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中信证券股份有限公司
CITIC Securities Company Limited

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

(Stock Code: 6030)

ANNOUNCEMENT ON RECEIPT OF LETTER OF ENQUIRY FROM THE SHANGHAI STOCK EXCHANGE

Reference is made to the announcement of CITIC Securities Company Limited (the “**Company**”) dated 9 January 2019, in relation to the passing of the relevant resolutions including the Proposal in relation to the Acquisition of Assets by Issuance of Shares and Related Party Transaction at a meeting of the board of the directors of the Company (the “**Board**”) held on 9 January 2019, and the entering into of the Framework Agreement on Asset Acquisition by Issuance of Shares among the Company, Guangzhou Yuexiu Financial Holdings Group Co., Ltd. and Guangzhou Yuexiu Financial Holdings Group Limited on the same date.

The Board hereby announces that, on 15 January 2019, the Company received the Letter of Enquiry regarding Information Disclosure of the Proposal in relation to the Acquisition of Assets by Issuance of Shares and Related Party Transaction of CITIC Securities Company Limited (Shang Zheng Gong Han [2019] No. 0085) from the Shanghai Stock Exchange (the “**Letter of Enquiry**”).

Details of the Letter of Enquiry are as follows:

“On 10 January 2019, your Company has disclosed the Proposal in relation to the Acquisition of Assets by Issuance of Shares and Related Party Transaction of CITIC Securities Company Limited (the “**Proposal**”). We have performed a post vetting on the Proposal and the following issues need to be further supplemented or disclosed by your Company.

I. Reasons for the Transaction

1. The Proposal disclosed that the Transaction can help the Company to strengthen its profitability and core competitiveness, and the Company can achieve leapfrog development in Guangdong Province or even the whole South China Region by leveraging on the existing outlets and customer resources of Guangzhou Securities.. Please make further disclosure on the following: (1) the distribution of the existing outlets of CITIC Securities and Guangzhou Securities in Guangdong Province and South China Region; (2) based on the above, the reasons for formulating the Transaction.

2. According to the transaction price in relation to the previous acquisition of the minority equity interest in the Target Assets by Yuexiu Financial Holdings, the corresponding valuation of the 100% equity interest in the Target Assets amounted to approximately RMB19.119 billion. Since the Transaction took place within 3 months from the previous acquisition, the consideration of the Transaction is tentatively set to be no more than RMB13.46 billion. Meanwhile, Guangzhou Securities realized an operating revenue of RMB2.945 billion, RMB1.743 billion and RMB2.302 billion in 2016, 2017 and 2018, respectively. The net profit had significantly decreased to RMB964 million and RMB239 million in 2016 and 2017, while the loss for the eleven months ended 30 November 2018 amounted to RMB184 million. Please make further disclosure on the following: (1) the reason for the significant change in the operating revenue and the continuous drop in the net profit of Guangzhou Securities for the last three years in view of the operating conditions of the securities industry and the financial conditions, operating results and compliance operation of Guangzhou Securities in recent years; (2) the necessity and reasonableness of the acquisition of Guangzhou Securities, taking into account the loss position of the Target Assets.
3. As shown in the publicly available information, Guangzhou Securities had been subject to various self-regulatory measures. At the end of 2015, Guangzhou Securities was criticized by NEEQ for poor internal control as well as disorderly operation and management in relation to market making business resulting from the “provision of market and quotation services to the contract transfer enterprises”. In March 2016, Guangzhou Securities was investigated again by the regulatory authorities for its negative acts and condemned by NEEQ for “undutiful behavior in relation to the routine check”. In September 2018, due to the violation of the requirements under the rule of “A share companies shall not compete unfairly when engaging in the securities brokerage business”, Guangzhou Securities, once again, was imposed of self-regulatory measures. Owing to these investigations, the rating of the Guangzhou Securities among the securities companies has been lowered by one grade to BBB Grade from A Grade in July 2016. Please make further disclosure on whether the acquisition of the Target Assets will have negative influence on the ratings of your company and whether relevant measures have been implemented to ensure the compliance operation of your company.

II. The Subsequent Consolidation of the Transaction and the Impact on the Company

4. The Proposal disclosed that the Target Assets to be acquired take the form of equity interest and do not involve any changes in the employment relationship with the employees of the Target Company. Meanwhile, the Proposal also addressed that the business consolidation was subject to industry particularity and complexity. Please make further disclosure on the proposed consolidation measures of your company relating to employees and assets, and the potential risk relating to the loss of customer and labor dispute, while taking into account the reasons for the Transaction.

5. The Proposal disclosed that Yuexiu Financial Holdings will hold more than 5% of the shares of the Company upon the completion of the Transaction. Please make further disclosure on the following: (1) the approval procedures for becoming a shareholder who holds more than 5% of the shares of a securities company; (2) the influence on your company after Yuexiu Financial Holdings becomes a shareholder who holds more than 5% of the shares of the company and whether Yuexiu Financial Holdings will appoint directors.

III. Others

6. The Proposal disclosed that Guangzhou Securities intended to transfer its 99.03% equity interest in Guangzhou Futures and 24.01% equity interest in Golden Eagle before the completion of the Transaction. The Transaction is subject to the transfer of the Excluded Assets by Guangzhou Securities, and in case that the transfer of the Excluded Assets by Guangzhou Securities does not obtain the approval by the regulatory authorities, the Transaction will not be implemented. Please make further disclosure on the following: (1) upon completion of the Transaction, whether the business model of the securities business of the Company will continue to comply with the requirement that securities companies can only have interests in two fund houses, and can only be the controlling shareholder of one of them; (2) the risks of the failure of the Transaction due to unsuccessful transfer of the Excluded Assets and warn the investors on such material risks.
7. The Proposal disclosed that the income from “other businesses” of Guangzhou Securities for the years of 2016 and 2017 and the eleven months ended 30 November 2018 were RMB220 million, RMB470 million and RMB1.03 billion, accounted for 7.51%, 26.7% and 44.58% of the total income, respectively, and is currently the largest source of income of Guangzhou Securities. Please make further disclosure on the specific classification of the businesses and their development.
8. The Proposal disclosed that, as at the date on which the Proposal was signed, Financial Holdings Limited has pledged its 26.18% equity interest in Guangzhou Securities to the Bank of China (Guangzhou Zhujiang Sub-Branch) to secure its bank borrowing at the amount of RMB1.650 billion, and has guaranteed to release the aforesaid share pledge by performing the repayment obligation or provision of other security no later than the Transaction being submitted for review and approval by the Listed Companies Merger and Reorganisation Vetting Committee. Please address the feasibility of the solution related to the release of the share pledge, taking into account the financial position of Financial Holdings Limited.

We would also like to request your financial adviser to express its view on the above issues.

Please submit your written reply for the above issues to us, and to make corresponding amendments to the Proposal in relation to the Acquisition of Assets by Issuance of Shares and Related Party Transaction and make relevant disclosure before 22 January 2019. ”

The Company is actively arranging intermediaries and relevant parties to address the issues stated in the Letter of Enquiry, and will submit the reply to the above issues on time, as well as disclose the relevant information as required.

By order of the Board
CITIC Securities Company Limited
ZHANG Youjun
Chairman

Beijing, the PRC
15 January 2019

As at the date of this announcement, the executive directors of the Company are Mr. ZHANG Youjun and Mr. YANG Minghui; the non-executive director is Mr. KUANG Tao; and the independent non-executive directors are Mr. LIU Ke, Mr. HE Jia and Mr. CHAN, Charles Sheung Wai.