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OVERVIEW

We are the leading full-service investment bank in China. In 2010, we ranked No. 1 in China in our investment banking business as measured by the total amount of equity and debt underwritten, No.1 in our sales, trading and brokerage business as measured by equity and fixed income trading turnover and No.1 in our asset management business as measured by AUM. We are also the largest among China's investment banks as measured by total assets, total equity, total revenue and net profit in 2010.

We offer a wide range of products and services to a large and diverse client base that includes corporations, financial institutions, governments and individuals. Our principal business lines and products and services include:

<u>Investment Banking</u>	<u>Sales, Trading and Brokerage</u>	<u>Asset Management</u>	<u>Investment</u>
<ul style="list-style-type: none"> ● Equity finance 	<ul style="list-style-type: none"> ● Equity sales and trading 	<ul style="list-style-type: none"> ● CAM 	<ul style="list-style-type: none"> ● Private equity
<ul style="list-style-type: none"> ● Debt and structured finance 	<ul style="list-style-type: none"> ● Fixed income sales and trading 	<ul style="list-style-type: none"> ● TAM 	<ul style="list-style-type: none"> ● Principal investment
<ul style="list-style-type: none"> ● Financial advisory 	<ul style="list-style-type: none"> ● Prime services ● Retail brokerage 	<ul style="list-style-type: none"> ● SAM ● China AMC 	

Our principal operations are in China and Hong Kong, and we believe that we are well positioned to benefit from the strong growth potential of China's economy and the opportunities presented by the development of China's capital markets. We are seeking to further expand our business in Asia and beyond to capture market opportunities from the increasing globalisation of China's economy, businesses and capital markets. The following sets forth our achievements in our core businesses:

- *Investment banking.* We ranked first in China in 2008 and 2010 and second in 2009 based on the total amount of equity and debt underwritten.
- *Equity trading.* We ranked first in China from 2008 to 2010 based on trading turnover of equity and equity-linked products on the Shanghai Stock Exchange and the Shenzhen Stock Exchange.
- *Fixed income trading.* We ranked first among investment banks in China from 2008 to 2010 based on trading turnover of fixed income products on the interbank bond market.
- *Brokerage network.* We had a broad nationwide brokerage network with 151 branches covering 18 provinces and municipalities in China and seven branches in Hong Kong as at 30 June 2011.
- *Asset management.* We ranked first among investment banks and fund management companies in China from 2008 to 2010 based on total mutual fund AUM of the Group.
- *Private equity.* We were one of the first two investment banks licensed to engage in the private equity business in China in 2007. We invested RMB1.2 billion in five companies in 2008, RMB0.7 billion in 12 companies in 2009, RMB2.2 billion in 37 companies in 2010 and RMB1.4 billion in 17 companies in the six months ended 30 June 2011. As at 30 June 2011, nine of the companies we invested in had completed their IPOs since our initial investments.
- *Research.* We ranked first for five consecutive years since 2006 in New Fortune's "Best Domestic Research Team" survey in China. Out of New Fortune's 31 sector-specific surveys in 2010, we achieved No. 1 rankings in 10 sectors, top two rankings in 18 sectors and top three rankings in 20 sectors.

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We are committed to the pursuit of excellence and strive to become a world-class, China-focused, global investment bank. We distinguish ourselves from our competitors with our cohesive culture and core values, which are reflected in our principles. Please see “— Our Principles” for additional information. Our principles emphasize the interests of our clients, employees and Shareholders, as well as a commitment to excellence, innovation, integrity, teamwork, mutual respect and professionalism.

Established in 1995, we were the first China-based investment bank to be listed on the Shanghai Stock Exchange through an IPO in 2003. Through organic growth and acquisitions, we have a proven track record of growing to stay competitive. We acquired CITIC Wantong in 2004, China Securities in 2005, CITIC Kington in 2006 and China AMC in 2007, and we established GoldStone, our wholly-owned subsidiary, in 2007 and co-founded CITIC PE Fund in 2008 to expand into the private equity business. Please see “History, Development and Corporate Structure” for additional information.

Building on our success in China, we commenced international operations in 2006 when we acquired the equity business of CITIC Capital Holdings Limited and incorporated it into CITIC Securities (HK) Company Limited, the predecessor of CSI, our wholly-owned Hong Kong subsidiary. We extended our services, including investment banking, institutional sales and trading, retail brokerage, asset management and private equity, to a diverse clientele in Hong Kong and other jurisdictions. We believe we are well positioned to capitalise on the growing cross-border business opportunities arising from the globalisation of China’s economy and companies, such as equity offerings by China-related companies in Hong Kong and issuances of RMB-denominated products, as well as the demand for brokerage services by the growing financial needs of Chinese high-net-worth individuals and institutional investors, such as QDIIs and sovereign funds. On 13 July 2011, we entered into a sale and purchase agreement with CA-CIB and CASA BV, under which we agreed to acquire existing shares representing a 19.9% equity stake in each of CLSA and CA Cheuvreux held directly or indirectly by CA-CIB.

Our largest Shareholder, CITIC Group, is one of the largest state-owned conglomerates with an over 30-year track record in China and operates in a wide range of industry sectors including finance, real estate and infrastructure, construction, energy and resources, manufacturing, information technology, trading and consumer. We believe that the CITIC brand name connotes innovation, integrity, dedication and excellence and enhances our competitive edge in winning new clients and mandates.

For the three years ended 31 December 2008, 2009 and 2010, our total revenue and other income was RMB19.8 billion, RMB23.9 billion and RMB30.3 billion, respectively, and our profit attributable to owners of the parent for the corresponding periods was RMB7.3 billion, RMB9.0 billion and RMB11.3 billion, respectively. For the three months ended 31 March 2010 and 2011, our total revenue and other income was RMB4.7 billion and RMB3.8 billion, respectively, and our profit attributable to owners of the parent for the corresponding periods was RMB1.5 billion and RMB1.4 billion, respectively. As at 31 March 2011, we had total assets of RMB141.1 billion and total equity attributable to owners of the parent of RMB72.0 billion.

COMPETITIVE STRENGTHS

We believe the following strengths have contributed to our success and differentiate us from our competitors.

Influential market leader with well-recognised brand name

We believe we are an influential market leader in China’s investment banking industry. We consistently rank at or near the top of domestic league tables for our principal business lines and have also been involved in many landmark securities transactions. We believe that our wealth of transaction experience, strong capability in

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developing financial products and recognised brand for high-quality client services have earned us the trust of investors and regulators alike, and also made us the investment bank of choice for clients with respect to their most important transactions.

We are also the largest among China's investment banks as measured by our total assets (RMB153.2 billion) and total equity attributable to owners of the parent (RMB70.4 billion) as at 31 December 2010, and total revenue and other income (RMB30.3 billion) and profit attributable to owners of the parent for the year (RMB11.3 billion) in 2010. Our large scale and strong capital base instill client confidence in our ability to execute the largest transactions. For example, we sponsored and lead-managed eight out of the ten largest equity and equity-linked offerings in China in the past five years measured by amount underwritten. In addition, our large capital base and diversified funding sources enable us to pursue new business opportunities, especially with respect to flow-based transactions that rely on our capital position to provide liquidity to our clients and capital-efficient investments that present the potential for capital appreciation and high returns.

Due to our leading market position and large business scale, we have been frequently invited by PRC regulators to participate in the formulation of rules and regulations governing the domestic financial industry. Leveraging our in-depth understanding of the local regulatory environment, we believe we are at the forefront of capturing new business opportunities arising from the evolving regulatory environment in China's capital markets.

The "CITIC" brand name has over 30 years of history. CITIC Group, our largest shareholder, was established by the Chinese government in 1979 during the early phase of China's economic reforms. Over the years, CITIC Group has become a well-recognised conglomerate in China and this continues to inure to our advantage in presenting us with business opportunities.

Well-positioned to capitalise on China's growth by leveraging our "China DNA"

China has become a significant player in the global financial market as a result of its rapid economic growth in recent years. According to the NBSC, China's nominal GDP increased to RMB39.8 trillion in 2010 from RMB21.6 trillion in 2006, representing a CAGR of 16.5%. China's economic development has stimulated strong demand for capital from Chinese companies, which has contributed to the growth of China's and Hong Kong's capital markets as well as domestic investment banks like us.

In pursuing business opportunities, we draw on our deep understanding of the needs of our broad Chinese client base, our extensive knowledge of the domestic capital markets and our in-depth understanding of the local regulatory environment gained from years of experience in communicating and cooperating with PRC regulators, all of which we refer to as our "China DNA." We believe our China DNA positions us to capitalise on the business opportunities arising from China's economic growth and growing global influence.

We believe our China DNA has enabled us to accurately identify clients' needs in the changing market and adopt sound business strategies on a timely basis. For example, the business plan we adopted in 2004 to focus on large and complex transactions positioned us to participate in the high-profile restructuring and listing of state-owned enterprises in the following years. In addition, we established a corporate development and financing department in 2006 designated to serve SMEs, in order to capture the attractive opportunities and higher commission rates from equity offerings and listings on the SME Board and the ChiNext Board. Furthermore, we established GoldStone in 2007 and co-founded CITIC PE Fund in 2008 to take advantage of the emerging private equity opportunities in China.

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Large and diverse client base

We serve a large and diverse client base that includes corporations, financial institutions, governments and individuals, each with different scales and financial needs. Our investment banking coverage teams maintain regular contact with over 400 companies across a variety of industries, including financial institutions, energy, transportation, raw materials and equipment, real estate, TMT and consumer. During the past five years, we have lead-managed equity and debt offerings for 229 companies, 111 of which are listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange and represented over 35% of the total market capitalisation of the two exchanges as at 31 March 2011. In addition, as at 30 June 2011, we managed approximately 3.3 million retail brokerage accounts and served over 400 institutional clients in our sales and trading business. Our institutional sales and trading clients include MOF, PBOC, the two PRC policy banks and China Development Bank, mutual funds, commercial banks, insurance companies, trust companies and other domestic financial institutions, as well as QFIIs in China.

We focus on developing and maintaining long-term relationships with clients by closely monitoring their financial needs and offering them tailor-made solutions. We believe our ability to guide our clients to make informed financial decisions and achieve their goals has brought us repeat business. During the past five years, over 35% of the issuer clients in our underwriting business were repeat clients. We also aggressively pursue new customer groups ranging from domestic SMEs and high-net-worth individuals that we believe have high growth potential, to multinational corporations and overseas investors that are seeking market opportunities in China.

Strong and highly integrated platform promoting collaboration and synergies across business lines

We have established a strong platform with comprehensive product offerings, broad domestic coverage, well-recognised research capabilities and global reach. As one of the first investment banks to gain the requisite full-service licenses in China, we provide a spectrum of financial products and services, including investment banking, sales and trading, retail brokerage and asset management, to meet various clients' needs. Our strong platform is also evidenced by our large brokerage network of 151 branches in China and seven branches in Hong Kong, our highly regarded research team that covers over 740 listed companies in China, and our IBS team of over 160 professionals in China and Hong Kong who actively seek business opportunities arising from the capital markets in China and overseas.

We distinguish ourselves from domestic competitors with a highly integrated platform generating cooperation and synergies across business lines. We value teamwork in every aspect of our business and continually adapt our organizational structure and incentive system to promote collaboration among our business lines. Our coverage professionals assist clients in identifying their multiple needs and call upon our resources across business lines to better achieve clients' objectives. We proactively seek cross-selling opportunities to the extent permitted under PRC law. For example:

- Our investment banking business consistently generates business opportunities for other business lines, including introducing potential investment targets to our private equity business and referring clients to our enterprise annuity management business. In addition, portfolio companies of our private equity business could become potential IPO clients for our investment banking business. Our investment banking teams in China and Hong Kong also work closely together to achieve optimal regional client coverage.
- Our nationwide brokerage network serves as a strong distribution channel for the various financial instruments we develop, such as the CAM plans offered by our asset management business and the

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prime brokerage services offered by our prime services business. Further, our offerings of value-added products can promote the overall fee rate in our brokerage business and enhance the profitability of our retail brokerage business.

- Our research team plays a fundamental role in sustaining our competitive positions in investment banking, institutional sales and trading, retail brokerage, asset management, and other businesses. Research analysts continually refer investors to our sales, trading and brokerage business lines.

Innovation and diversified revenue sources

We believe that innovation is a key ingredient in our success in the evolving capital markets of China and Hong Kong. We are routinely involved in high-profile transactions that are the first of their kind, and have a proven track record in developing a broad offering of newly introduced financial products and services in China and Hong Kong. For example, we successfully lead-managed the first A+H IPO in China and Hong Kong by Industrial and Commercial Bank of China, three of the first eight medium-term notes offerings underwritten by investment banks in China, and the first RMB-denominated REIT offering in Hong Kong. We are also among the first domestic investment banks to develop and participate in the emerging markets for a variety of new products and services in China, including markets for stock warrants, stock index futures, interest rate swaps, prime services and ETFs. We believe that our emphasis on innovation will enable us to develop new products and services in anticipation of market demand and capture market opportunities.

We believe our ability to identify market trends and modify our revenue model on a timely basis has significantly contributed to our financial performance. We endeavor to diversify our revenue sources and mitigate our business risks by expanding into new business areas that we believe offer attractive growth opportunities. Recognizing the challenges facing the traditional business model of Chinese investment banks reliant on investment banking and retail brokerage, we have been an early mover in diversifying our business into a variety of flow-based and capital-efficient business areas, including prime services, equity and fixed income product market-making, private equity and alternative investments. As a result, we have become one of the few investment banks in China with diversified revenue contributions from fee-based, flow-based and capital-efficient businesses.

Experienced and visionary management, talented professionals and cohesive culture

Our experienced management team, led by our executive committee, has significant experience in the PRC and global financial industry. Our executive committee, led by Mr. Dongming Wang, our chairman, consists of seven members with an average of 20 years of experience in the financial industry. With a global vision, our management has successfully leveraged our well-established domestic franchise to expand into the global capital markets. We believe our management team has been key to our success in a competitive environment and will remain instrumental to our future growth.

We strive to maintain and enhance our team of highly talented professionals. Focus on the career development of our employees is a key element of our principles. We pride ourselves on adhering to a people-oriented culture and seek to reinforce our employees' commitment to our culture through recruiting, talent development, an effective review system and a compensation philosophy that rewards teamwork and excellence. We have been successful in attracting talented professionals, including staff from diversified educational backgrounds and with substantial experience in the global financial services industry. We also encourage our people to perform and advance rapidly without hierarchical limitations. We believe that our unique corporate culture and cooperative work environment have played an important role in employee recruitment and retention and the success of our business.

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Prudent risk management and internal control

We emphasize prudence in our business operations and believe that effective risk management and internal control are crucial to our success in the changing markets.

We have established comprehensive risk management processes to monitor, evaluate and manage the market, liquidity, credit and operational risks that we are exposed to in our business activities. Our integrated risk management processes comprise established risk management policies and procedures, an integrated risk management system and a three-level organisational structure with well-defined authority and responsibility and clear reporting lines. We have established policies and procedures to effectively prevent money laundering and terrorist financing. In addition, we have implemented Chinese walls to effectively prevent conflicts of interest by controlling the flow of material non-public information. Our internal control system is designed to enhance our compliance management capabilities, strengthen our designated internal audit function and minimise incidences of fraud and other non-compliance matters. Please see “Risk Management and Internal Control” for additional information. We believe our risk management and internal control systems have significantly contributed to the stability of our business during the recent global financial and economic crisis, and will remain fundamental to the growth of our business.

STRATEGIES

Our vision is to become a world-class, China-focused, global investment bank. Our goal is to expand our market share in China and globally by continuing to grow our fee-based businesses and generate sustainable returns from our flow-based and capital-efficient businesses. To achieve this goal, we intend to implement the following strategies.

Maintain and strengthen market leading position in traditional fee-based businesses

We strive to maintain and enhance our leading market position and reputation in China’s financial services industry, especially in our traditional fee-based businesses, such as investment banking, brokerage and asset management, which we believe are the cornerstones of our business. In our traditional fee-based businesses, we have achieved a leading brand name, market reputation, broad customer base and strong capital resources, and built a group of diverse and talented professionals.

We intend to capture the numerous business opportunities that we anticipate will arise from the rapid development of the capital markets in China and the increasing diversification of our clients’ financial needs to grow our traditional fee-based businesses.

- In our investment banking business, we intend to leverage our newly formed IBS teams to actively explore the business opportunities arising from the rapid growth of China’s economy, such as the demand for underwriting services from large-sized enterprises, the growth of SMEs in China and international corporations, the demand for cross-border merger and acquisition advisory services from Chinese companies seeking global investment and expansion opportunities, and the demand for newly introduced financial products, such as Panda bonds and RMB-denominated securities offered in Hong Kong, and deregulated products, such as medium-term notes, commercial paper and corporate bonds.
- In our brokerage business, we intend to expand our branch network into other areas that we believe have solid growth potential. We are seeking to increase our revenues while lowering our capital expenses for each new branch and focus on developing and offering value-added products and services, such as investment advisory services, to attract and retain clients. In addition, we are striving to expand our

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brokerage customer base to include more institutional investors and high-net-worth individuals which we believe have been growing rapidly in China.

- In our asset management business, we are focusing on expanding our CAM business as a stable source of revenue by developing and offering new CAM plans catering to the needs of investors. We plan to expand our institutional client base for our annuity plans and NSSF businesses. We also seek to provide a wide range of investment opportunities, including overseas investments through QDII schemes, structured and trust products with different risk and return profiles for our clients to diversify their investment portfolio and mitigate their market risk exposure. Leveraging our brokerage network and our cooperation with CITIC Bank, our affiliate, we also intend to strengthen our distribution channels to promote the sales of our asset management products.

Grow emerging flow-based and capital-efficient businesses with a focus on growth and profitability

Leveraging our in-depth understanding of China's regulatory regime and strong capital base, we intend to broaden our product and service portfolio to capture new market opportunities arising from the development of China's capital markets. We seek to grow the emerging flow-based businesses, such as financing, flow-trading and market-making for institutional and high-net-worth individual clients, and capital-efficient businesses that present business synergies and the potential for capital appreciation, such as multi-strategy market-neutral trading, private equity and alternative investment.

We believe the following flow-based businesses will become stable revenue sources as the securities regulatory regime in China evolves and the financial needs of our clients diversify.

- We intend to grow our prime services business by increasing the number of qualified margin accounts and expanding our client base to cover domestic private funds and other institutional investors. We also seek to capture new opportunities arising from the development of the prime services market in China and the possible establishment of the Centralised Securities Lending Exchange.
- To better serve our institutional and high-net-worth individual clients, we plan to expand our flow-based business and market-making activities, such as market-making of fixed income, currency and commodity products, execution of equity block trades, trading of structured products and providing liquidity to ETFs, stock repurchase and other equity-linked products. We also plan to set up an alternative service platform to provide our clients with linear and non-linear equity-linked products, such as delta-one correlation products. In addition, we plan to establish a wholly-owned subsidiary to focus on conducting flow-based businesses.

Leveraging our strong capital resources, we plan to develop and invest in the following emerging capital-efficient opportunities in China that we believe will optimise the risk and return profile of our investment portfolio.

- We plan to adopt low-risk multiple trading strategies and expand our market-neutral trading portfolio to include more risk management instruments, such as the newly introduced stock index futures and interest rate swaps, with a view to achieving sustainable investment returns and minimising our market risk exposure.
- In our private equity business, we plan to raise more funds internally and externally, and recruit more high-quality talent to effectively pursue and capture early-stage or pre-IPO investment opportunities in

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China. We also seek to enhance the coordination between our private equity business and other fee-based businesses.

- We seek to actively explore other principal investment opportunities with the potential for business facilitation and capital appreciation. We also dedicate separate resources to focus on exploring and developing alternative investment businesses with the potential for attractive returns, such as real estate, private funds and carbon trading.

Enhance international platform and expand global operations

Building on our large client base in China and our existing platform in Hong Kong, we plan to strategically expand our international operations to meet clients' growing needs for global financial services driven by China's rapid economic development. Chinese companies are seeking offshore business opportunities through overseas listing and financing, outbound investment and cross-border mergers and acquisitions. Overseas investors want to invest in China through the PRC and Hong Kong capital markets, and secure financing from China through Panda bonds, IPOs on the contemplated International Board or other means. We believe that both domestic and overseas clients will increasingly rely on China-focused investment banks with a global perspective like us.

- We intend to capture the new market opportunities arising from the globalisation of Renminbi. Leveraging our first-mover advantages in underwriting RMB-denominated bonds and REITs, we seek to expand our RMB offshore product portfolio to a diverse group as the market and investor's needs evolve, including offshore RMB fund management, RMB-denominated equity offerings and advisory services for RMB direct investment.
- We seek to enhance our investment banking coverage and execution platform in Hong Kong and overseas to capture the continual growth of overseas equity offerings by China-related enterprises and by foreign companies on the contemplated International Board in China, as well as the business opportunities from cross-border mergers and acquisitions. In addition, we strive to enhance the cooperation and synergies among overseas investment banking, sales and trading, and research teams.
- We plan to expand our sales and trading platform to capture cross-border flow-based and market-making business opportunities in Hong Kong and other regions. Drawing upon our established platform in Hong Kong and our cooperation with strategic business partners, we seek to expand the products we can offer or trade, such as fixed income, currency and commodity, structured products and prime services, to better serve China-based institutional investors and high-net-worth individuals.

We believe our international expansion plans present significant opportunities to grow our businesses. We plan to expand our international platform through organic growth, strategic alliances and acquisitions that suit our international business strategy. In conjunction with our proposed investments in CLSA and CA Cheuvreux, details of which are set out in “— Minority Investments in CLSA and CA Cheuvreux”. We and CA-CIB expect to continue to explore and discuss areas of business cooperation and mutual interest on a preferred basis, although no binding arrangements or agreements have been entered as at the Latest Practicable Date.

Leverage integrated full-service platform to better serve clients' needs

In order to become the investment bank of choice for our clients, we believe that it is critical that we offer a suite of differentiated products and services to meet our clients' growing needs. We strive to provide innovative products and customised services to our customers. For example, we have recently established a new product committee, consisting of senior management members of various business lines, to conduct research into clients'

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needs and decide on the development of innovative financial products and services catering to our clients. We also plan to increase our interaction with our clients to better understand their needs and strengthen our existing relationships. To achieve this, we will continue to enhance our coverage teams to better serve institutional clients and strengthen our branch network and integrated call center to better serve our retail customers.

In order to serve our clients on a coordinated basis and promote the cross-selling of our comprehensive product and service offerings, we plan to establish appropriate corporate systems and procedures to encourage and enhance cooperation among our business lines. We plan to put in place systems that facilitate the referral of business opportunities between our fee-based and capital-efficient businesses and between our domestic and overseas businesses. For example, our investment banking business is encouraged to strengthen its cooperation and communication with our private equity business to identify and create potential investment opportunities. Our research and brokerage businesses will continue to support our private equity business with respect to knowledge, client base and marketing channels. Our domestic and overseas sales and trading businesses will continue to share resources with respect to cross-border business opportunities, such as QFII and QDII businesses. We also plan to adopt more flexible performance evaluation schemes. For example, for capital-efficient business opportunities arising from our traditional fee-based businesses, we expect to encourage the relevant business lines to determine the pricing and revenue sharing arrangements among themselves, based on which our human resources department will conduct year-end reviews.

Enhance risk management, internal control, IT and other supporting functions

We believe that effective risk management, internal control, technology support and other supporting functions are fundamental to the successful operation of our current and potential business lines.

We plan to enhance our overall risk management and internal control capabilities to keep abreast with prevailing international standards. We intend to enhance our organisational structure, models and information systems to monitor, evaluate and manage our risk exposure, such as risk pooling, risk limit systems based on capital allocation and economic capital process. In addition, we plan to hire additional professionals with extensive risk control experience and skills to achieve efficient execution. Further, we intend to strengthen our compliance and audit functions to ensure full compliance with applicable laws and regulations. For example, we closely monitor the cooperation between our private equity team and investment banking team to prevent insider trading, conflicts of interest and other misconducts. Please see “Risk Management and Internal Control” for additional information.

We also plan to continue to enhance our technology system tailored to provide high value-added technology services and support our business operation. For example, to provide our clients with one-stop trading and clearing services, we plan to set up an international-standard information technology system comprising a centralised trading system and an integrated call center. Furthermore, we plan to set up an IT system to optimise our knowledge management system and financial database for our investment banking business.

Enhance competitiveness through attracting, motivating and retaining high-quality talent

We believe our people are our most important asset, and our continued ability to compete effectively in our existing businesses and expand into new business areas depends on our ability to attract, motivate and retain talent.

Our goal is to attract the most talented individuals, improve their skills and bring in career development opportunities through advanced human resources management. We promote a culture that encourages and supports diversity. A candidate’s ability to contribute to our culture is a key hiring criterion. We identify and provide career development opportunities tailored to each employee’s needs. We aim to build a cohesive work environment by

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promoting cross-division and cross-region employee exchange programs. We regularly send selected employees to CSI, our subsidiary in Hong Kong, to gain experience from overseas operations.

We seek to motivate and retain high-quality talent through our performance-based compensation system. We have formulated market-based incentive programs that link the compensation of our employees to individual and company-wide performance measures to closely align the interests of our employees with those of our Shareholders.

OUR PRINCIPLES

Set forth below are our principles:

1. **We are dedicated to supporting our clients, employees and shareholders.** We measure our success by the quality of our client service, job satisfaction and career development of our employees, and the returns we generate for our Shareholders.
2. **We strive to be an industry leader.** We will not settle for being second best. Our goal is to become a world-class, top-tier investment bank. We are determined to be as good as, if not better than, leading international firms.
3. **We focus on sustainable business growth.** We recognise that profitability is an important measure of our success and critical to attracting and retaining top talent. To enhance our profitability, we will streamline operations, develop new businesses, implement risk control and execute long-term strategies and near-term business targets.
4. **We are committed to excellence.** We expect every colleague to meet the high standards of our company. We strive to operate at the highest level. We recognise that in our business, it takes extraordinary efforts from outstanding talent to achieve unparalleled success.
5. **Unreserved commitment allows us to keep growing.** To reach our goal, all members of our company, especially our senior and mid-level managers, must wholeheartedly devote their passion, intellect, energy, and time, to building a great company. We are a team with shared commitment and uncompromised dedication.
6. **People are our most important asset.** Those who devote their efforts, passion and capability to deliver business performance will be rewarded with opportunities for advancement. As a firm with global aspirations, we attract and retain people with different backgrounds and perspectives to meet our business challenges in an international marketplace. We believe a diverse workforce is key to a successful global firm.
7. **We emphasize teamwork in every way.** We value the opinion of each individual participating in the decision-making process. Each business division and every colleague, particularly senior and middle-level managers, are obliged to give full support once a final decision is made. Each team member must accept responsibility for successfully implementing the decision, regardless of who originated the idea.
8. **We treat every colleague with respect and dignity.** Our priority is to create a workplace where all employees are treated equally and given the chance to excel, regardless of their title or seniority.
9. **We adhere to the highest ethical standards.** We value openness and integrity at the core of what we do. We take calculated risks and manage them diligently. We believe that being transparent about the way we operate is critical to earning the trust of our clients, shareholders and employees.

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PRINCIPAL LINES OF BUSINESS

Our business lines comprise various products and services that are set forth in the following table:

Investment Banking	Sales, Trading and Brokerage	Asset Management	Investment
• Equity finance	• Equity sales and trading	• CAM	• Private equity
• Debt and structured finance	• Fixed income sales and trading	• TAM	• Principal investment
• Financial advisory	• Prime services	• SAM	
	• Retail brokerage	• China AMC	

The table below presents the revenue and other income from each of our principal lines of business and their respective contributions to our consolidated revenue and other income for the periods indicated. We report our financial results in five reporting segments according to the nature of their operations. For additional information concerning operating segments, please see “Financial Information — Segment Operating Results.”

	Year ended 31 December						Three Months ended 31 March			
	2008		2009		2010		2010		2011	
	%		RMB in millions except percentages		%		%		%	
	(unaudited)									
Investment Banking	1,959	9.9	2,637	11.0	3,290	10.9	365	7.8	278	7.2
Sales, Trading and Brokerage ^(a)	13,395	67.5	17,061	71.5	16,272	53.7	3,165	67.5	2,435	63.3
Asset Management	3,844	19.4	3,765	15.8	4,040	13.3	1,067	22.8	841	21.9
Investment ^(b)	640	3.2	405	1.7	6,680	22.1	93	2.0	291	7.6
Total	<u>19,837</u>	<u>100.0</u>	<u>23,868</u>	<u>100.0</u>	<u>30,281</u>	<u>100.0</u>	<u>4,690</u>	<u>100.0</u>	<u>3,845</u>	<u>100.0</u>

(a) Corresponds to our combined Brokerage segment and Trading segment in “Financial Information.”

(b) Corresponds to our Others segment in “Financial Information.”

Our Business Model

Our business model classifies our products and services into three categories based on the nature of revenue and how we use our capital to generate revenue, namely, fee-based, flow-based and capital-efficient businesses. Our fee-based businesses focus on traditional client-driven activities where we have a leading market position and generate fees and commissions as a stable revenue source. Our flow-based businesses leverage our capital position to facilitate client’s transactions or provide liquidity to various types of markets. In our capital-efficient businesses, we strive to capture investment opportunities that optimise our risk and return profile.

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The table below sets forth our business activities by category:

	Investment Banking	Asset management	Sales, Trading & Brokerage	Investment
Fee-Based	<ul style="list-style-type: none"> ● Equity underwriting ● Debt underwriting ● Financial advisory 	<ul style="list-style-type: none"> ● CAM ● TAM ● SAM ● China AMC 	<ul style="list-style-type: none"> ● Institutional sales ● Institutional trading ● Retail mass market ● High-net-worth individuals 	
Flow-Based			<ul style="list-style-type: none"> ● Equity market-making ● Fixed income market-making ● Prime services 	
Capital-Efficient			<ul style="list-style-type: none"> ● Multi-strategy trading ● Hedging 	<ul style="list-style-type: none"> ● Private equity ● Principal investment

Investment Banking

Our investment banking business consists of the following activities:

- Equity finance;
- Debt and structured finance; and
- Financial advisory services.

We are the market leader in both the equity and debt finance businesses among investment banks in China based on the total amount of equity and debt underwritten in 2010. We provide capital-raising and financial advisory services to a diverse group of corporate and other institutional clients in China and globally. In China, we believe we are well positioned to undertake the large projects that our leading clients may contemplate, while striving to meet the various financing needs of SMEs and start-up businesses.

We maintain contact with over 400 companies, many of which are leaders in their respective industries. During the past five years, we lead-managed equity and debt offerings for 229 of these companies, 111 of which were listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange and represented over 35% of the total market capitalisation of the companies listed on these two exchanges as at 31 March 2011. During the past five years, over 35% of the issuer clients in our underwriting business were repeat clients. We also aggressively pursue new customer groups, ranging from domestic SMEs to multinational corporations that are seeking business opportunities in China.

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The following table sets forth our market position in equity and debt underwriting in China for the periods indicated:

	2008			2009			2010			Six months ended 30 June 2011		
	Equity	Debt ^(c)	Total	Equity	Debt ^(c)	Total	Equity	Debt ^(c)	Total	Equity	Debt	Total
Rank ^(a)	1	1	1	1	2	2	1	1	1	1	1	1
Amount underwritten ^(b) (RMB in billions)	64.5	123.3	187.8	81.2	168.1	249.4	137.5	116.7	254.1	30.0	52.4	82.4
Market share	19.8%	11.9%	13.8%	22.2%	8.5%	10.6%	14.3%	6.4%	9.2%	9.1%	4.4%	5.4%
Number of issues	15	58	73	26	81	107	41	71	112	9	18	27

(a) Measured by amount underwritten by investment banks in China.

(b) Represents amount underwritten of the transactions lead-managed by us. Amount underwritten is shared equally among lead managers for jointly managed transactions.

(c) Includes enterprise bonds, corporate bonds, financial bonds, medium-term notes, commercial paper and various ABS in China.

Organisation

We aim to continually adapt our organisational structure to meet the changing market dynamics and our clients' needs. Our current structure, which is organised by industry coverage, product execution and regions, is designed to combine our client-focused investment banking services with specialised execution expertise.

Our Investment Banking Services (IBS) team focuses on developing and maintaining client relationships. Our IBS professionals are currently organised into seven industry groups: financial institutions, energy, transportation, raw material and equipment, real estate, TMT and consumer. Each IBS member keeps in regular contact with corporate clients of a designated industry, informs clients of our latest products and services and identifies clients' various needs for finance services, including capital-raising, financial advisory, trading and asset management. Our IBS professionals' extensive industry knowledge and experience enables them to analyse our clients' objectives efficiently and bring in appropriate resources from our multiple business lines.

Our equity finance, debt and structured finance and mergers and acquisitions groups are responsible for bringing product expertise to clients and executing clients' transactions. We believe that a key factor in the success of our investment banking business is the close working relationship and efficient communication among the investment bankers, research analysts and sales force as coordinated by our equity capital market and debt capital market teams.

In addition, to capture emerging business opportunities in China, we established a corporate financing and development department in 2006 to focus on SMEs, mainly in the technology, medical and consumer industries. We also commenced operations in Hong Kong in 2006 to achieve optimal regional coverage and execution.

We believe our commitment to teamwork allows us to offer our comprehensive portfolio of products and services in an integrated fashion and successfully capture business opportunities ahead of our competitors.

Equity finance

We sponsor and underwrite IPOs and follow-on offerings of equity and equity-linked products. From 2008 to 2010, we lead-managed 82 equity offerings in China that raised an aggregate capital of approximately RMB283.2

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billion. As at 30 June 2011, we had 92 sponsor representatives, making us one of the investment banks with the largest number of sponsor representatives in China. We were named as the “Best Equity House in China” by FinanceAsia in 2010.

The following table sets forth a breakdown by transaction type of the amount underwritten and the number of equity and equity-linked offerings in China in which we acted as either sole lead manager or joint lead manager for the periods indicated. The amount underwritten shown in the table below represents amount underwritten of transactions lead-managed by us, and where we jointly lead manage a transaction, the amount underwritten is shared equally among other joint lead managers:

	2008		2009		2010		Six months ended 30 June 2011	
	Amount underwritten (RMB in millions)	Number of issues	Amount underwritten (RMB in millions)	Number of issues	Amount underwritten (RMB in millions)	Number of issues	Amount underwritten (RMB in millions)	Number of issues
IPOs.	25,087	4	35,397	10	57,846	24	4,576	3
Follow-on offerings . . .	17,978	8	45,027	15	59,605	16	21,607	5
Convertible bonds	21,390	3	821	1	20,000	1	3,833	1
Total	64,455	15	81,245	26	137,451	41	30,017	9

Leveraging our industry specific expertise and strong execution capabilities, we have been particularly successful in winning mandates for large and complex restructurings and equity offerings from domestic companies in various industries, especially the financial institutions, energy, transportation and real estate industries.

The following table sets forth the transactions we jointly lead-managed that were among the top ten equity and equity-linked offerings in China as measured by amount underwritten from 2006 to 2010:

Rank	Issuers	Offering Type	Year
1	Agricultural Bank of China Ltd.	IPO ^(a)	2010
2	Petro China Company Ltd.	IPO	2007
3	Industrial and Commercial Bank of China Co., Ltd.	IPO	2006
4	China Construction Bank Corporation	IPO	2007
7	Ping An Insurance (Group) Company Of China, Ltd.	IPO	2007
8	China Petroleum and Chemical Corporation	Convertible bond offering	2008
9	Bank of China Ltd.	Follow-on offering	2010
10	Bank of China Ltd.	Convertible bond offering	2010

(a) We acted as sponsor and lead-manager in the A share tranche and financial advisor in the H share tranche.

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We are also well-recognised for our ability to innovate in the equity underwriting business. We are routinely involved in high-profile equity transactions that are the first of their kind. We believe our ability to identify market and regulatory trends, structure and execute transactions in an innovative way and provide new equity capital market products has significantly contributed to our leading market position in the equity underwriting business. The following table sets forth the equity transactions we lead-managed that we believe are the first of their kind.

<u>Issuers</u>	<u>Description of Transactions</u>	<u>Year</u>
Dalian Port Co., Ltd. ⁽¹⁾	The first A share IPO by a company listed in Hong Kong concurrent with an issuance of A shares to parent company as consideration for an asset acquisition	2010
WeiChai Huafeng Power Co., Ltd. ⁽²⁾	The first A share listing by an H share company through merger by absorption	2007
Maanshan Iron & Steel Company Limited ⁽¹⁾	The first convertible bond with detachable warrants	2006
Industrial and Commercial Bank of China ⁽²⁾	The first A+H IPO in China and Hong Kong	2006

(1) Represents transactions in which we acted as sole lead manager.

(2) Represents transactions in which we acted as joint lead manager.

Having dedicated separate resources to focus on SMEs since 2006, we believe we are well-positioned to capture the equity underwriting opportunities in this market segment. As an early-mover in serving domestic SMEs, we have gained a deep understanding of the applicable rules and regulations, including those adopted by the SME Board and the ChiNext Board, the two primary listing venues for SMEs in China. We have a strong track record in the SME segment and have benefited from the attractive commission rates from equity underwritings for SMEs during the past three years. In 2010, we successfully sponsored and lead-managed nine IPOs of SMEs on the SME Board and the ChiNext Board, with an aggregate amount underwritten of RMB12.5 billion. In addition, we were among the “Excellent Sponsors on the SME Board” from 2008 to 2010, awarded by the Shenzhen Stock Exchange.

The following table sets forth the weighted average commission rates for the IPOs, follow-on equity offerings and convertible bond offerings on the main boards of the Shanghai Stock Exchange and the Shenzhen Stock Exchange, the SME Board and the ChiNext Board in which we participated as lead-manager from 2008 to 2010, excluding transactions lead-managed only by China Securities:

<u>Year</u>	<u>IPO</u>			<u>Follow-on offering</u>	<u>Convertible bond offering</u>
	<u>Main boards</u>	<u>SME Board</u>	<u>ChiNext Board</u>		
2008-2010	1.67%	3.33%	5.91%	0.89%	0.51%

We actively assist our clients in raising capital from the Hong Kong capital markets, leveraging our established Hong Kong platform. Since the commencement of our Hong Kong operations in 2006, we have participated in a number of high profile IPOs and other equity offerings in Hong Kong, raising over HK\$890 billion in aggregate proceeds as at the end of 2010. We have a particularly strong track record in underwriting A+H and RMB-denominated equity offerings.

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The following table sets forth the A+H and RMB-denominated equity offerings we lead-managed in recent years:

<u>Issuers</u>	<u>Description of Transactions</u>	<u>Year</u>
Hui Xian REIT	The first IPO of an RMB-denominated REIT	2011
Agricultural Bank of China Ltd.	The largest A+H IPO of the year ^{(a)(b)}	2010
China Construction Bank	The largest A+H rights issue of the year ^(b)	2010
China Metallurgical Group Corp.	The largest A+H IPO of the year ^(b)	2009
China Railway Construction Co., Ltd.	The largest A+H IPO of the year ^(b)	2008
CITIC Bank	The largest A+H IPO of the year ^{(b)(c)}	2007
Angang Steel Co., Ltd.	The first A+H rights issue	2007

(a) We acted as sponsor and lead-manager in the A share tranche and financial advisor in the H share tranche.

(b) Measured by amount underwritten.

(c) We acted as financial advisor in the A share tranche and sponsor and lead-manager in the H share tranche.

We believe the combination of our substantial domestic client base, broad industry coverage and international underwriting capability has greatly enhanced our market position and brand name in the equity underwriting markets in China and Hong Kong.

Debt and structured finance

Our debt and structured finance activities include the structuring and underwriting of fixed income and structured finance products.

As one of the first investment banks to obtain full-service licenses for underwriting debt offerings in China, we underwrite a full range of fixed income products, including corporate bonds, enterprise bonds, financial bonds, medium-term notes and commercial paper. In China, these products are generally issued by different types of entities and regulated by different regulatory authorities as indicated in the following table:

<u>Debt offering</u>	<u>Issuer</u>	<u>Regulator</u>
Corporate bonds	Primarily listed companies	CSRC
Enterprise bonds	Primarily unlisted companies	NDRC
Financial bonds	Financial institutions (including commercial banks, insurance companies and others)	CBRC and PBOC
Medium-term notes and commercial paper	Non-financial enterprises	NAFMII

We believe our deep understanding of the PRC regulatory environment and our substantial experience in bond offerings have contributed to the success of our debt underwriting business. We believe we have differentiated ourselves from our competitors, such as commercial banks, with our strong pricing, execution and market assessment abilities and broad investor coverage, and from other investment banks with our strong capital position and full-service licenses. In 2010, we were named as the “Best Bond House in China” by FinanceAsia.

The following table sets forth a breakdown by product type of the amount underwritten and the number of debt offerings in China in which we acted as either sole lead manager or joint lead manager for the periods

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indicated. The amount underwritten shown in the table below represents amount underwritten of transactions lead-managed by us, and where we jointly lead manage a transaction, the amount underwritten is shared equally among other joint lead managers:

	2008		2009		2010		Six months ended 30 June 2011	
	Amount underwritten (RMB in billions)	Number of issues	Amount underwritten (RMB in billions)	Number of issues	Amount underwritten (RMB in billions)	Number of issues	Amount underwritten (RMB in billions)	Number of issues
Enterprise bond	45.9	22	54.1	24	38.4	33	1.5	2
Corporate bond	14.2	4	8.8	7	Nil	Nil	1.3	1
Financial bond . .	27.5	6	72.7	23	55.5	18	44.1	6
Medium-term notes and commercial paper	17.9	11	32.5	27	22.7	20	5.4	9
Total	105.5	43	168.1	81	116.7	71	52.4	18

Underwriting commission rates vary with the types of fixed income products underwritten. We focus on underwriting fixed income products that could lead to higher returns or greater brand recognition, such as corporate bonds, medium-term notes and commercial paper.

We believe we have been a market pioneer in offering innovative or deregulated fixed-income products and services in China. For example, we are one of two investment banks licensed to lead-underwrite medium-term notes and commercial paper in China. When the medium-term notes market was first opened in China in 2008, we lead-managed three of the first eight medium-term notes offerings, with an aggregate amount underwritten of RMB13.4 billion. The following table sets forth the fixed income offerings we lead-managed that we believe are the first of their kind in China:

Issuers	Description of Transactions	Year
General Motors Financial Company, Inc. ⁽²⁾	The first bond offering by an auto finance company in China	2010
Taikang Insurance Co., Ltd. ⁽¹⁾	The first insurance company subordinate bond offering registered and deposited with a stock exchange and priced with the book building mechanism in China	2010
Several SMEs in Zhucheng, Shandong Province ⁽²⁾ . .	One of the first pooled notes offerings in China	2009
China Telecom Corporation Limited; Sinochem Group; China Oil and Food Corporation ⁽²⁾	Three of the first eight medium-term notes offerings in China	2008
International Finance Corporation ⁽²⁾	The first Panda bond offering	2005

(1) Represents transactions in which we acted as sole lead manager.

(2) Represents transactions in which we acted as joint lead manager.

We have developed a diversified portfolio of structured finance products, including loan securitization and corporate assets securitization, and offer related advisory services. We have built a solid track record and achieved top rankings in the developing structured finance market in China. For example, we ranked first in the issuance of ABS products in terms of offering amount in 2008. In addition, we underwrote the first auto loan securitization

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transaction in China for GMAC-SAIC Automotive Finance Co. Ltd. in 2008 and the largest domestic corporate assets securitization transaction to date by transaction value for Industrial and Commercial Bank of China in 2008. We believe we have differentiated ourselves in China's structured finance market by offering innovative financial products and services, drawing on our early-mover advantages in product design and development.

We are also proactively exploring overseas bond markets through our platform in Hong Kong. We are one of the first investment banks in China to participate in the dim sum bond market in Hong Kong. In the past three years, we have assisted several China-based companies in raising capital through offerings of RMB-denominated bonds in Hong Kong. In 2011, we lead-managed the RMB-denominated bond offerings for the subsidiaries of two large state-owned enterprises, Sinochem Hong Kong (Group) Company Limited and COFCO (Hong Kong) Limited, in the offshore debt market, with a combined amount underwritten of RMB6.5 billion. In 2009, we lead-managed the first floating rate RMB-denominated bond offering in Hong Kong for HSBC China Ltd., with the total amount underwritten of RMB1.0 billion. In 2007, when the dim sum bond was first introduced in Hong Kong, we lead-managed the RMB-denominated bond offering for Export-Import Bank of China, with an amount underwritten of RMB2.0 billion. In addition, we structure and offer structured products to meet the financing, hedging and investment needs of our clients.

Financial advisory

We provide financial advisory services on various types of transactions, including mergers and acquisitions, joint ventures, corporate restructurings, leveraged buyouts and strategic alliances. Our financial advisory clients include public and private companies, government entities and private equity investors in China and overseas. For example, in 2009, we advised China Yangze Power Co., Ltd. on its RMB107.3 billion asset acquisition of China Three Gorges Corporation. In 2010, we advised Chongqing Beer Inc. on the sale of its 12.25% equity interest to Carlsberg Group with a transaction value of RMB2.4 billion.

The following table sets forth our market position in financial advisory services in China in 2010:

	Transactions announced but not completed	Transactions completed
Rank ^(a)	2	2
Transaction value (US\$ in millions)	10,528	5,351
Market share ^(a)	5.6%	5.9%
Number of deals	14	8

(a) Measured by transaction value.

We believe our financial advisory services are important to our overall business, particularly with respect to generating cross-selling opportunities for other businesses, such as principal investment and debt or equity financing. We intend to capitalize on the increasing number of business opportunities arising from the restructuring and globalisation of Chinese companies. We are seeking to strengthen our capabilities to execute cross-border mergers and acquisitions by exploring arrangements that will assist domestic clients in pursuing global expansion and overseas clients in entering into the Chinese market.

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Sales, Trading and Brokerage

Our sales, trading and brokerage business consists of the following activities:

- Equity sales and trading;
- Fixed income sales and trading;
- Prime services; and
- Retail brokerage.

In our sales, trading and brokerage business, we conduct sales, trading, market-making and financing activities as a principal or as an agent for our institutional and retail clients in connection with a wide variety of products, including equities and equity-linked products, bonds, swaps, futures and other derivatives.

The following table sets forth our trading turnover, market share and ranking of equity and equity-linked products and fixed income products on a combined basis on the Shanghai Stock Exchange and the Shenzhen Stock Exchange for the periods indicated:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Six months ended 30 June 2011</u>
Rank ^(a)	1	1	1	1
Total trading turnover (RMB in billions) ^(b)	5,891	9,965	10,780	3,437
Equity and equity-linked ^(c)	5,246	9,520	9,615	2,709
Fixed income	645	446	1,165	728
Market share ^(a)	8.1%	7.9%	8.6%	5.3%

(a) Measured by total trading turnover.

(b) Includes the trading turnover of China Securities of RMB2,426 billion, RMB4,059 billion and RMB4,265 billion in 2008, 2009 and 2010, respectively. Excluding the trading turnover of China Securities, we consistently ranked No. 4 as measured by total trading turnover in 2008, 2009 and 2010. Please see “Financial Information — Impact of Divestment” for the impact of the divestment of our equity interest in China Securities.

(c) Represents trading turnover of stock, fund products and warrants. We ranked first in China from 2008 to 2010 and second in the six months ended 30 June 2011 if measured by trading turnover of equity and equity-linked products.

The following table sets forth our trading turnover, market share and ranking of fixed income products among investment banks on China’s interbank bond market for the periods indicated:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Six months ended 30 June 2011</u>
Rank ^(a)	1	1	1	1
Trading turnover (RMB in billions) ^{(a)(b)}	1,282	2,962	5,351	2,537
Market share ^(a)	0.7%	1.4%	2.0%	1.9%

(a) Measured by trading turnover and published by China Central Depository & Clearing Co., Ltd.

(b) Represents the trading turnover of cash bonds, bond repurchases and other bond products but excludes the trading turnover of interest rate swaps.

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The following table sets forth the major trading products provided in our sales, trading and brokerage business and their related business lines:

<u>Products</u>	<u>Business Lines</u>
<ul style="list-style-type: none"> ● Equity and equity-linked products on stock exchanges 	<ul style="list-style-type: none"> ● Equity sales and trading business on behalf of institutional clients and as a principal ● Retail brokerage business on behalf of retail clients ● Prime services on behalf of institutional and retail clients
<ul style="list-style-type: none"> ● Fixed income products on stock exchanges ● Fixed income products on interbank bond market 	<ul style="list-style-type: none"> ● Fixed income sales and trading business on behalf of institutional clients and as a principal

The following table sets forth the gross weighted average commission rate we charged our institutional and retail customers for equity and equity-linked product trading for the periods indicated:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Six months ended 30 June 2011</u>
Gross weighted average commission rate ^(a)	0.152%	0.126%	0.098%	0.094%

(a) Represents the fee and commission income of our Brokerage segment over our trading turnover for equity and equity-linked products on stock exchanges, which is a common commission rate measurement used in the industry.

Equity sales and trading

Through equity sales and trading activities, we assist our investment banking team in selling the equity securities we underwrite in the primary market. We earn commissions and fees by providing trading advisory and execution services for our institutional clients in the secondary market. In addition, we derive investment income from the trading of equity, equity-linked products and equity derivatives in which we act as a principal or a market-maker.

With the gradual adoption of the book-building mechanism for securities pricing in China since 2004, institutional investors have been playing a crucial role in successful equity offerings. In addition, we believe our issuer clients increasingly appreciate the distribution and pricing capabilities of an investment bank when selecting underwriters for their offerings. As a result, equity sales are becoming an increasingly important function for investment banks. We believe we are among the first investment banks to establish an equity sales team in China with a focus on institutional investors. We are well-recognized in China for our equity sales capability, drawing on our early-mover advantage in setting up an equity sales team, strong underwriting and research capabilities and expansive distribution network. Our equity sales team had 65 members as at 31 December 2010 and was consistently recognized as the “Best Sales Team” in China by New Fortune from 2006 to 2010.

We execute trades in the secondary market for a broad range of institutional clients in China and overseas, such as insurance companies, commercial banks, fund management companies and QFIIs approved by the CSRC to invest in China’s capital markets. Each QFII in practice usually chooses one investment bank to execute their trading orders on each stock exchange. As at 30 June 2011, we had acted as equity broker and dealer for 61 fund management companies, 40 insurance companies, 38 out of the 97 QFIIs and over 165 other domestic financial institutions, including private funds, finance companies and trust funds.

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We also engage in market-making and proprietary trading of equity and equity-linked products, including providing liquidity to ETFs and executing block trades. In addition, we act as counterparty to investors in structuring, trading and market-making a variety of equity derivatives, including stock warrants, stock index futures, and other structured products. Among those products and services that would require our own capital commitment, we focus on the businesses that are client-driven, flow-based and capital-efficient. We plan to establish a wholly-owned subsidiary specialised in financial products investments. The subsidiary, once established, will be focused on conducting flow-based businesses, including investing capital to facilitate clients' transactions and providing liquidity and tailored financial products to clients.

We have built a strong reputation for developing innovative equity derivative instruments, having pioneered most of the derivative products offered in China's capital markets. We have traded in stock index futures since the stock index futures market was first opened in China in 2010. We also use stock index futures to hedge our equity portfolios. As one of the first participants on the stock index futures market, we have been granted a large quota by CFFEX to trade in futures based on the CSI 300 index. Furthermore, since we were licensed to issue stock warrants in 2005, we have issued and sold a total of 4.4 billion warrants, representing a market share of approximately 20% since 2005 based on total amount of issuance.

We have adopted multiple market-neutral trading strategies with respect to our equity proprietary trading activities in China. These strategies, including arbitrage trading strategies using stock index futures, multi-factor quantitative strategies and high frequency trading strategies, have allowed us to achieve stable returns with limited exposure to market risks. We separate our own equity trading activities from those we conduct on behalf of our clients in compliance with applicable rules and regulations. We have implemented strict risk management guidelines for our proprietary trading business to mitigate the risks we are exposed to. Please see "Risk Management and Internal Control" for a detailed description of our risk management system.

In addition, through CSI in Hong Kong, we have provided our domestic institutional clients access to the international capital markets and also developed a broad range of international institutional clients in the Hong Kong market. Many of our international institutional clients are renowned investors in the global investment community, including sovereign wealth funds, long funds, hedge funds and Hong Kong local ultra-high-net-worth individuals. We assist our international clients in investing in China's capital markets under the QFII scheme. We believe our broad client coverage and strong equity sales capabilities allow us to compete effectively in the Hong Kong market.

Fixed income sales and trading

Our fixed income sales and trading activities include sales, trading, market-making and structuring of a variety of fixed income and derivatives products for our institutional clients and on a proprietary basis.

We adopt a three-part approach to delivering high quality services to our clients. First, we market-make a broad range of fixed income products and derivatives, which we believe is crucial to maintaining client relationships and supporting our underwriting business with aftermarket liquidity. Second, we provide diverse market-driven research and strategic analysis services to selective clients. Third, we create innovative solutions to meet clients' needs by drawing upon our structuring and trading expertise as well as our capital resources.

Selling fixed income products has long been an important part of our fixed income franchise. We support our investment banking team by selling the products they underwrite. Please see "—Debt and structured finance" for details. We also sell fixed-income products independently issued by governmental entities or underwritten by other investment banks as agent.

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We act as a member of underwriting syndicates for the issuance of fixed income products by various types of governmental issuers in the open market, including MOF, PBOC, policy banks and China Development Bank. For example, we are a tier one member designated by MOF in the underwriting syndicate for treasuries issuances and a primary dealer designated by PBOC in the open market for central bank bills. We participate as a member of the underwriting syndicate in the distribution of policy financial bonds issued by Agricultural Development Bank of China, the Export-Import Bank of China and China Development Bank.

The following table sets forth our total sales volume, market share and ranking in the sale of treasuries and policy financial bonds for the periods indicated:

	2008			2009			2010		
	Sales Volume ^(a) (RMB in billions)	Rank ^(b)	Market Share ^(c)	Sales Volume ^(a) (RMB in billions)	Rank ^(b)	Market Share ^(c)	Sales Volume ^(a) (RMB in billions)	Rank ^(b)	Market Share ^(c)
Treasuries	32.4	1	4.5%	33.2	2	2.0%	41.0	1	2.3%
Policy financial bonds issued by China									
Development Bank . . .	33.2	1	5.4%	28.7	1	4.3%	43.8	1	5.1%
Policy financial bonds issued by Agricultural Development Bank of China	9.3	1	3.3%	12.6	2	4.2%	13.3	1	4.8%
Policy financial bonds issued by the Export-Import Bank of China	12.0	1	6.7%	12.1	2	6.2%	8.1	1	4.3%

(a) Based on our internal operating data.

(b) Measured by our sales volume.

(c) Calculated by dividing our sales volume by the aggregate amount of bond issuance for each issuer.

We trade and market-make a broad range of fixed income and derivatives products, including cash bonds, bond repurchases, interest rate swaps, trust products and ABS products. In China, a large majority of fixed income products are traded on the interbank bond market with the remainder traded on the exchange markets and the OTC market. We are an active participant on China's interbank bond market, engaging in the trading of cash bonds, bond repurchases and bond forwards. In 2010, we ranked first among all investment banks as measured by the trading turnover on the China interbank bond market. We also trade fixed income products on the exchange markets, such as treasuries, enterprise bonds and convertible bonds. As at 30 June 2011, we had acted as fixed income broker and dealer for 64 fund management companies, 63 insurance companies, 103 commercial banks and over 160 other financial institutions, including finance companies, rural financial institutions and foreign investors in China.

We enter into fixed income derivatives to hedge the interest rate exposure that arises from our trading and market-making activities. We were one of the first three investment banks in China licensed to offer interest rate swaps. We are a leading participant in the interest rate swap market, achieving a total trading turnover of RMB68.1 billion in 2010.

Building on our leading position in the fixed income sales and trading business in China, we expanded our market-making activities to cover RMB-denominated bonds and foreign currency-denominated bonds issued by

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China-related enterprises in Hong Kong and other Asian markets. In this way, we assist our domestic clients to access overseas capital, while allowing foreign clients to invest in Chinese companies. We are expanding into a full range of fixed income, currency and commodity product offerings to meet the needs of our clients.

Prime services

Our prime services include margin financing, securities lending and other valued-added services, such as portfolio reporting, capital introduction and advisory services for retail and institutional clients. We began offering margin financing and securities lending services at the holding company level in March 2010 as one of the first six investment banks in China licensed to do so.

Our margin financing services include providing margin loans to our clients to finance their purchases of publicly traded stocks, which are collateralized by securities or cash. We also offer securities lending services that involve lending the securities held in our own accounts to our clients. We expect our prime services business to grow if the Centralized Securities Lending Exchange is launched, as it will allow investment banks to act as intermediaries and lend securities held by other financial institutions, including banks, fund management companies and insurance companies.

Our prime services business has benefited from our strong capital resources and broad brokerage network. As at 30 June 2011, we had 2,656 margin accounts, representing only 6.1% of the total number of qualified brokerage accounts held by our clients. As at the same date, the total outstanding amount of our margin loans amounted to RMB1.9 billion, representing a leading market share of 7.0%. We currently charge an interest rate that is 300 basis points higher than the benchmark lending rate for six-month loans set by the PBOC for our prime services. We have not experienced any defaults with respect to our margin financing services since we began offering them in March 2010.

The table below sets forth certain information regarding our margin accounts in China for the periods indicated below:

	2010				2011
	31 March	30 June	30 September	31 December	30 June
Number of margin accounts ^(a)	13	850	1,037	1,373	2,656
Number of margin accounts as a percentage of qualified brokerage accounts ^(a)	—	2.4%	2.9%	3.8%	6.1%
Margin accounts balance (RMB in millions) ^(a)	—	458	852	1,563	1,913

(a) Based on our internal operating data.

The development of our prime services business is an example of how we actively participate in and capitalize on the financial reforms and pilot-innovations in China's capital markets. We assisted the CSRC in its development of the regulatory regime governing margin financing and securities lending, which we believe enabled us to benefit from the evolving regulatory regime and market practices for this market segment in China. We have steadily increased our prime services clients since we began offering prime services in 2010 and believe that the prime services market presents attractive growth opportunities for us. In August 2011, the CSRC published the proposed amendment to the regulation of the margin financing and securities lending business, which, once effective, would allow our wholly-owned subsidiaries, CITIC Kington and CITIC Wantong, to engage in the prime service business and further drive the expansion of our prime services business.

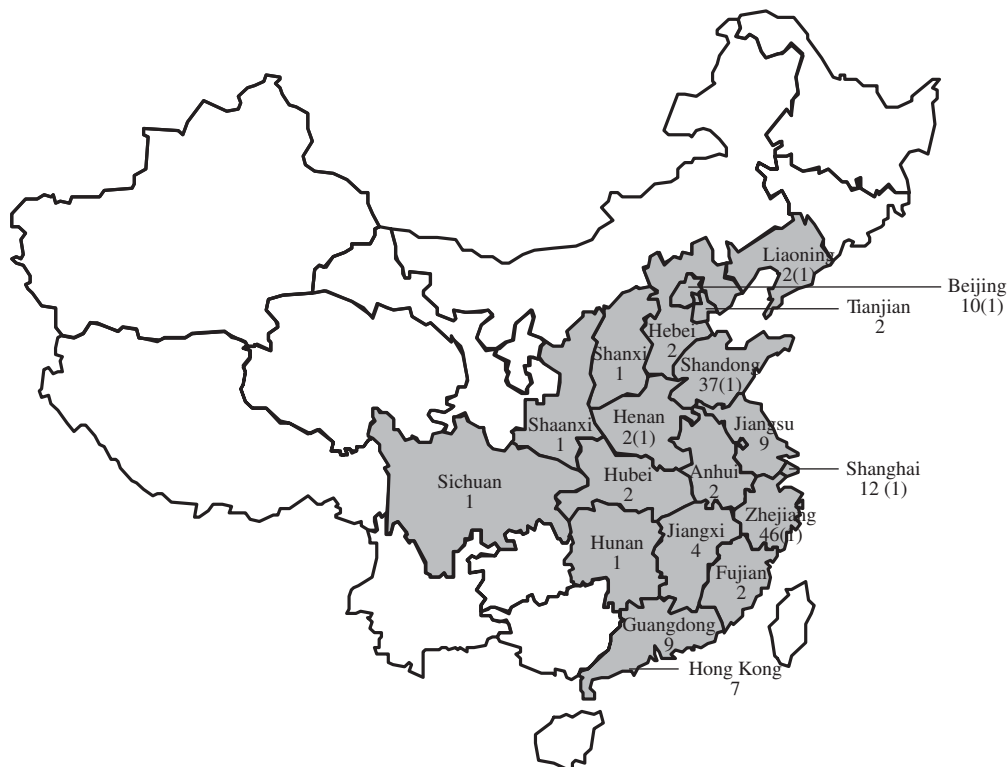
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Retail brokerage

We provide brokerage services to retail customers for their trading of equities, bonds, interests in mutual funds, warrants, futures and other tradable securities. We generate commissions from executing and clearing the buy and sell orders of our clients. We also generate commission income from selling interests in third-party mutual funds. Currently we engage in the retail brokerage business through CITIC Securities and our subsidiaries, CITIC Kington, CITIC Wantong, CITICS Futures and CSI.

As at 30 June 2011, our retail brokerage business had 151 branches covering 18 provinces and municipalities in China and seven branches in Hong Kong. As at the same date, we managed approximately 3.3 million accounts. We were consistently granted the “Best Local Brokerage in China” title by Asiamoney from 2007 to 2010.

The following map sets forth the provinces and municipalities in China covered by our branch network as at 30 June 2011.



Note: The figure outside the parenthesis represents the number of our securities brokerage branches and the figure in the parenthesis represents the number of our futures brokerage branches in a particular area.

We complement our nationwide network of branches with alternative trading platforms, such as the Internet, touch-tone telephone and mobile phone trading channels, to make trading convenient for our clients and to minimise our costs of processing routine client transactions. In the past three years, over 75% of our total retail customer trading volume was accounted for by trades executed through our alternative trading platforms.

Under current regulations promulgated by the CSRC and other regulatory bodies, brokerage account openings must be conducted in person at a physical branch office. A large branch network is therefore critical to increasing our customer base. Trades, however, may be made remotely through telephone, the Internet or other alternative platforms, which have increasingly become the trading method of choice for Chinese retail investors. We anticipate

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that the Chinese government may relax its requirements that brokerage branches be equipped with trading-related facilities. If this occurs, we intend to expand our branch network into areas that we believe represent growth potential for our business by establishing branches without trading facilities in order to lower our capital expenditures.

In light of the declining commission rates caused by intense competition in the retail brokerage industry, we aim to provide our brokerage customers with value-added products and services, such as fast trading channel, investment advisory, margin financing and securities lending services. In January 2011, we became eligible under new PRC regulations to provide investment advisory services to our brokerage clients, which we believe presents an opportunity to increase our commission rates and expand our brokerage revenue. As at 30 June 2011, we have built up a team of over 430 investment advisors.

In addition, we intend to focus more on high-net-worth individuals by expanding our retail brokerage business to provide private wealth management services, which we believe has strong growth potential and could generate cross-selling opportunities for our other businesses. We also plan to develop a diversified portfolio of products and establish a marketing team to offer integrated financial services to high-net-worth clients.

In addition to our strong retail brokerage business in China, we also provide brokerage services through our platform in Hong Kong to high-net-worth individuals and retail clients, covering stocks listed on the Hong Kong Stock Exchange and other foreign exchanges. With trading rights on the Hong Kong Exchanges and Clearing Limited, our brokerage business in Hong Kong specialises in securities dealing and brokerage, supplemented by other related services including online trading, custodian and nominee services and margin financing. We also provide futures brokerage services for a full range of futures-related products, including Hang Seng Index Futures and Hang Seng China Enterprises Index Futures, through CITIC Securities Futures (HK) Limited, a wholly-owned subsidiary of CSI.

Asset Management

We manage mutual funds, investment vehicles and special accounts for our clients seeking exposure to the capital markets as well as private and alternative investment opportunities in China and globally. We conduct our asset management business at our holding company level and through our subsidiaries, China AMC and CSI.

CITIC Asset Management

We provide fund management and advisory services to preserve and grow clients' financial assets. We manage CAM plans, a type of mutual fund managed by investment banks in China for retail customers. We also manage TAM and SAM plans, two types of special vehicles managed by investment banks in China for annuity plans, the NSSF, other institutional investors and high-net-worth individuals.

The following table sets forth the total AUM, market share and ranking among investment banks with respect to the accounts managed by our asset management team at our holding company level for the years indicated:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Rank ^(a)	2	1	1
AUM (RMB in billions)	12.0	29.1	46.0
Market share ^(a)	13.7%	20.7%	22.2%

(a) Measured by AUM.

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The following table sets forth a breakdown of our AUM and management fees by the type of accounts managed by our asset management team at the holding company level for the periods indicated:

(RMB in millions)	2008		2009		2010		Six months ended 30 June 2011	
	AUM	Management fees	AUM	Management fees	AUM	Management fees	AUM	Management fees
CAM plans	4,980	96.3	10,215	120.3	15,659	157.6	15,479	92.8
TAM plans	5,994	53.2	18,178	25.4	29,914	22.9	39,526	13.6
SAM plans	981	0.4	662	0.4	383	0.4	206	0.4
Total	11,955	150.0	29,055	146.1	45,956	180.9	55,211	106.8

Through our asset management team in China, we managed nine open-ended CAM plans in China. The AUM of the CAM plans we manage has grown significantly in the past three years. As at 30 June 2011, the AUM of the CAM plans we managed amounted to RMB15.5 billion.

As at 31 December 2010, we acted as investment manager of annuity plans for over 1,000 companies, many of which are existing clients of our investment banking business. We are among the three investment banks that are providing management services to the NSSF in connection with the equity interests they hold in state-owned enterprises. In December 2010, we were designated by the NSSF to be one of its domestic investment managers, making us one of the two investment banks in China that act as qualified domestic investment managers for the NSSF and the only investment bank in China that manages both the asset investment for and the equity interests held by the NSSF. As at 30 June 2011, the AUM of the special accounts we managed for annuity plans, the NSSF, other institutional investors and high-net-worth individuals amounted to RMB39.7 billion.

In addition, we were licensed in October 2007 to manage overseas investments for QDIIs. We believe we are well positioned to capture the opportunities as the asset management market for QDIIs develops. We also provide customised investment advisory services to high-net-worth individuals and institutional clients including identification of investment objectives, portfolio design, ongoing asset allocation and risk management.

China AMC

We have also conducted our asset management business through our subsidiary, China AMC, which we acquired in September 2007. China AMC was the largest fund management company in China with total AUM of RMB224.7 billion as at 31 December 2010. China AMC offers a diversified portfolio of products, including 29 open-end funds and two closed-end funds with different risk and return profiles. It has been designated by more than one hundred large and medium-sized enterprises as the investment manager for their enterprise annuities.

The following table sets forth the total mutual fund AUM, ranking and market share of China AMC among fund management companies in China:

	2008	2009	2010
Rank ^(a)	1	1	1
AUM (RMB in billions)	198.0	265.8	224.7
Market share ^(a)	10.2%	9.9%	8.9%

(a) Measured by AUM.

In May 2011, our board of directors approved a proposal to divest 51% of our equity interest in China AMC, in accordance with a regulatory requirement that the capital contribution of a single shareholder in a fund

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management company shall not exceed 49% of the company's total capital contributions. The proposal was approved by our Shareholders in June 2011. In July 2011, we listed 51% of our equity interest in China AMC on the Beijing Financial Assets Exchange for sale, with an intended sale price of RMB8.16 billion. On 11 August 2011, we were advised by the Beijing Financial Assets Exchange that the public bidding process for 31% of our equity interest had been duly completed, with aggregate sale proceeds of RMB5.1 billion. We will continue with the divestment of the remaining 20% equity interest in China AMC. Please see "Financial Information — Impact of Divestments" for additional information.

CSI

Through CSI and its subsidiaries in Hong Kong, we advise and manage a variety of investment vehicles, including hedge funds, mutual funds and specially managed accounts. Our investment vehicles in Hong Kong include the Alpha Fund series, CITIC Securities Alpha Leaders Fund and Nextam Partners. In January 2011, our China New Economy Fund Limited was listed on the Hong Kong Stock Exchange. In June 2011, we launched CSI RMB Fund Limited with a focus on RMB foreign exchange and fixed income products, especially in the dim sum bond market. As at 31 December 2010, the AUM of CSI Alpha Fund Series and CITIC Securities Alpha Leaders Fund amounted to US\$190 million and the AUM of Nextam Partners amounted to Euro 11 million. We also hold through one of CSI's wholly-owned subsidiary a 35% equity interest in CITIC PE (Hong Kong) Limited, which manages CPE China Fund, L.P., a US dollar denominated fund with total AUM of US\$990 million as at 30 June 2011.

Investment

In our investment business, we primarily engage in private equity investments and other principal investments. We invest in and commit capital to those investment vehicles that we believe present business facilitation or capital appreciation opportunities.

Private equity

We engage in private equity activities as a principal in China through our wholly-owned subsidiary, GoldStone. We also invest in and manage private equity funds in Hong Kong.

GoldStone

We began to make direct private equity investments as a principal through GoldStone in 2007 as one of the first two investment banks in China approved to do so. We focus on providing financing to companies with proven business models and attractive valuations. We selectively target a diversified portfolio of companies to invest in, typically by taking a minority equity position with the goal of exiting from the investment after the company's public offering. Nine of the companies we invested in have been successfully listed on the main boards of the Shanghai Stock Exchange and the Shenzhen Stock Exchange, the SME Board or the ChiNext Board in China. The following table sets forth the total amount of investment and the number of companies we invested in for the periods indicated:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Six months ended 30 June 2011</u>
Total amount of investment (RMB in millions) ^(a)	1,154	653	2,172	1,375
Number of companies invested	5	12	37	17

(a) Based on internal operating data.

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Our private equity business benefits from the large client base of our strong investment banking business, in particular our SME sector. Meanwhile, our private equity business also supports our investment banking businesses by funding the growth of the invested companies that may require our investment banking services in the future. Our strong capital position as well as our brand name make us an attractive partner for companies seeking private equity investment and allows us the flexibility to provide varying levels of capital infusion to meet the needs of a diverse group of investees.

CSI PE Fund

We co-found and manage private equity funds in Hong Kong through CSI PE Fund, in which we held a 72% interest as at 31 December 2010. Established in 2009, CSI PE Fund manages CSI Capital, L.P., an offshore private equity fund focused on private equity investments in China with total committed capital of US\$99 million as at 31 December 2010. As at 31 December 2010, CSI Capital, L.P. had made equity investments in four companies operating in a variety of sectors, including the consumer, media and industrial sectors, with each investment ranging from US\$8 million to US\$20 million. We plan to continue to invest in CSI Capital, L.P. and establish more private equity funds in the future.

Principal Investment

From time to time, we make investments in our consolidated, associated or jointly-controlled companies. Such investments are typically strategic long-term investments to achieve capital appreciation or business synergies. Some of our principal investment activities include the acquisition and divestment of our equity interests in China Securities, our investments in CITIC PE Fund and the proposed divestment of equity interests in China AMC. Please see “Financial Information” for additional information.

CITIC PE Fund

We co-found and manage private equity funds through CITIC PE Fund, in which we held a 35% interest as at 31 December 2010. Established in 2008, CITIC PE Fund manages CITIC Mianyang Private Equity Fund, a RMB fund with total AUM of approximately RMB9.0 billion as at 30 June 2011.

RESEARCH

Our research team provides research on the Chinese macro-economy, equity and debt markets, and industries and companies in China and Hong Kong. Our research team supports each of our main business lines and is important in sustaining our competitive positions in the investment banking, sales, trading and brokerage, asset management and other businesses.

We provide research reports and customised advisory services to Chinese companies, China-based funds and institutions, overseas institutional investors who are interested in the China and Hong Kong markets, as well as high-net-worth individuals and retail customers.

As at 30 June 2011, our integrated research team consisted of 121 professionals based in China and Hong Kong. We organise our research professionals into eight groups, namely macro-economy, finance and real estate, energy and raw materials, manufacture and TMT, consumer, general industries, financial engineering and the Hong Kong groups. Our equity research covers 28 research areas and over 740 listed companies in China, the total market

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capitalization of which accounted for over 77% of the aggregate market capitalization of listed companies on the Shanghai Stock Exchange and the Shenzhen Stock Exchange as at 31 December 2010.

We are renowned for our research capability. The annual New Fortune survey of research analysts and teams is well regarded in the financial industry in China, with views solicited from over 1,500 mutual funds, private equity funds, QFIIs and other institutional investors in China and covering a broad range of research areas, including, among others, macro-economy, strategy, banking, energy and construction. Our research team ranked first for five consecutive years since 2006 in New Fortune's "Best Domestic Research Team" survey. Among the six analysts who have won New Fortune's "Best Research Analyst" for five consecutive years, five have joined our research team. In addition, out of New Fortune's 31 sector-specific surveys in 2010, we achieved number one rankings in ten sectors, top two rankings in 18 sectors and top three rankings in 20 sectors.

MINORITY INVESTMENTS IN CLSA AND CA CHEUVREUX

In May 2010, we announced that we had entered into negotiations with CA-CIB, a wholly-owned subsidiary of Crédit Agricole Group, a major international banking group headquartered in France, to explore opportunities to create a global institutional brokerage platform and an Asia-Pacific focused investment bank. These discussions culminated in the signing on 13 July 2011 of a sale and purchase agreement by the Company and CSI with CA-CIB and CASA BV. Under the agreement, our wholly-owned Hong Kong subsidiary CSI has agreed to acquire existing shares representing a 19.9% equity stake in each of CLSA and CA Cheuvreux held directly or indirectly by CA-CIB. CLSA and CA Cheuvreux are the two principal subsidiaries in CA-CIB's equity brokerage and derivatives division. CASA BV is an intermediate holding company through which CA-CIB holds the shares in CLSA. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, prior to entering into the proposed investments, CA-CIB, CASA BV and their ultimate beneficial owners are independent third parties. CA-CIB holds an indirect minority interest in a subsidiary of CITIC Group.

We and CA-CIB both agree that our proposed investments in CLSA and CA Cheuvreux represent the appropriate level of cooperation at this juncture, based on our respective corporate objectives and strategic outlook. We believe these investments will provide us with a valuable opportunity to acquire an insight into the management of international equity brokerage and investment banking operations, and will better position us as we seek to further expand our business in accordance with our strategy and global aspirations. In conjunction with our investments in CLSA and CA Cheuvreux, we and CA-CIB expect to continue to explore and discuss areas of business cooperation and mutual interest on a preferred basis, although no binding arrangements or agreements have been entered as at the Latest Practicable Date. The Directors believe that the terms of the transaction are fair and reasonable and in the interests of our Shareholders as a whole.

Terms of the Investments

Purchase Price and Closing. CSI has agreed to pay an aggregate purchase price of US\$374 million in cash for a 19.9% stake in each of CLSA and CA Cheuvreux. The purchase price was determined after arm's length negotiations. We intend to fund these investments from internal sources. Closing is subject to regulatory approvals and other applicable clearance from the PRC and other relevant jurisdictions, and other customary conditions. We expect closing to occur by 31 December 2011.

Accounting Treatment. We intend to account for these investments as available-for-sale equity investments, which will initially be stated at consideration paid plus related transaction costs incurred. These investments will subsequently be carried at fair value, with any change arising reported through movement in reserves, unless in the

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event of any impairment in the value of the investments in which case the impairment would be reflected in the income statement.

Board Representation. We have the right to nominate and appoint one director to the respective boards of CLSA and CA Cheuvreux, but will not have any other representation in their management. We will not have veto rights over the corporate affairs of CLSA and CA Cheuvreux, other than customary matters for minority shareholder protection such as amendments to constitutional documents, amendments to rights attaching to our shares, and issuance of new shares other than on a pro rata basis.

Right of First Refusal. If we propose to sell our shares in CLSA and CA Cheuvreux, we must first offer the shares to CA-CIB. If we cannot agree on the price, we may require that CA-CIB commence an IPO of CLSA and CA Cheuvreux. If the IPO is not completed within 18 months, we and CA-CIB will discuss in good faith alternative arrangements to allow us to sell our shares, including the possibility of selling to third parties. If CA-CIB proposes to sell its remaining shares of CLSA and CA Cheuvreux, the sale must be for at least 50.1% interest in CLSA and CA Cheuvreux, and it must first offer the shares to us at a price to be proposed by CA-CIB. If we do not accept the offer after good faith negotiations, CA-CIB must purchase from us our entire stake in CLSA and CA Cheuvreux at a price equal to the proportion of the CA-CIB's proposed sale price (less 30% representing the control premium attributable to the controlling stake initially offered by CA-CIB) that our entire CLSA and CA Cheuvreux stake bears to the shares offered by CA-CIB. We believe that the right of first refusal gives both parties an assurance of the stability of the relationship and the flexibility of exiting from the relationship in an orderly fashion.

Change of Control. Upon a change of control in either us or CA-CIB, the other party has the right to purchase the shares held by the party undergoing the change of control at fair market value to be negotiated in good faith by both parties.

Guarantees. We will guarantee the obligations of CSI in connection with the acquisition. CA-CIB will guarantee the obligations of CASA BV.

About CLSA

CLSA is one of Asia's leading independent brokerage and investment groups. CLSA provides equity brokerage, capital markets, merger and acquisition, and asset management services to global corporate and institutional clients. Founded in 1986 and carrying out its operating activities out of Hong Kong, CLSA has more than 1,500 professionals located in 15 Asian cities, as well as London, New York, Boston, Chicago and San Francisco.

CLSA is ranked as one of the leading equity research houses in Asia by institutional investors, and is known for its independent thematic research, economic analysis and equity strategy. The following sets forth certain information about CLSA's research capability as at 31 December 2010:

- Number of research analysts: 150
- Number of companies covered: 1,100
- Number of sectors covered: 16
- Number of markets covered: 13
- Number of Asia-Pacific economies covered: 12

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According to its audited financial statements, CLSA reported revenue of US\$639 million and US\$761 million, profit before taxation and extraordinary items of US\$123 million and US\$97 million, and profit attributable to shareholders of US\$32 million and US\$61 million for the years ended 31 December 2009 and 2010, respectively, and its total assets amounted to US\$6.1 billion at 31 December 2010. CLSA is owned 65% by CA-CIB and 35% by Stitching CLSA Foundation on behalf of CLSA employees, with CA-CIB effectively controlling 100% of CLSA and beneficially owning 98.8% of CLSA.

About CA Cheuvreux

CA Cheuvreux is a European equity broker offering research, sales and execution services to institutional clients, with access to 100 execution venues worldwide. Its business includes equity research, providing its institutional investor client base with information on the European market through a team of 90 analysts and economists in 11 countries. CA Cheuvreux's execution services teams are specialised by region and by product, and serve international buy-side and sell-side clients.

CA Cheuvreux offers corporate brokerage services primarily to European listed companies, private equity funds and certain sovereign wealth funds. The range of services includes management of holdings, share management contracts, management of treasury stock and equity-linked debt, as well as advice and support during public offerings. CA Cheuvreux also offers its market expertise in research execution and advice to Crédit Agricole's retail network. CA Cheuvreux recently expanded its retail execution services to clients outside the Crédit Agricole Group.

According to its audited financial statements, CA Cheuvreux reported revenue of US\$278 million and US\$252 million, loss before taxation and extraordinary items of US\$4 million and US\$28 million, and a loss attributable to shareholders of US\$1 million and US\$26 million for the years ended 31 December 2009 and 2010, respectively, and its total assets amounted to US\$7.3 billion at 31 December 2010. CA Cheuvreux is a wholly-owned subsidiary of CA-CIB.

TREASURY MANAGEMENT

We believe management of our liquidity and capital resources is critical to our success. Accordingly, we have established a centralised management structure to oversee our liquidity and funding policies.

Our treasury department manages the capital structure, funding and liquidity, and is responsible for the day-to-day implementation of asset allocation decisions made by our Asset Allocation Committee. Please see "Risk Management and Internal Control" for a detailed description of our risk management governance structure.

We access liquidity through a variety of external financing instruments and sources. We raise short-term funds in the money market and engage in fund raising activities in the capital markets through our treasury department. Given the limited availability of external short-term financing sources to investment banks in China, we believe our treasury department has played a significant role in achieving financing efficiency and maintaining our overall liquidity.

We invest in highly liquid assets with low risk to ensure the availability of immediate liquidity and the safety of our capital, while benefiting from the returns on assets. We manage our cash assets primarily through interbank deposits, interbank borrowings, repurchase and reverse repurchase agreements and short-term bonds. We also invest in low-risk fixed income products and engage in arbitrage activities with guaranteed minimum returns.

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MAJOR CLIENTS

We serve a diverse set of institutional and individual clients across a spectrum of sectors. Our key clients range from multinational corporations and SMEs to high-net-worth individuals and retail customers. Our clients are primarily located in China. We expect to serve more overseas clients as we seek to further expand our operations internationally in the future.

For each of the last three years ended 31 December 2010, our revenue attributable to our five largest clients accounted for less than 30% of our total revenue.

To the knowledge of our directors, none of our directors, supervisors, their respective associates or any shareholders holding more than 5% of our issued share capital has any interests in any of our five largest clients as at the Latest Practicable Date.

We have no major suppliers due to the nature of our business.

COMPETITION

Competition in the financial services industry in China has been and is likely to remain intense. Our competition is based on a number of factors, including price, products and services, innovation, transaction execution capability, reputation, experience and knowledge of our staff, employee compensation and geographic scope. Our main competitors include other investment banks, securities companies and fund management companies in China. We also face competition from commercial banks, insurance companies and private equity funds. Some of the financial institutions that we compete with are larger in terms of asset size and client base and have greater financial resources or more specialised capabilities than we do. Foreign financial institutions, some of which have greater experience and resources than we do, have been expanding their operations in China and will continue to compete with us in providing financial products and services either by themselves or in partnership with other Chinese financial institutions. We also face increasing competition in overseas financial markets due to the expansion of our international operation.

We have experienced intense price competition in some of our businesses in recent years. The brokerage industry in China is very competitive, which has resulted in considerable pressure on brokerage commissions. The increased popularity of alternative trading platforms, such as the Internet, has also contributed to the decline in commission rates. In addition, equity and debt underwriting discounts, as well as asset management fee rates, have also been under pressure. We believe that we will continue to experience competitive pressures in these and other areas in the future as some of our competitors seek to win market share through price reduction.

We also face competition in attracting and retaining qualified employees. The competition among large investment banking firms for qualified sponsor representatives and other high-quality professionals is substantial. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees.

EMPLOYEES

We believe that a major strength and principal reason for our success is the quality and dedication of our people and the shared sense of being part of a team. We strive to create and maintain a work environment that fosters professionalism, excellence and cooperation among our employees and high standards of business ethics. Instilling our culture in all employees is a continual process, in which training plays an important part.

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As at 30 June 2011, we employed a total of 10,905 employees. The table below sets out the number of employees by function as at the same date:

	<u>Number of Employees</u>
Principal businesses	9,445
Research	174
Risk management	60
Legal and compliance	99
Information technology	400
Others	727
Total	<u>10,905</u>

Of all our employees, 10,503 were based in the PRC, while 402 were based in Hong Kong and our other overseas markets. Approximately 68% of our employees possessed at least a bachelor's degree as at 30 June 2011.

Our full-time employees participate in various employee benefit plans such as, compulsory pension, enterprise annuities, housing funds, work related injury benefits plans and medical benefit plans, unemployment insurance and maternity insurance. The employment contracts generally specify the employees' responsibilities, remuneration and grounds for termination.

Compensation for our full-time employees typically consists of a base salary and a discretionary bonus. The discretionary bonus is usually awarded at the year end based on our results of operations and the employee's performance.

We focus on our employees' career development. We conduct performance evaluation for our employees on an annual basis to provide feedback on their performance. We invest in training programs tailored for employees in different business lines.

We have a labor union in accordance with PRC laws and regulations. We have not had any strikes or other labor disturbances that have materially interfered with our operations, and we believe that we have maintained a good working relationship with our employees.

TECHNOLOGY

We are committed to the ongoing development, maintenance and use of technology throughout our Group. We expect our technology initiatives to greatly enhance client service through increased connectivity and the provision of value-added and tailored products and services, improve our trading, execution and clearing capabilities, effectively manage our risks and improve overall efficiency, productivity and control.

Electronic commerce and technology have changed and will continue to change the ways that securities and other financial products are traded, distributed and settled. This creates both opportunities and challenges for our businesses. We remain committed to being at the forefront of technological innovation in the PRC financial services market. Our information technology centre has developed several innovative technology systems in China, such as the investment banking knowledge database, bond sales and trading platform, client-based security and digital certificate system and the brokerage business information service platform for high-net-worth clients. We have also developed different trading platforms to address specific needs of different business lines, such as a margin financing and securities lending operating system for our prime services clients, an index futures arbitrage system for our high-end brokerage clients and a trading platform for our proprietary trading activities.

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Business continuity and information security are high priorities for us. We have designed contingency plans to provide reasonable assurance of business continuity in the event of disruptions at our critical facilities. The key elements of the program are crisis management, business recovery, systems and data recovery, people recovery facilities and process improvement. We have developed and implemented a framework of information security principles, policies and technology to protect our information assets and those of our clients. Safeguards are applied to maintain the confidentiality, integrity and availability of information resources.

PROPERTIES

Our corporate headquarters are located at CITIC Securities Tower, No. 8 Zhongxin San Road, Futian District, Shenzhen, China. As at 30 June 2011, we owned 35 properties, two properties under construction and leased 207 properties in the PRC. Our owned properties have an aggregate gross floor area of approximately 166,442.45 m² and our leased properties in the PRC have an aggregate lettable area of approximately 232,830.58 m².

Owned Properties

As at 30 June 2011, we owned and occupied 35 properties in the PRC with an aggregate gross floor area of approximately 166,442.45 m², of which:

- 27 properties with a total gross floor area of approximately 93,270.62 m² (covering a total site area of approximately 64,983.9 m²) had obtained both valid land use right certificates and valid building ownership certificates;
- one property with a total gross floor area of approximately 2,698.00 m² (for a total site area of approximately 2,117.27 m²), the land use right certificate of which had expired and we have applied for renewal of such certificate;
- two properties with a total gross floor area of approximately 64,412.73 m² recently acquired by us in two newly developed/renovated commercial buildings in Beijing and Qingdao, and for which we had signed the purchase agreements with the developers who had obtained the valid pre-sale permits in accordance with the relevant PRC laws and regulations. We have applied for the issue of the relevant land use right certificates and building ownership certificates of such properties. These two properties are our newly owned offices in Beijing and Qingdao; and
- five properties with a total floor area of 6,061.10 m² which we have not obtained valid title certificates.

In addition, we have a piece of land with a total site area of approximately 1,000 m² which is held as passageway and greenery purposes for which the land use right certificate has been applied for and being processed.

In respect of the properties for which we have applied for renewal or grant of title certificates, Jiayuan Law Firm, our PRC legal advisers, is of the view that there is no material legal impediment for us to obtain such title certificates if the necessary procedural requirements are satisfied. In respect of those properties without title certificates, which are used for office and commercial purposes, we are still in the process of applying for the relevant certificates and our Directors are of the view that the absence of the relevant title certificates will not result in any disputes which would have a material adverse effect on our operations, as such properties represent only an insignificant portion of the total value of our owned properties.

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Properties under Construction

As at 30 June 2011, we held two properties under construction with an aggregate gross floor area approximately 44,386.80 m², for which we have obtained the relevant granted land use right certificates and the relevant permits and approvals for construction as required by PRC laws. As at the Latest Practicable Date, construction of these properties is still ongoing. We have been advised by Jiayuan Law Firm, our PRC legal advisers, that upon completion of the construction of such properties, there would not be any material legal impediment for us to obtain the relevant building ownership certificates if the necessary procedural requirements are satisfied.

Leased Properties

As at 30 June 2011, we and our subsidiaries leased a total of 207 properties with an aggregate lettable area of approximately 232,830.58 m² in the PRC. In respect of such leased properties, which are used for office and commercial purposes, 49 of them with an aggregate lettable area of approximately 54,517.13 m² were leased from lessors who were not able to provide valid title certificates. Jiayuan Law Firm, our PRC legal advisors, is of the view that the absence of the relevant title certificates will not have a material adverse impact on our operations. Our Directors are of the view that if necessary, most of these leased properties can be replaced by other comparable alternative premises without any material adverse effect on our operations.

Overseas Properties

In addition, we also leased 26 properties with a total lettable area of approximately 7,126.14 m² in Hong Kong. Such properties are occupied by us for office, commercial and residential purposes and are leased to us from independent third parties or CITIC Group or its associates. The tenancy agreements of such properties are for various terms expiring between July 2011 and March 2013. Such tenancy agreements are entered into in accordance with the local legal requirements and are valid and binding.

INSURANCE

We currently maintain property insurance coverage for our headquarters and branches. All of our policies are underwritten with reputable insurance providers and we review our insurance policies annually. We are also in the process of negotiating director and officer liability insurance policies. We believe that our insurance coverage is adequate and standard compared to investment banks based in China and Hong Kong.

LEGAL PROCEEDINGS

We are currently involved in a number of legal proceedings arising from the ordinary course of our business. Please see “Risk Management and Internal Control — Legal and Regulatory — Legal Proceedings” for a detailed description of these legal proceedings.