216
Business tax and surcharges		<b>184,945</b>	288,368
Other operating expenses	6	<b>767,885</b>	1,090,811
Impairment losses		<b>(3,415)</b>	(5,219)
<b>Total operating expenses</b>		<b>3,780,268</b>	4,381,250
<b>Operating profit</b>		<b>2,652,704</b>	3,995,791
Share of profits and losses of:			
Associates		<b>233,294</b>	2,794
Jointly-controlled entities		<b>18,390</b>	(1,974)
<b>Profit before income tax</b>		<b>2,904,388</b>	3,996,611
Income tax expense	7	<b>657,029</b>	1,013,748
<b>Profit for the period</b>		<b>2,247,359</b>	2,982,863
Attributable to:			
Owners of the parent		<b>2,248,748</b>	2,973,413
Non-controlling interests		<b>(1,389)</b>	9,450
		<b>2,247,359</b>	2,982,863
Earnings per share attributable to ordinary equity holders of the parent (in RMB yuan)			
— Basic	9	<b>0.20</b>	0.30
— Diluted	9	<b>0.20</b>	0.30

Details of the dividends paid or proposed are disclosed in note 8 to the financial statements.

# Unaudited Interim Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

(In RMB thousands, unless otherwise stated)

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
<b>Profit for the period</b>	<b>2,247,359</b>	2,982,863
Other comprehensive income		
Available-for-sale financial assets:		
Changes in fair value	<b>(575,258)</b>	183,408
Income tax effect on changes in fair value	<b>143,831</b>	(49,281)
Reclassification adjustments for gains/(losses) included in the consolidated income statement, net	<b>476,353</b>	(824,175)
	<b>44,926</b>	(690,048)
Share of other comprehensive income of associates and jointly-controlled entities	<b>3,555</b>	—
Foreign currency translation differences	<b>18,680</b>	(87,116)
<b>Other comprehensive income for the period, net of tax</b>	<b>67,161</b>	(777,164)
<b>Total comprehensive income for the period</b>	<b>2,314,520</b>	2,205,699
Attributable to:		
Owners of the parent	<b>2,315,842</b>	2,207,541
Non-controlling interests	<b>(1,322)</b>	(1,842)
	<b>2,314,520</b>	2,205,699



# Unaudited Interim Consolidated Statement of Financial Position

30 June 2012

(In RMB thousands, unless otherwise stated)

	Notes	30 June 2012 (Unaudited)	31 December 2011 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	10	3,295,500	3,338,447
Investment properties		397,574	314,424
Goodwill	11	501,498	500,880
Other intangible assets		134,600	138,758
Investments in associates		8,839,168	8,703,425
Investments in jointly-controlled entities		796,102	775,387
Available-for-sale financial assets	12	11,173,026	7,993,916
Refundable deposits	13	826,902	840,411
Deferred income tax assets	14	737,839	1,344,367
Other non-current assets		242,989	241,838
<b>Total non-current assets</b>		<b>26,945,198</b>	24,191,853
<b>Current assets</b>			
Fee and commission receivables		44,363	35,993
Margin financing and securities lending	15	5,571,113	2,967,278
Available-for-sale financial assets	12	25,069,265	28,833,816
Financial assets held for trading	16	25,316,172	18,750,470
Financial assets designated at fair value through profit or loss	17	299,834	298,885
Derivative financial assets	18	678,849	1,077,628
Reverse repurchase agreements	19	297,146	575,760
Due from banks		—	790,000
Other current assets	20	1,466,154	1,554,008
Cash held on behalf of customers	21	34,874,435	35,760,238
Cash and bank balances	22	28,680,591	33,444,451
<b>Total current assets</b>		<b>122,297,922</b>	124,088,527
<b>Current liabilities</b>			
Accounts payable	23	35,804,501	36,477,143
Derivative financial liabilities	18	909,883	1,127,702
Financial liabilities held for trading		26,990	—
Financial liabilities designated at fair value through profit or loss		—	6,283
Repurchase agreements	24	12,443,317	14,232,693
Due to banks		2,500,000	100,000
Tax payable	25	483,219	2,689,667
Loans	26	55,070	—
Other current liabilities	27	10,905,839	5,041,520
<b>Total current liabilities</b>		<b>63,128,819</b>	59,675,008
<b>Net current assets</b>		<b>59,169,103</b>	64,413,519
<b>Total assets less current liabilities</b>		<b>86,114,301</b>	88,605,372

# Unaudited Interim Consolidated Statement of Financial Position

30 June 2012

(In RMB thousands, unless otherwise stated)

	Notes	30 June 2012 (Unaudited)	31 December 2011 (Audited)
<b>Non-current liabilities</b>			
Bonds payable	28	1,500,000	1,500,000
Deferred income tax liabilities	14	107,257	104,478
Other non-current liabilities		—	10,691
<b>Total non-current liabilities</b>		<b>1,607,257</b>	1,615,169
<b>Net assets</b>		<b>84,507,044</b>	86,990,203
<b>Equity</b>			
Equity attributable to owners of the parent			
Issued share capital	29	11,016,908	11,016,908
Reserves	30	48,781,917	48,723,982
Retained profits		24,357,872	26,846,395
		<b>84,156,697</b>	86,587,285
Non-controlling interests		<b>350,347</b>	402,918
<b>Total equity</b>		<b>84,507,044</b>	86,990,203

**WANG Dongming**

Chairman

**CHENG Boming**

Executive Director and President

# Unaudited Interim Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012  
(In RMB thousands, unless otherwise stated)

	Attributable to owners of the parent										
	Issued share capital	Reserves					Foreign currency translation reserve	Retained profits	Total	Non- controlling interests	Total equity
		Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve						
<b>At 1 January 2012</b>	11,016,908	34,527,836	5,464,621	9,718,593	(542,468)	(444,600)	26,846,395	86,587,285	402,918	86,990,203	
Profit for the period	–	–	–	–	–	–	2,248,748	2,248,748	(1,389)	2,247,359	
Other comprehensive income for the period	–	(85)	–	–	48,499	18,680	–	67,094	67	67,161	
Total comprehensive income for the period	–	(85)	–	–	48,499	18,680	2,248,748	2,315,842	(1,322)	2,314,520	
Dividend – 2011	–	–	–	–	–	–	(4,737,271)	(4,737,271)	–	(4,737,271)	
Appropriation to general reserve	–	–	–	–	–	–	–	–	–	–	
Capital increase/(decrease) by shareholders											
– Capital decrease by shareholders	–	–	–	–	–	–	–	–	(17,817)	(17,817)	
– Others	–	(9,159)	–	–	–	–	–	(9,159)	(12,921)	(22,080)	
Dividends to non-controlling shareholders	–	–	–	–	–	–	–	–	(20,511)	(20,511)	
<b>At 30 June 2012</b> <b>(Unaudited)</b>	11,016,908	34,518,592	5,464,621	9,718,593	(493,969)	(425,920)	24,357,872	84,156,697	350,347	84,507,044	

# Unaudited Interim Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

(In RMB thousands, unless otherwise stated)

	Attributable to owners of the parent										
	Reserves							Retained profits	Total	Non-controlling interests	Total equity
	Issued share capital	Capital reserve	Surplus reserves	General reserve	Investment revaluation reserve	Foreign currency translation reserve					
<b>At 1 January 2011</b>	9,945,702	24,199,570	4,679,619	9,073,546	2,116,612	(242,367)	20,662,217	70,434,899	412,816	70,847,715	
Profit for the period	—	—	—	—	—	—	2,973,413	2,973,413	9,450	2,982,863	
Other comprehensive income for the period	—	—	—	—	(678,756)	(87,116)	—	(765,872)	(11,292)	(777,164)	
Total comprehensive income for the period	—	—	—	—	(678,756)	(87,116)	2,973,413	2,207,541	(1,842)	2,205,699	
Dividend — 2010	—	—	—	—	—	—	(4,972,851)	(4,972,851)	—	(4,972,851)	
Appropriation to general reserve	—	—	—	141,749	—	—	(141,749)	—	—	—	
Capital increase/(decrease) by shareholders											
— Capital contribution by shareholders	—	—	—	—	—	—	—	—	2,259	2,259	
Dividends to non-controlling shareholders	—	—	—	—	—	—	—	—	(13,760)	(13,760)	
<b>At 30 June 2011</b>											
<b>(Unaudited)</b>	9,945,702	24,199,570	4,679,619	9,215,295	1,437,856	(329,483)	18,521,030	67,669,589	399,473	68,069,062	

# Unaudited Interim Consolidated Statement of Cash Flows

For the six months ended 30 June 2012  
(In RMB thousands, unless otherwise stated)

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
<b>Cash flows from operating activities</b>		
Profit before income tax	<b>2,904,388</b>	3,996,611
Adjustments for:		
Interest expense on bonds issued	<b>31,875</b>	31,875
Share of profits and losses of associates and jointly-controlled entities	<b>(251,684)</b>	(820)
Dividend income and interest income from available-for-sale financial assets	<b>(448,116)</b>	(320,808)
Net gain on disposal of available-for-sale financial assets	<b>(416,416)</b>	(1,966,615)
Net loss/(gain) on disposal of property, plant and equipment and other assets	<b>1,614</b>	(736)
Fair value loss/(gain) on financial instruments at fair value through profit or loss	<b>(259,336)</b>	322,832
Depreciation	<b>147,340</b>	81,584
Amortisation	<b>63,206</b>	51,312
Impairment on other assets	<b>(3,415)</b>	(5,219)
	<b>1,769,456</b>	2,190,016
<b>Net decrease/(increase) in operating assets</b>		
Financial assets held for trading	<b>(6,154,422)</b>	(2,244,822)
Cash held on behalf of customers	<b>885,803</b>	21,003,997
Other assets	<b>(3,118,516)</b>	(3,105,017)
	<b>(8,387,135)</b>	15,654,158
<b>Net increase/(decrease) in operating liabilities</b>		
Accounts payable	<b>(734,382)</b>	(20,292,083)
Repurchase agreements	<b>(1,789,376)</b>	4,228,674
Other liabilities	<b>4,440,529</b>	1,148,439
	<b>1,916,771</b>	(14,914,970)
<b>Net cash inflow/(outflow) from operating activities before tax</b>	<b>(4,700,908)</b>	2,929,204
Income tax paid	<b>(1,735,084)</b>	(3,245,022)
<b>Net cash outflow from operating activities</b>	<b>(6,435,992)</b>	(315,818)

# Unaudited Interim Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

(In RMB thousands, unless otherwise stated)

		<b>Six months ended 30 June</b>	
		<b>2012</b>	2011
	Notes	<b>(Unaudited)</b>	(Unaudited)
<b>Cash flows from investing activities</b>			
Dividend income and interest income received from available-for-sale financial assets		<b>448,116</b>	320,808
Net cash flows from purchases, leases and sales of items of property, plant and equipment and other assets		<b>(239,341)</b>	(382,818)
Net cash flows from investments in associates and jointly-controlled entities		<b>101,324</b>	10,068
Net cash flows from disposal or purchase of available-for-sale financial assets		<b>1,083,021</b>	6,273,867
Other net cash flows from investing activities		<b>256,677</b>	940,715
<b>Net cash inflow from investing activities</b>		<b>1,649,797</b>	7,162,640
<b>Cash flows from financing activities</b>			
Cash inflows from financing activities		<b>54,236</b>	667,476
Dividends and interest expense		<b>(80,661)</b>	(5,050,361)
Other cash outflows from financing activities		<b>(18,403)</b>	—
<b>Net cash outflow from financing activities</b>		<b>(44,828)</b>	(4,382,885)
Net increase/(decrease) in cash and cash equivalents		<b>(4,831,023)</b>	2,463,937
Cash and cash equivalents at the beginning of the period		<b>33,444,451</b>	17,353,363
Effect of exchange rate changes on cash and bank balances		<b>67,163</b>	(84,107)
<b>Cash and cash equivalents at the end of the period</b>	31	<b>28,680,591</b>	19,733,193
Cash and bank balances	22	<b>28,680,591</b>	20,978,582
Less: Restricted funds	22	<b>—</b>	(1,245,389)
<b>Cash and cash equivalents</b>		<b>28,680,591</b>	19,733,193

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2012

(In RMB thousands, unless otherwise stated)

## 1. CORPORATE INFORMATION

CITIC Securities Company Limited (the Company) was established in Beijing, the People's Republic of China (the "PRC" or "Mainland China", which excludes for the purpose of financial statements, the Hong Kong Special Administrative Region of the PRC or Hong Kong, the Macau Special Administrative Region of the PRC or Macau, and Taiwan) on 25 October 1995. Pursuant to approval by the China Securities Regulatory Commission (the "CSRC"), the Company was restructured as a joint stock limited company in 1999. The Company's common stock was listed on the PRC domestic A-share market in 2003. The registered office of the Company is located at North Tower, Excellence Times Plaza II, No. 8 Zhongxin San Road, Futian District, Shenzhen, Guangdong Province, PRC.

According to a resolution relating to the issue and listing of H Shares in Hong Kong passed in the first extraordinary general meeting of shareholders in 2011, along with the "Approval of Issue of Overseas-Listed Foreign Shares of Citic Securities" (CSRC [2011] No.1366) issued by the CSRC, the Company completed its initial public offering of overseas-listed foreign shares ("H shares") in September and October 2011. Under this offering, the Company totally offered 1,071,207,000 H shares (including over-allotment of 75,907,000 H shares) with a nominal value of RMB1.00 per share. As at 31 December 2011, the total share capital of the Company increased to RMB11,016,908,400. The capital increase has been verified by Ernst & Young Hua Ming according to the capital verification report of Ernst & Young Hua Ming Yan Zi (2011) 60469435\_A09.

The Company and its subsidiaries (hereinafter collectively referred to as the Group) were involved in the following principal activities:

- securities and futures brokerage
- asset management and fund management
- proprietary trading
- securities underwriting and sponsorship
- provision of investment advisory and consultancy services
- securities investment fund distribution and introducing brokerage for futures companies
- margin financing and securities lending services

As a result of the restructuring of CITIC Group and upon CITIC Limited obtaining the qualification to hold shares in a securities company, the shares held by CITIC Group in the Company as mentioned above will be transferred to CITIC Limited. Prior to this transfer, the largest shareholder will remain as "CITIC Group" as shown in the register of members at the Shanghai branch of China Securities Depository and Clearing Corporation Limited. As such, the largest shareholder in this report continues to refer to as "CITIC Group".

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2012

(In RMB thousands, unless otherwise stated)

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2012 have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2011.

### 2.2 Significant Accounting Policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011.

The Group has not adopted any other standard, interpretation or amendment that was issued but is not yet effective.

## 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group’s operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group’s business segments represents a strategic business unit that offers services which are subject to risks and returns that are different from the other business segments. A summary of the business segments is as follows:

- (a) the investment banking segment engages in placing and underwriting services, and financial advisory services;
- (b) the brokerage segment engages in securities and futures dealing and broking, agency sale of securities investment funds;
- (c) the trading segment engages in trading and market-making of equities, fixed income products and derivatives, margin financing and securities lending activities;
- (d) the asset management segment engages in asset management services, including provision of management services to mutual funds, pension funds, annuity plans and other investment accounts; and
- (e) the others segment primarily engages in private equity investment, principal investment and other businesses.



# Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2012

(In RMB thousands, unless otherwise stated)

## 3. OPERATING SEGMENT INFORMATION (Continued)

No operating segments have been aggregated to form the above reportable operating segments. Management monitors the operating results of its business units separately for the purpose of resource allocation and making other operating decisions. Segment performance is measured consistently with operating profit or loss in the consolidated financial statements. Income taxes are not allocated to operating segments.

Six months ended 30 June 2012 (Unaudited)	Investment banking	Brokerage	Trading	Asset management	Others	Total
Segment revenue and other income	1,118,665	2,490,824	2,155,270	170,536	497,677	6,432,972
— Fee and commission income	1,118,531	1,970,622	95,992	169,207	4,809	3,359,161
— Interest income	184	477,250	595,420	1,329	969	1,075,152
— Investment income	—	108	1,463,879	—	411,267	1,875,254
— Other income	(50)	42,844	(21)	—	80,632	123,405
Operating expenses	729,765	1,796,294	1,011,094	122,678	120,437	3,780,268
Including: Finance costs	—	88,919	291,173	—	886	380,978
Impairment losses	—	(3,475)	—	—	60	(3,415)
Operating profit	388,900	694,530	1,144,176	47,858	377,240	2,652,704
Share of profits and losses of associates and jointly-controlled entities	—	—	—	—	251,684	251,684
Profit before income tax	388,900	694,530	1,144,176	47,858	628,924	2,904,388
Income tax expense	—	—	—	—	—	657,029
Profit for the period	388,900	694,530	1,144,176	47,858	628,924	2,247,359
Other segment information:						
Depreciation and amortisation	13,772	100,931	6,316	2,801	86,726	210,546
Capital expenditure	73,048	70,750	19,693	10,783	67,019	241,293

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2012

(In RMB thousands, unless otherwise stated)

## 3. OPERATING SEGMENT INFORMATION (Continued)

Six months ended 30 June 2011 (Unaudited)	Investment banking	Brokerage	Trading	Asset management	Others	Total
Segment revenue and other income	717,928	3,155,869	1,567,621	1,694,983	1,240,640	8,377,041
– Fee and commission income	717,012	2,558,720	–	1,634,177	44,992	4,954,901
– Interest income	27	551,745	417,374	14,929	10,788	994,863
– Investment income	30	23,556	1,138,820	14,765	1,165,702	2,342,873
– Other income	859	21,848	11,427	31,112	19,158	84,404
Operating expenses	423,823	1,808,532	859,780	1,121,419	167,696	4,381,250
Including: Finance costs	–	126,289	161,781	–	3,587	291,657
Impairment losses	–	(2,625)	–	–	(2,594)	(5,219)
Operating profit	294,105	1,347,337	707,841	573,564	1,072,944	3,995,791
Share of profits and losses of associates and jointly-controlled entities	–	–	–	–	820	820
Profit before income tax	294,105	1,347,337	707,841	573,564	1,073,764	3,996,611
Income tax expense	–	–	–	–	–	1,013,748
Profit for the period	294,105	1,347,337	707,841	573,564	1,073,764	2,982,863
Other segment information:						
Depreciation and amortisation	1,276	82,321	2,100	12,547	34,652	132,896
Capital expenditure	56,374	143,627	128,008	48,076	8,031	384,116

## 4. INTEREST INCOME

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
Bank interest income	<b>899,395</b>	873,040
Interest income on margin and other financing	<b>174,272</b>	118,673
Others	<b>1,485</b>	3,150
Total	<b>1,075,152</b>	994,863

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2012

(In RMB thousands, unless otherwise stated)

## 5. INVESTMENT INCOME

	Six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
Net gains from disposal of available-for-sale financial assets	416,416	1,966,615
Dividend income and interest income from available-for-sale financial assets	448,116	320,808
Net gains/(losses) from financial assets held for trading	1,045,668	(553,263)
Net gains/(losses) from financial assets designated at fair value through profit or loss	6,847	(14,135)
Others <sup>(i)</sup>	(41,793)	622,848
<b>Total</b>	<b>1,875,254</b>	<b>2,342,873</b>

(i) Others mainly include the profit from dealing with stock index futures earned by the Company.

## 6. OPERATING EXPENSES

	Six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
<b>Fee and commission expense:</b>		
— Commission expense	477,441	560,435
— Others	2,088	12,638
<b>Total</b>	<b>479,529</b>	<b>573,073</b>

	Six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
<b>Finance costs:</b>		
— Accounts payable to clients	88,919	126,289
— Due to banks and other financial institutions	258,881	130,077
— Bonds issued	31,875	31,875
— Others	1,303	3,416
<b>Total</b>	<b>380,978</b>	<b>291,657</b>

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2012

(In RMB thousands, unless otherwise stated)

## 6. OPERATING EXPENSES (Continued)

In particular, finance cost on bank loans is as follows:

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
<b>Interest on bank loans</b>		
— wholly repayable within five years	<b>886</b>	3,094

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
<b>Staff costs (including directors' and supervisors' remuneration):</b>		
— Salaries and bonuses	<b>1,551,954</b>	1,780,390
— Staff benefits	<b>182,961</b>	130,755
— Contributions to defined contribution schemes	<b>93,520</b>	151,199
<b>Total</b>	<b>1,828,435</b>	2,062,344

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
<b>Other operating expenses:</b>		
— Minimum lease payments under operating leases in respect of land and buildings	<b>126,827</b>	183,541
— Consulting fees	<b>107,454</b>	56,603
— Business travel expenses	<b>62,544</b>	81,108
— Miscellaneous office expenses	<b>60,162</b>	76,047
— Securities investor protection fund	<b>53,456</b>	54,035
— Postal and communication expenses	<b>49,805</b>	56,551
— Business entertainment expenses	<b>45,909</b>	52,734
— Amortisation of long-term deferred expenses	<b>44,715</b>	38,557
— Others	<b>217,013</b>	491,635
<b>Total</b>	<b>767,885</b>	1,090,811

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

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(In RMB thousands, unless otherwise stated)

## 7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
Current income tax expense	<b>62,675</b>	771,822
— Mainland China	<b>61,009</b>	760,707
— Hong Kong	<b>1,666</b>	11,115
Deferred income tax expense	<b>594,354</b>	241,926
Total	<b>657,029</b>	1,013,748

## 8. DIVIDENDS

	Six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
Dividends on ordinary shares proposed but not paid	<b>4,737,271</b>	—
Dividends on ordinary shares paid	—	4,972,851

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## 9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
<b>Earnings:</b>		
Profit attributable to ordinary equity holders of the parent	<b>2,248,748</b>	2,973,413
<b>Shares:</b>		
Weighted average number of ordinary shares in issue (thousand)	<b>11,016,908</b>	9,945,702
Basic and diluted earnings per share (RMB yuan)	<b>0.20</b>	0.30

Earnings per share was calculated based on the calculation method prescribed in the announcement of the CSRC (2010) No. 2 — Rules on the preparation and submission of information disclosed by companies that offer securities to the public (No.9): Calculation and disclosure of return on equity and earnings per share (2010 Revision) and IAS 33 *Earnings per Share*.

Basic earnings per share was calculated by dividing profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue.

There were no dilutive events during the six months ended 30 June 2012 (Six months ended 30 June 2011: None).

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

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## 10. PROPERTY, PLANT AND EQUIPMENT

	Properties and buildings	Communication equipment	Office equipment	Motor vehicles	Security equipment	Electronic devices	Others	Subtotal	Construction in progress	Total
<b>30 June 2012</b>										
<b>(Unaudited)</b>										
<b>Cost</b>										
At 31 December 2011 and 1 January 2012										
(Audited)	2,276,176	4,510	141,363	71,633	5,281	756,782	36,589	3,292,334	691,921	3,984,255
Additions	1,318	1,008	4,229	949	23	25,938	3,785	37,250	160,268	197,518
Decreases	88,492	–	219	2,418	–	2,150	–	93,279	10,483	103,762
At 30 June 2012	2,189,002	5,518	145,373	70,164	5,304	780,570	40,374	3,236,305	841,706	4,078,011
(Unaudited)										
<b>Accumulated depreciation</b>										
At 31 December 2011 and 1 January 2012										
(Audited)	124,108	2,144	45,765	36,482	2,705	405,277	29,327	645,808	–	645,808
Additions	29,747	345	19,243	6,091	438	83,609	2,438	141,911	–	141,911
Decreases	1,222	–	37	2,361	–	1,707	(119)	5,208	–	5,208
At 30 June 2012	152,633	2,489	64,971	40,212	3,143	487,179	31,884	782,511	–	782,511
(Unaudited)										
<b>Net carrying amount</b>										
At 30 June 2012										
(Unaudited)	2,036,369	3,029	80,402	29,952	2,161	293,391	8,490	2,453,794	841,706	3,295,500

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

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(In RMB thousands, unless otherwise stated)

## 10. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Properties and buildings	Communication equipment	Office equipment	Motor vehicles	Security equipment	Electronic devices	Others	Subtotal	Construction in progress	Total
<b>31 December 2011</b>										
<b>(Audited)</b>										
<b>Cost</b>										
At 31 December 2010										
and 1 January 2011	376,437	2,834	69,580	71,926	4,774	579,173	63,630	1,168,354	1,926,559	3,094,913
Additions	2,015,620	2,211	86,129	12,204	519	320,049	3,976	2,440,708	1,108,329	3,549,037
Decreases	115,881	535	14,346	12,497	12	142,440	31,017	316,728	2,342,967	2,659,695
At 31 December 2011	2,276,176	4,510	141,363	71,633	5,281	756,782	36,589	3,292,334	691,921	3,984,255
<b>Accumulated depreciation</b>										
At 31 December 2010										
and 1 January 2011	115,523	1,685	37,114	32,182	1,861	368,428	47,574	604,367	–	604,367
Additions	27,480	519	18,880	13,051	855	131,770	6,417	198,972	–	198,972
Decreases	18,895	60	10,229	8,751	11	94,921	24,664	157,531	–	157,531
At 31 December 2011	124,108	2,144	45,765	36,482	2,705	405,277	29,327	645,808	–	645,808
<b>Net carrying amount</b>										
At 31 December 2011	2,152,068	2,366	95,598	35,151	2,576	351,505	7,262	2,646,526	691,921	3,338,447



# Notes to Unaudited Interim Condensed Consolidated Financial Statements

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(In RMB thousands, unless otherwise stated)

## 11. GOODWILL

	<b>30 June 2012 (Unaudited)</b>	31 December 2011 (Audited)
Carrying amount at the beginning of the period/year:		
Cost	<b>500,880</b>	825,112
Accumulated impairment	—	—
Net carrying amount	<b>500,880</b>	825,112
Movement during the period/year:		
Net carrying amount at the beginning of the period/year	<b>500,880</b>	825,112
Change in shareholders' equity in subsidiaries	<b>618</b>	(324,232)
Impairment	—	—
Net carrying amount at the end of the period/year	<b>501,498</b>	500,880
Carrying amount at the end of the period/year:		
Cost	<b>501,498</b>	500,880
Accumulated impairment	—	—
Net carrying amount	<b>501,498</b>	500,880

## 12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

### Non-current

	<b>30 June 2012 (Unaudited)</b>	31 December 2011 (Audited)
At fair value:		
Equity investments	<b>3,008,625</b>	63,840
At cost:		
Equity investments	<b>8,330,732</b>	8,096,007
	<b>11,339,357</b>	8,159,847
Less: Allowance for impairment losses	<b>166,331</b>	165,931
Total	<b>11,173,026</b>	7,993,916
Analysed into:		
Listed	<b>3,008,625</b>	63,840
Unlisted	<b>8,330,732</b>	8,096,007
	<b>11,339,357</b>	8,159,847

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2012

(In RMB thousands, unless otherwise stated)

## 12. AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

### Current

	<b>30 June 2012 (Unaudited)</b>	31 December 2011 (Audited)
At fair value:		
Debt securities	<b>12,789,974</b>	14,940,175
Equity investments <sup>(i)</sup>	<b>10,894,029</b>	14,818,519
Others	<b>1,451,883</b>	657,005
	<b>25,135,886</b>	30,415,699
Less: Allowance for impairment losses	<b>66,621</b>	1,581,883
Total	<b>25,069,265</b>	28,833,816
Analysed into:		
Listed	<b>21,763,599</b>	28,028,745
Unlisted	<b>3,372,287</b>	2,386,954
	<b>25,135,886</b>	30,415,699

(i) Includes RMB77 million securities lent out under securities lending arrangements as at 30 June 2012 (31 December 2011: RMB15 million).

## 13. REFUNDABLE DEPOSITS

	<b>30 June 2012 (Unaudited)</b>	31 December 2011 (Audited)
Margin trading	<b>808,505</b>	827,599
Performance bonds	<b>30</b>	30
Credit deposits	<b>18,367</b>	12,782
Total	<b>826,902</b>	840,411

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2012

(In RMB thousands, unless otherwise stated)

## 14. DEFERRED INCOME TAX ASSETS AND LIABILITIES

Deferred income tax assets (Unaudited)	Depreciation allowance	Change in fair value of financial assets held for trading	Change in fair value of available- for-sale financial assets	Allowance for impairment losses on available- for-sale financial assets	Change in fair value of derivatives	Accrued staff costs	Others	Total
At 1 January 2012 (Audited)	—	54,781	271,876	377,659	52	632,976	7,023	1,344,367
Credited/(debited) to the income statement	—	(54,781)	—	(376,583)	32,726	(140,650)	(3,348)	(542,636)
Debited to other comprehensive income	—	—	(63,892)	—	—	—	—	(63,892)
At 30 June 2012 (Unaudited)	—	—	207,984	1,076	32,778	492,326	3,675	737,839

Deferred income tax assets (Audited)	Depreciation allowance	Change in fair value of financial assets held for trading	Change in fair value of available- for-sale financial assets	Allowance for impairment losses on available- for-sale financial assets	Change in fair value of derivatives	Accrued staff costs	Others	Total
At 1 January 2011	503	15,076	2,268	84,630	—	1,018,647	6,943	1,128,067
Credited/(debited) to the income statement	(503)	39,787	—	377,198	52	(364,938)	(927)	50,669
Credited to other comprehensive income	—	—	269,608	—	—	—	—	269,608
Others	—	(82)	—	(84,169)	—	(20,733)	1,007	(103,977)
At 31 December 2011	—	54,781	271,876	377,659	52	632,976	7,023	1,344,367

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2012

(In RMB thousands, unless otherwise stated)

## 14. DEFERRED INCOME TAX ASSETS AND LIABILITIES (Continued)

Deferred income tax liabilities (Unaudited)	Change in fair value of financial assets held for trading	Change in fair value of available- for-sale financial assets	Change in fair value of derivatives	Others	Total
At 1 January 2012 (Audited)	—	104,478	—	—	104,478
Debited to the income statement	51,718	—	—	—	51,718
Credited to other comprehensive income	—	(48,939)	—	—	(48,939)
At 30 June 2012 (Unaudited)	51,718	55,539	—	—	107,257

Deferred income tax liabilities (Audited)	Change in fair value of financial assets held for trading	Change in fair value of available- for-sale financial assets	Change in fair value of derivatives	Others	Total
At 1 January 2011	—	697,795	99,208	155	797,158
Credited to the income statement	—	—	(99,208)	(155)	(99,363)
Credited to other comprehensive income	—	(516,664)	—	—	(516,664)
Others	—	(76,653)	—	—	(76,653)
At 31 December 2011	—	104,478	—	—	104,478

## 15. MARGIN FINANCING AND SECURITIES LENDING

Margin financing and securities lending are secured by adequate collateral and are neither overdue nor impaired as at 30 June 2012 and 31 December 2011.

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2012

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## 16. FINANCIAL ASSETS HELD FOR TRADING

	<b>30 June 2012 (Unaudited)</b>	31 December 2011 (Audited)
Debt securities	<b>17,482,795</b>	12,268,816
Equity investments	<b>7,615,545</b>	6,441,654
Others	<b>217,832</b>	40,000
<b>Total</b>	<b>25,316,172</b>	18,750,470
Analysed into:		
Listed	<b>23,313,235</b>	17,587,970
Unlisted	<b>2,002,937</b>	1,162,500
	<b>25,316,172</b>	18,750,470

## 17. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>30 June 2012 (Unaudited)</b>	31 December 2011 (Audited)
Equity investments	<b>299,834</b>	298,885
Analysed into:		
Listed	—	—
Unlisted	<b>299,834</b>	298,885
	<b>299,834</b>	298,885

These financial assets are managed and their performance is evaluated on a fair value basis, therefore they are designated at fair value through profit or loss.

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2012

(In RMB thousands, unless otherwise stated)

## 18. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2012		31 December 2011	
	Assets (Unaudited)	Liabilities (Unaudited)	Assets (Audited)	Liabilities (Audited)
Interest rate swaps	602,679	686,655	962,737	987,947
Others	76,170	223,228	114,891	139,755
<b>Total</b>	<b>678,849</b>	<b>909,883</b>	1,077,628	1,127,702

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in stock index futures were settled daily and the corresponding payments or receipts were included in "cash and bank balances" as at 30 June 2012. Accordingly, the amount of mark-to-market gain or loss of unexpired stock index futures contracts included in derivative financial instruments above was nil.

## 19. REVERSE REPURCHASE AGREEMENTS

	30 June 2012 (Unaudited)	31 December 2011 (Audited)
Analysed by collateral:		
Securities	297,146	575,760
Analysed by counterparty:		
Banks	—	520,000
Other financial institutions	200,200	40,000
Others	96,946	15,760
<b>Total</b>	<b>297,146</b>	575,760

Under reverse repurchase agreements, the Group has no right to receive any collateral that is permitted to be sold or repledged in the absence of default by the owners of the collateral as at 30 June 2012 (31 December 2011: None).

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## 20. OTHER CURRENT ASSETS

	<b>30 June 2012 (Unaudited)</b>	31 December 2011 (Audited)
Interest receivable	<b>591,424</b>	495,072
Deferred expenses	<b>44,408</b>	36,919
Guaranteed deposits placed with clearing house	<b>20,168</b>	20,166
Receivables arising from net assets increment	<b>—</b>	278,756
Other receivables	<b>814,861</b>	740,234
Less: Impairment loss	<b>4,707</b>	17,139
Total	<b>1,466,154</b>	1,554,008

## 21. CASH HELD ON BEHALF OF CUSTOMERS

The Group maintains segregated deposit accounts with banks and authorised institutions to hold clients' monies arising from its normal course of business. The Group has classified their clients' monies as cash held on behalf of customers under the current assets section of the statement of financial position and recognised the corresponding accounts payable to respective clients on the grounds that they are liable for any loss or misappropriation of their clients' monies. In the PRC, cash held on behalf of customers for clients' transaction and settlement funds is restricted and governed by relevant third-party deposit regulations issued by the CSRC. In Hong Kong, cash held on behalf of customers is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

## 22. CASH AND BANK BALANCES

	<b>30 June 2012 (Unaudited)</b>	31 December 2011 (Audited)
Cash on hand	<b>259</b>	186
Deposits in banks	<b>28,680,332</b>	33,444,265
Total	<b>28,680,591</b>	33,444,451

As at 30 June 2012, the Group had no restricted funds (31 December 2011: None).

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

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(In RMB thousands, unless otherwise stated)

## 23. ACCOUNTS PAYABLE

	<b>30 June 2012 (Unaudited)</b>	31 December 2011 (Audited)
Accounts payable	<b>35,804,501</b>	36,477,143

Accounts payable represents the amount received from and repayable to clients arising from the ordinary course of the Group's securities brokerage business. For more details, please refer to note 21 "cash held on behalf of customers".

## 24. REPURCHASE AGREEMENTS

	<b>30 June 2012 (Unaudited)</b>	31 December 2011 (Audited)
Analysed by collateral:		
Securities	<b>12,443,317</b>	14,232,693
Analysed by counterparty:		
Banks	<b>5,786,972</b>	7,327,700
Other financial institutions	<b>6,614,171</b>	6,904,993
Others	<b>42,174</b>	—
Total	<b>12,443,317</b>	14,232,693

## 25. TAX PAYABLE

	<b>30 June 2012 (Unaudited)</b>	31 December 2011 (Audited)
Income tax	<b>190,107</b>	1,862,516
Business tax	<b>39,257</b>	46,132
Others	<b>253,855</b>	781,019
Total	<b>483,219</b>	2,689,667



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## 26. LOANS

	<b>30 June 2012 (Unaudited)</b>	31 December 2011 (Audited)
Collateralised loan	<b>55,070</b>	—

## 27. OTHER CURRENT LIABILITIES

	<b>30 June 2012 (Unaudited)</b>	31 December 2011 (Audited)
Salaries, bonuses and allowances payables	<b>2,404,083</b>	3,120,181
Funds payable to securities holders	<b>194,373</b>	187,291
Funds payable to securities issuers	<b>2,319,384</b>	106,443
Interest payable	<b>12,281</b>	37,188
Accrued liabilities	<b>4,944</b>	19,355
Dividends payable	<b>4,741,703</b>	832
Other payables	<b>1,229,071</b>	1,570,230
<b>Total</b>	<b>10,905,839</b>	5,041,520

## 28. BONDS PAYABLE

Bonds issued by the Group are as follows:

	<b>30 June 2012 (Unaudited)</b>	31 December 2011 (Audited)
Analysed by maturity:		
Maturity over five years	<b>1,500,000</b>	1,500,000
	<b>1,500,000</b>	1,500,000

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

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## 28. BONDS PAYABLE (Continued)

Pursuant to approval by the CSRC, the Company issued a 15-year bond amounting to RMB1.5 billion from 25 May to 2 June 2006 which was guaranteed by CITIC Group. The relevant information on the bond issued is set out below:

Name	Issue date	Issue price	Effective interest rate	Value date	Maturity date	Circulation date	Issue amount
06 CITICS Bond	5/29/2006	RMB100	4.25%	5/31/2006	5/31/2021	8/18/2006	1,500,000

## 29. ISSUED SHARE CAPITAL

Share capital of the Group is as follows:

	30 June 2012		31 December 2011	
	Number of shares (Thousand) (Unaudited)	Nominal Value (Unaudited)	Number of shares (Thousand) (Audited)	Nominal Value (Audited)
Registered, issued and fully paid:				
A shares of RMB1 each	9,838,580	9,838,580	9,838,580	9,838,580
H shares of RMB1 each	1,178,328	1,178,328	1,178,328	1,178,328
	<b>11,016,908</b>	<b>11,016,908</b>	11,016,908	11,016,908

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

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## 30. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statements of changes in equity.

### (a) Capital reserve

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of par value.

### (b) Surplus reserves

#### (i) Statutory surplus reserve

Pursuant to the Company Law of the PRC, the Company is required to appropriate 10% of its profit for the year for the statutory surplus reserve until the reserve balance reaches 50% of its registered capital.

Subject to the approval of the shareholders, the statutory surplus reserve may be used to offset accumulated losses, expand the production and operation, if any, and may also be converted into capital of the Company, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before capitalisation.

#### (ii) Discretionary surplus reserve

After making the appropriation to the statutory surplus reserve and other non-discretionary surplus reserves, the Company may also appropriate its after-tax profit for the year as determined under PRC GAAP to its discretionary surplus reserve upon approval by the shareholders in a general meeting. Subject to the shareholders' approval, the discretionary surplus reserve may be used to offset accumulated losses, expand production and operations, if any, and may be converted into capital of the Company.

### (c) General reserve

Pursuant to the requirements of regulatory authorities such as the CSRC, the Company is required to appropriate 10% of its after-tax profit for the year for the general risk reserve and 10% for the transaction risk reserve. These reserves are used to offset accumulated losses of the Company and shall not be converted into dividends or issued share capital.

### (d) Investment revaluation reserve

The investment revaluation reserve represents the fair value changes of available-for-sale financial assets.

### (e) Foreign currency translation reserve

The foreign currency translation reserve is the exchange difference arising from the translation of the financial statements of the subsidiaries incorporated outside Mainland China.

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

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## 30. RESERVES (Continued)

### (f) Distributable profits

The Company's distributable profits are based on the retained profits of the Company as determined under PRC GAAP and IFRSs, whichever is lower.

## 31. CASH AND CASH EQUIVALENTS

	<b>30 June 2012 (Unaudited)</b>	30 June 2011 (Unaudited)
Cash on hand	<b>259</b>	320
Deposits in banks	<b>28,680,332</b>	19,732,873
Total	<b>28,680,591</b>	19,733,193

## 32. COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Capital commitments

	<b>30 June 2012 (Unaudited)</b>	31 December 2011 (Audited)
Contracted, but not provided for	<b>58,559</b>	228,891

The above-mentioned capital commitments are mainly in respect of the construction of properties, purchase of equipments and decoration of properties of the Group.

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

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## 32. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

### (b) Operating lease commitments

#### (i) Operating lease commitments as a lessee

At the end of the reporting period, the Group leased certain office properties under operating lease arrangements, and the total future minimum lease payments of the Group under irrevocable operating lease arrangements are as follows:

	<b>30 June 2012 (Unaudited)</b>	31 December 2011 (Audited)
Within one year	<b>213,592</b>	310,183
After one year but not more than two years	<b>175,507</b>	156,571
After two years but not more than three years	<b>132,706</b>	123,297
After three years	<b>337,238</b>	322,808
Total	<b>859,043</b>	912,859

#### (ii) Operating lease commitments as a lessor

At the end of the reporting period, the Group did not have material lease commitments as a lessor.

### (c) Legal proceedings

In the ordinary course of business, the Group is subject to claims and is party to legal and regulatory proceedings. As at 30 June 2012, the Group was not involved in any material legal, arbitration or administrative proceedings that if adversely determined, the Group expects would materially adversely affect its financial position or results of operations.

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

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## 33. RELATED PARTY DISCLOSURES

### (1) Largest shareholder of the Company

Name of the shareholder	Relationship	Enterprise type	Place of registration and operations	Legal representative	Principal activities	Registered share capital	Percentage of equity interest	Voting rights	Organisational code
CITIC Group	Largest shareholder	State-controlled	Beijing	Zhenming Chang	Financial, industrial and other services	RMB183.7 billion	20.30%	20.30%	10168558-X

### (2) Related party transactions

#### (a) Largest shareholder of the Company – CITIC Group

*Transactions during the period*

	Six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
Lease expenses paid	686	9,934
Income from providing services	109,895	1,543
Expense from receiving services	2	752
<b>Total</b>	<b>110,583</b>	12,229

#### *Guarantees between related parties*

During the period from 25 May to 2 June 2006, the Company issued a 15-year bond with an aggregate face value of RMB1.5 billion. The bond was guaranteed by CITIC Group. As at 30 June 2012, total guarantees provided by CITIC Group amounted to RMB1.5 billion (31 December 2011: RMB1.5 billion).

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## 33. RELATED PARTY DISCLOSURES (Continued)

### (2) Related party transactions (Continued)

#### (b) Subsidiaries and jointly-controlled entities of the largest shareholder of the Company

*Transactions during the period*

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
Lease fees received	<b>13,638</b>	14,047
Lease expenses paid	<b>13,490</b>	15,867
Interest income	<b>241,938</b>	248,752
Interest expense	<b>3,542</b>	4,368
Income from providing services	<b>31,497</b>	17,504
Expense from receiving services	<b>39,137</b>	45,951
Investment income — Interest rate swap	<b>2,953</b>	5,571
Project consultant expense	<b>—</b>	3,318
<b>Total</b>	<b>346,195</b>	355,378

*Balances at the end of the period/year*

	<b>30 June</b>	31 December
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Audited)
Accounts receivable	<b>642</b>	642
Accounts payable	<b>4,073</b>	3,688
Cash held on behalf of customers <sup>(i)</sup>	<b>2,980,502</b>	4,482,444
Cash and bank balances <sup>(i)</sup>	<b>6,287,273</b>	12,738,243
<b>Total</b>	<b>9,272,490</b>	17,225,017

(i) Represents bank deposits placed with subsidiary banks of the largest shareholder of the Company.

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## 33. RELATED PARTY DISCLOSURES (Continued)

### (2) Related party transactions (Continued)

#### (c) Second largest shareholder of the Company – China Life Insurance Company

*Transactions during the period*

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
Lease expenses paid	<b>1,795</b>	1,795

#### (d) Subsidiaries of the second largest shareholder of the Company

*Transactions during the period*

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
Income from providing services	<b>414</b>	1,295

#### (e) Associates

*Transactions during the period*

	<b>Six months ended 30 June</b>	
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Unaudited)
Income from providing services	<b>595</b>	—

*Equity transactions during the period/year*

	<b>30 June</b>	31 December
	<b>2012</b>	2011
	<b>(Unaudited)</b>	(Audited)
Equity transfer	—	155,912



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## 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT

### Overview

In the opinion of the Company, effective risk management and internal control are critical to the Company's successful operation. The Company has established comprehensive risk management and internal control processes, through which the Company monitors, evaluates and manages financial, operational, compliance and legal risks that it is exposed to in the business activities.

The Company has established a complete and effective governance structure in accordance with relevant laws, regulations and regulatory requirements. The Company's general meeting of shareholders, the Board and the Supervisory Committee perform their duties in accordance with the requirements of the Company Law of the PRC, Securities Law of the PRC, and the Articles of Association of the Company, by overseeing and managing the operations of the Company. The Board has strengthened the Company's relevant internal control arrangements and improved the Company's control environment and internal control structures. Internal control and risk management have become an essential element in the Company's decision-making process.

### Structure of Risk Management

The major framework of the risk management of the Company consists of the Risk Management Committee under the Board, related professional committees under the Executive Committee, and departments responsible for internal control together with business lines. The relatively comprehensive three-level risk management system enables a network of collective decision making between the respective committees, and closer cooperation between internal control functions and business lines, and manages the risks through consideration and approval, decision-making, execution and supervision.

#### Level 1: Board of Directors

The Risk Management Committee of the Board supervises the overall risk management of the Company and controls the risk exposure within a reasonable limit so as to ensure the smooth implementation of effective risk management plans over the Company's operational activities. It also formulates the Company's overall risk management policies for the Board's review, identifies the strategic structure and resources to be allocated for risk management purposes and keeps them in line with the internal risk management policies; sets the limits for major risk indicators; supervises and reviews on the risk management policies and makes recommendations on such policies to the Board.

#### Level 2: Management

The Company has established an Asset Allocation Committee, which reviews and approves, within the limits authorised by the Board and the Executive Committee, major matters relating to the application of the Company's proprietary capital and its related regulations. For the purpose of capital security, the committee, through scientific and regulated procedures and prudent risk control and management, serves to ensure the Company's capital security while optimizes the assets allocation and improves the capital utilization efficiency.

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

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## 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

The Company has established a Capital Commitment Committee which provides final risk review and approvals, within the limits authorised by the Board and the Executive Committee, on the capital commitment of the underwriting business. All corporate financing activities involving the application of the capital are subject to the approval by the Capital Commitment Committee to ensure an acceptable level of risk exposure of the corporate financing activities and the capital security of the Company.

The Company has established a Risk Management Committee, which reports to the Risk Management Committee of the Board and to the Executive Committee of the Company, and is responsible, within its designated authority, for the Company's day-to-day risk monitoring and management as well as deciding and approving material matters relating to risk management and relevant system. Risk management sub-working groups, comprising mainly transaction heads of the major business lines and heads of functional departments, are established under the Risk Management Committee, which are coordinating and decision implementing bodies for the daily monitoring and management of the financial risks over the Company's securities investment business. They serve the Risk Management Committee and help to implement the decisions made by the Risk Management Committee.

The Company has established a Product Committee. This committee is responsible, within the authority given by the Board and the Executive Committee, for promotion of new development, including planning, coordination, decision-making and review on major matters relating to design, sales and related systems of the Company's new products. The committee manages new product risks through new product pre-sale quality control and formulation of relevant post-sale risk handling measures. The risk assessment group under the committee is responsible for legal and regulatory compliance review on the agency sales of the financial products by the Company, and to investigate into any potential fraud and reveal the risks of such financial products. The product sales panel under the committee is responsible for review on the marketability of such products.

### Level 3: Department/Business Lines

At the department and business line level, the Company has segregated the roles and responsibilities of the front office, middle office and back office to ensure the establishment of a system of "checks and balances".

Front-office business departments of the Company are the first line of responsibility on the risk management. Such departments have established risk management systems to perform supervision, assessment and reporting on the business risks of their respective business with a view to controlling business risks within limits.

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## 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

The Company has set up a Risk Management Department, which is responsible for identifying, measuring, analysing, monitoring, reporting and managing the risks faced by the Company. It analyses and assesses the overall risks of the Company and each of its business lines and make recommendations on the optimal allocation of risk resources. It also assists the Risk Management Committee of the Company in the preparation of risk management indicators, such as risk limits, as well as supervision and reporting on the execution of the risk limits. It also establishes and improves the timely reporting and feedback mechanism between front office, the Risk Management Department and the Management, and regularly discloses the general risk portfolios of the Company and makes recommendations on risk management. In addition, it has established a comprehensive stress test mechanism, which serves as a basis for major decision making and daily operational adjustment and which also satisfied the regulatory requirements. It also performs pre-risk assessment and control over new products and businesses.

The Audit Department of the Company has the overall responsibility for internal auditing, organising comprehensive audit of all departments of the Company, monitoring the implementation of internal control systems, preventing various moral and policy risks, and assisting the Company with the investigation of emergency events.

The Company has established the Compliance Department, which organises, formulates and implements the basic compliance policy of the Company, provides compliance advice to management, departments, business lines and branches of the Company, monitors lawful compliance of management and operating activities; supervises and instructs the business departments, business lines and branches to assess, develop, modify and improve internal management policies, procedures and business processes based on changes in laws, regulations and guidelines; performs compliance pre-reviews on new internal management policies, important decisions, new products, new businesses and key business activities launched by the Company; and fulfills the regular and non-regular obligations of reporting to regulatory authorities.

The Company has also established the Legal Department, which is responsible for oversight and control of legal risks of the Company and relevant businesses.

Major financial risks faced by the Company in the ordinary course of business include credit risk, liquidity risk and market risk. The Company has developed policies and procedures to identify and analyse these risks and set appropriate risk limits and internal control processes to monitor various risks continuously through reliable management and information system.

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

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## 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

### (a) Credit risk

Credit risk is the risk in respect of loss arising from a borrower's or counterparty's inability to meet its obligations.

The credit risk of the Company mostly arises from three aspects. Firstly, in respect of the securities and futures brokerage business, if the Company does not require the clients to pay sufficient margin deposits in advance according to the laws, there may not be sufficient funds in the client accounts to pay for transactions on the settlement date, or if there is insufficient funds in the client's accounts due to other reasons, the Company has the responsibility to settle the account for the client, thereby resulting in losses. Secondly, credit risk arising from the margin businesses including margin financing and securities lending, and stock repo business, refers to the Company's exposure to loss caused by client failure to perform the contracts. Thirdly, default risk from debt securities investment refers to the risk of asset losses and change in yield by reason of default or refuse to pay principal and interest due by the issuer or the counterparty of the bond invested.

The Company uses its information management systems to monitor its credit risk on real time basis, keep track of the credit risk of the Company's business products and its transaction counterparties, provide analysis and pre-warning reports, and adjust its credit limits in a timely manner. The Company will also measure the credit risks of its major operations through stress test and sensitivity analysis.

In order to manage the credit risk arising from the brokerage business, securities brokerage business transactions in Mainland China are all required to be settled in full by security deposit. Settlement risk associated with brokerage business has been largely controlled by using full security deposit settlement arrangements.

Credit risk arising from the margin businesses, such as margin financing and securities lending, and stock repo businesses, primarily includes clients' provisions of false information, failure to make full repayment on time, breach of portfolio limits and contractual provisions, violation of regulatory requirements, and provision of collateral encumbered with legal disputes. Credit risk arising from margin business are mainly managed through educating the customers, credit reference checks, credit approval, daily mark to market, risk reminders to clients, forced liquidation of clients' positions, judicial recourse and other means.

For credit risk associated with debt securities investments, the Company has established the counterparty credit approval policy and the blacklist policy, and developed certain investment restrictions based on the ratings of credit products.

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

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## 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

### (a) Credit risk (Continued)

#### (i) Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The maximum credit risk exposure of the Group without taking account of any collateral and other credit enhancements is set out below:

	<b>30 June 2012 (Unaudited)</b>	31 December 2011 (Audited)
Available-for-sale financial assets	<b>13,538,973</b>	14,940,175
Refundable deposits	<b>826,902</b>	840,411
Financial assets held for trading	<b>17,660,626</b>	12,268,816
Derivative financial assets	<b>678,849</b>	1,077,628
Reverse repurchase agreements	<b>297,146</b>	575,760
Due from banks	—	790,000
Cash held on behalf of customers	<b>34,874,435</b>	35,760,238
Bank balances	<b>28,680,332</b>	33,444,265
Others	<b>6,859,277</b>	4,180,232
<b>Total maximum credit risk exposure</b>	<b>103,416,540</b>	103,877,525

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

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## 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

### (a) Credit risk (Continued)

#### (ii) Risk concentrations

The following tables set out the breakdown of the Group's maximum credit risk exposure without taking account of any collateral and other credit enhancements, as categorised by geographical area:

30 June 2012 (Unaudited)	By geographical area		
	Mainland	Outside	Total
	China	Mainland China	
Available-for-sale financial assets	13,538,973	—	13,538,973
Refundable deposits	823,462	3,440	826,902
Financial assets held for trading	17,094,117	566,509	17,660,626
Derivative financial assets	667,427	11,422	678,849
Reverse repurchase agreements	297,146	—	297,146
Cash held on behalf of customers	33,282,968	1,591,467	34,874,435
Bank balances	17,947,336	10,732,996	28,680,332
Others	5,711,626	1,147,651	6,859,277
<b>Total maximum credit risk exposure</b>	<b>89,363,055</b>	<b>14,053,485</b>	<b>103,416,540</b>

31 December 2011 (Audited)	By geographical area		
	Mainland	Outside	Total
	China	Mainland China	
Available-for-sale financial assets	14,940,175	—	14,940,175
Refundable deposits	838,773	1,638	840,411
Financial assets held for trading	11,627,555	641,261	12,268,816
Derivative financial assets	1,071,567	6,061	1,077,628
Reverse repurchase agreements	575,760	—	575,760
Due from banks	790,000	—	790,000
Cash held on behalf of customers	34,288,353	1,471,885	35,760,238
Bank balances	21,576,861	11,867,404	33,444,265
Others	3,534,142	646,090	4,180,232
<b>Total maximum credit risk exposure</b>	<b>89,243,186</b>	<b>14,634,339</b>	<b>103,877,525</b>

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(In RMB thousands, unless otherwise stated)

## 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

### (b) Liquidity risk

Liquidity risk is the risk to the Company arising from shortage of funds when fulfilling its obligations relating to financial liabilities. The Company has consistently adhered to a unified liquidity management and operation policy and continues to strengthen its liquidity management system. The responsibilities for fund lending or borrowing, repurchase and pledged loans are clearly set out and managed by the Treasury Department. In addition, the Company has gradually established a treasury risk assessment and monitoring system, so as to strictly control its liquidity risk. In respect of the domestic stock exchanges and inter-bank market, the Company has a relative high credit rating, and has secured stable channels for short-term financing, such as fund lending or borrowing and repurchases, which enable the Company to maintain its overall liquidity at a relatively secured level.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on their contractual undiscounted payments, is as follows:

	30 June 2012 (Unaudited)							
	Overdue/ repayable on demand	Less than three months	Three months to one year	One to five years	More than five years	Undated	Total	
<b>Non-derivative financial liabilities:</b>								
Accounts payable	35,804,501	—	—	—	—	—	35,804,501	
Financial liabilities held for trading	—	—	—	—	—	26,990	26,990	
Repurchase agreements	—	12,450,476	—	—	—	—	12,450,476	
Due to banks	—	2,501,279	—	—	—	—	2,501,279	
Bonds payable	—	—	63,750	255,000	1,755,000	—	2,073,750	
Loans	—	55,077	—	—	—	—	55,077	
Others	2,513,757	—	—	—	—	—	2,513,757	
<b>Total</b>	<b>38,318,258</b>	<b>15,006,832</b>	<b>63,750</b>	<b>255,000</b>	<b>1,755,000</b>	<b>26,990</b>	<b>55,425,830</b>	
Cash flows from derivative financial liabilities settled on net basis	—	21,082	56,500	657,643	—	—	735,225	
Gross settled derivative financial liabilities:								
Contractual amounts receivable	—	(7,957,111)	—	—	—	—	(7,957,111)	
Contractual amounts payable	—	8,169,180	—	—	—	—	8,169,180	
	—	212,069	—	—	—	—	212,069	

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## 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

### (b) Liquidity risk (Continued)

	31 December 2011 (Audited)						Undated	Total
	Overdue/ repayable on demand	Less than three months	Three months to one year	One to five years	More than five years			
<b>Non-derivative financial liabilities:</b>								
Accounts payable	36,477,143	—	—	—	—	—	—	36,477,143
Financial liabilities designated at fair value through profit or loss	—	—	—	—	—	6,283	—	6,283
Repurchase agreements	—	14,244,935	—	—	—	—	—	14,244,935
Due to banks	—	100,109	—	—	—	—	—	100,109
Bonds payable	—	—	63,750	255,000	1,818,750	—	—	2,137,500
Others	293,734	—	—	—	10,691	—	—	304,425
<b>Total</b>	<b>36,770,877</b>	<b>14,345,044</b>	<b>63,750</b>	<b>255,000</b>	<b>1,829,441</b>	<b>6,283</b>	<b>—</b>	<b>53,270,395</b>
Cash flows from derivative financial liabilities settled on net basis	—	24,786	74,572	933,965	—	—	—	1,033,323
Gross settled derivative financial liabilities:								
Contractual amounts receivable	—	(16,958,781)	(99,683)	—	—	—	—	(17,058,464)
Contractual amounts payable	—	17,098,003	99,947	—	—	—	—	17,197,950
	—	139,222	264	—	—	—	—	139,486

### (c) Market risk

Market risks represent potential losses due to movement in market prices of securities held by the Company. Securities held by the Company are derived from proprietary investment, market-making business and other investment activities. Movement in the securities held arises primarily from instructions received from the customers and the relevant strategies of the proprietary investment.

Market risks primarily comprise equity price risk, interest rate risk and foreign exchange rate risk. Equity price risk arises from fluctuation in the price and volatility of equities such as stocks, equity portfolios and stock index futures. Interest rate risk primarily arises from the movements of the yield curve of fixed income investments, fluctuations in interest rates and credit spreads. Exchange rate risk represent exposures arising from changes in non-local currencies.



## 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

### (c) Market risk (Continued)

The Company has established a top-down three-tiered risk prevention defence lines, which is formed by the Board's Risk Management Committee, the Company's Risk Management Committee and all its business lines and internal control departments. Through allocating the overall risk of the Company to different departments, and with the internal control department being responsible for monitoring and implementation and through timely assessment and report of significant risk matters, the Company's overall market risk is controlled within appropriate limit.

The Company assesses, monitors and manages the overall market risk portfolio of the Company through a risk management department independent of the business departments, and findings of the assessment and monitoring are reported to the respective business departments, the management and the Risk Management Committee of the Company. In the implementation of market risk management, the front-office business departments, as the direct bearer and front-line manager of market risks, dynamically control and adjust the risk exposure arising from its securities portfolios, and will proactively take measures to mitigate or hedge risks, when the exposures are relatively high. Relevant monitoring officers from the Risk Management Department will continuously cooperate and communicate directly with the respective business departments with regard to risk information, and discuss the status of the risk portfolios and the losses in extreme situations.

The Risk Management Department will estimate possible losses arising from market risks through various evaluation measures, including possible losses under normal fluctuations and extreme market volatility. It evaluates the possible losses of the Company in normal market fluctuations in the short term via VaR and sensitivity analysis. At the same time, it evaluates the possible losses of the Company in extreme situations via stress test. The risk report sets out the market risk portfolio and changes in each business department, which will be delivered to the responsible officers and management of the Company on a daily, weekly, monthly or quarterly basis.

The Company adopts VaR as a major indicator of its market risk measurement. The calculation is based on a holding period of one trading day and a confidence level of 95%. VaR detects exposures such as interest rate risk, equity price risk and exchange rate risk, and measures the movement of market risks such as those arising from changes in interest rate curves, prices of securities and exchange rates. The Risk Management Department constantly inspects the accuracy of VaR through backtesting and improves its calculation in line with the expansion the Company.

The Company also evaluates the possible losses in its proprietary positions arising from extreme situations through stress tests. The Risk Management Department has established a series of macro and market scenarios to calculate the possible losses to the Company upon occurrence of a single or multiple scenarios. These scenarios include the occurrence of major setbacks in macro-economic conditions, significant and adverse changes in major markets and extraordinary risk events. Stress test constitutes an integral part of the market risk management. Through stress tests, the Company could focus on the possible losses to the Company, analyse its risk return and compare its risk resistant capacities, and evaluates whether the overall market risk portfolio of the Company is within its expected limits.

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## 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

### (c) Market risk (Continued)

The Company sets the risk limits for its respective business departments with a view to controlling the level of fluctuations arising from profit or loss and its market exposures. The risk limits are monitored by the Risk Management Department on a daily basis. When risk level is approaching or exceeds the threshold values, the Risk Management Department will warn the relevant management officers in advance and discuss with the respective business management officers, followed by mitigation measures to adjust the exposures to a level within the limits, or the respective business departments may apply for a temporary or permanent upgrade in the limits, subject to approval by the relevant committees.

The Company continues to modify the risk limits system, and is building up a more comprehensive system with different levels of risk limit indicators for the Company, its respective business departments and investment accounts, with a view to formulating substantive policies or guidelines for its risk management system.

### (i) VaR

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

The calculation of VaR is based on the historical data of the Company (confidence level of 95% and a holding period of one trading day). Although the VaR analysis is an important tool for measurement of market risk, it mainly relies on relevant historical data, so there are certain limitations, and it may not accurately predict future changes in risk factors, making it especially difficult to reflect the market risk in the most extreme situations.

The Company's VaR analysis by risk categories is summarised as follows:

### Company

(Unaudited)	As at	Six months ended 30 June 2012		
	30 June 2012	Average	Highest	Lowest
Price-sensitive financial instruments	197,032	304,163	536,178	182,595
Interest rate-sensitive financial instruments	34,704	33,231	63,021	14,186
Currency rate-sensitive financial instruments	12,420	3,815	12,420	543
Total portfolio VaR	192,401	305,521	551,729	175,228

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## 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

### (c) Market risk (Continued)

#### (i) VaR (Continued)

##### Company

(Unaudited)	As at	Six months ended 30 June 2011		
	30 June 2011	Average	Highest	Lowest
Price-sensitive financial instruments	387,595	435,129	587,902	283,976
Interest rate-sensitive financial instruments	15,373	35,687	74,433	13,055
Total portfolio VaR	376,965	449,290	612,252	292,547

#### (ii) Interest rate risk

The Company's interest rate risk is the risk of fluctuation in the fair value of one or more financial instruments arising from adverse movements in interest rates. The Company's interest rate risk mainly sources from the volatility of fair value of financial instruments held by the Company which are sensitive to the interest rate risk, resulting from market interest rate's negative fluctuation.

The Company uses interest rate sensitivity analysis as the principal tool to monitor interest rate risk. The use of interest rate sensitivity analysis assumes all other variables remain constant, but changes in the fair value of financial instruments held at the end of the measurement period may impact the Company's total income and shareholders' equity when interest rates fluctuate reasonably and possibly. Assuming a parallel shift in the market interest rates and without taking into consideration of the management's activities to reduce interest rate risk, the impact of such a shift on revenue and shareholders' equity based on an interest rate sensitivity analysis of the Company is as follows:

##### Company

Change in basis points	Sensitivity of revenue Six months ended 30 June	
	2012 (Unaudited)	2011 (Unaudited)
+25 basis points	(122,485)	(114,088)
-25 basis points	124,890	116,989

Change in basis points	Sensitivity of equity	
	30 June 2012 (Unaudited)	31 December 2011 (Audited)
+25 basis points	(66,486)	(78,106)
-25 basis points	67,408	79,033

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

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## 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (Continued)

### (c) Market risk (Continued)

#### (iii) Currency risk

Currency risk is the risk of fluctuation in the fair value of financial instruments or future cash flows arising from adverse movements in foreign exchange rates. The Group's currency risk primarily relates to the Group's operating activities (whose settlements and payments are denominated in foreign currencies different from the Group's functional currency) and its net investment in foreign subsidiaries.

The foreign assets of the Group accounted approximately 13% of the overall assets. In terms of the Group's revenue structure, a majority of the business transactions are denominated in RMB. The Company deals with the currency risk uniformly, and track on account prices of asset by daily mark-to-market. The currency risk is monitored from multiple aspects, including asset limits, VaR, sensitivity analysis, stress test and so on. The currency risk exposure management is realised through adjusting foreign exchange positions, hedging with foreign exchange forward/options, carrying out currency swap etc.

#### (iv) Other price risk

Other price risk is the risk that the fair value of equity securities decreases due to the variance between the stock index level and individual share values. If this occurs, market price fluctuations of financial instruments held for trading will impact the Group's profit; and market price fluctuations of financial instruments classified as available-for-sale will impact shareholders' equity for the Group.

As at 30 June 2012, the Group's equity investment in financial assets held for trading and financial assets designated at fair value through profit or loss accounted for 5.30% of the total assets; and the equity investment measured at fair value in available-for-sale financial assets accounted for 9.27% of the total assets. During the six months ended 30 June 2012, the fair value gain of financial assets held for trading and financial assets designated at fair value through profit or loss amounted to RMB393 million. The cumulative loss recognised in other comprehensive income in respect of available-for-sale financial assets amounted to RMB494 million.

## 35. EVENTS AFTER THE REPORTING PERIOD

### 1. Acquisition of equity interests in CLSA B.V.

On 20 July 2012, the 2nd Meeting of the 5th Session of the Board of the Company considered and approved the Resolution on the Acquisition of 100% Equity Interests in CLSA B.V. by the wholly-owned subsidiary CITIC Securities International Company Limited ("CITIC Securities International"), whereby the acquisition of 100% equity interests in CLSA B.V. by CITIC Securities International for a total consideration of USD1,252 million was approved. On the same date, CITIC Securities International completed the acquisition of 19.9% equity interests in CLSA B.V. for an acquisition price of USD310.32 million. Meanwhile, CITIC Securities International granted to Credit Agricole a put option in respect of 80.1% equity interests in CLSA B.V.. On 3 August 2012, CITIC Securities International and the other parties to the Options Deed entered into a supplemental deed (for details, please refer to the announcement of the Company on the same day). Currently, CITIC Securities International is undergoing internal and external approval procedures for the acquisition of the remaining 80.1% equity interests in CLSA B.V..

# Notes to Unaudited Interim Condensed Consolidated Financial Statements

30 June 2012

(In RMB thousands, unless otherwise stated)

## **35. EVENTS AFTER THE REPORTING PERIOD (Continued)**

### **2. Issuance of Commercial Papers**

On 23 August 2012, in accordance with the Notice of People's Bank of China on the Issuance of Commercial Papers by CITIC Securities Company Limited (Yin Fa [2012] No.197) issued by Peoples' Bank of China, the resolution passed by the 2011 General Meeting of Shareholders, and the resolution passed by the 1st Meeting of the 5th Session of the Board and related authorization, the Company completed the issuance of the first tranche of commercial papers in 2012 (12 CITIC CP001), with a total size of RMB5 billion, a term of 91 days and a coupon rate of 3.84%. For details, please refer to the announcement disclosed by the Company on 24 August 2012.

### **3. Increase of capital contribution to CITIC Securities International Company Limited**

On 16 August 2010, the 18th Meeting of the 4th Session of the Board of the Company considered and approved the Resolution on the Increase of Capital Contribution to CITIC Securities International Company Limited, whereby an additional capital contribution of USD400 million to CITIC Securities International, a wholly-owned subsidiary of the Company, for the purpose of enhancing its business capabilities in various aspects was approved. In July 2012, the Company completed the first tranche of additional capital contribution in the amount of USD356.32 million in accordance with the Reply on Approval of Additional Capital Contribution to CITIC Securities International Company Limited by CITIC Securities Company Limited (Ji Gou Bu Bu Han [2011] No. 397) issued by CSRC.

## **36. APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the Board of Directors on 30 August 2012.

# Documents Available for Inspection

Copies of the following documents will be available for inspection by shareholders at the office of the Company:

- (1) Financial statements with the signatures and seals of the Company's chairman of the Board, financial officer, and financial department manager;
- (2) The original copy of the audit report with signatures and seals of the accounting firm and CPAs;
- (3) The original copies of the documents and announcements of the Company published during the reporting period in the media designated by the China Securities Regulatory Commission for information disclosures.
- (4) Interim reports posted on other stock exchanges.
- (5) The Company's Articles of Associations
- (6) Other related materials.



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