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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**

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS**

References are made to the prospectus of the Company dated 22 September 2011, the announcements of the Company dated 26 September 2013 and 30 October 2016 and the circulars of the Company dated 14 October 2013 and 2 December 2016, in relation to, the continuing connected transactions entered into between the Company and CITIC Group under (a) the Securities and Financial Products Transactions and Services Framework Agreement for mutual transactions of securities and financial products and mutual provision of securities and financial services; (b) the Miscellaneous Services Framework Agreement for the mutual provisions of non-financial services; and (c) the Property Leasing Framework Agreement and the subsequent Property Leasing Supplemental Agreement I and Property Leasing Supplemental Agreement II for the mutual leasing of properties.

The term of each of (a) the Securities and Financial Products Transactions and Services Framework Agreement and the relevant annual caps thereunder; (b) the Miscellaneous Services Framework Agreement and the relevant annual caps thereunder; and (c) the Property Leasing Supplemental Agreement II for mutual leasing of properties and the relevant annual caps thereunder, are due to expire by the end of December 2019.

Upon approval by the Independent Shareholders of the Securities and Financial Products Transactions and Services Framework Agreement and the applicable annual caps and maximum daily balances thereunder at the extraordinary general meeting to be convened, the Company will renew each of the Securities and Financial Products Transactions and Services Framework Agreement, the Miscellaneous Services Framework Agreement and enter into the Property Leasing Supplemental Agreement III, each for a further term of three years commencing from 1 January 2020 and ending on 31 December 2022, and set the relevant annual caps and maximum daily balances for the continuing connected transactions contemplated thereunder for the next three years ending 31 December 2022 (except that the term of the Property Leasing Supplemental Agreement III to be entered into between the Company and CITIC Group and the relevant annual caps thereunder is from 1 January 2020 to 22 September 2021).

## HONG KONG LISTING RULES IMPLICATIONS

CITIC Group is a substantial Shareholder of the Company directly and indirectly holding an aggregate of 16.50% interest in the Company as at the date of this announcement. Accordingly, CITIC Group and its associates are connected persons of the Company under Chapter 14A of the Hong Kong Listing Rules and the proposed transactions to be conducted between the Group and CITIC Group and its associates under the Framework Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest of the applicable percentage ratios in respect of each of: (a) the proposed annual caps for the continuing securities and financial products transactions; (b) (i) the proposed maximum daily balance of non-exempted loans by CITIC Group and its associates to the Group, and the (ii) proposed maximum daily balance of non-exempted loans by the Group to CITIC Group and its associates; and (c) the proposed annual caps for the continuing securities and financial services transactions contemplated under the Securities and Financial Products Transactions and Services Framework Agreement proposed to be renewed exceeds 5% calculated according to the percentage ratios under the Hong Kong Listing Rules, such continuing connected transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the highest of the applicable percentage ratios in respect of each of: (a) the proposed annual caps for the continuing connected transactions contemplated under the Miscellaneous Services Framework Agreement proposed to be renewed for the next three years ending 31 December 2022; and (b) the caps for the continuing connected transactions contemplated under the Property Leasing Supplemental Agreement III proposed to be renewed for the year ending 31 December 2020 and the period from 1 January 2021 to 22 September 2021 is more than 0.1% but less than 5%, such continuing connected transactions are only subject to the reporting, announcement and annual review requirements, but are exempted from independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

The provision of inter-financial institutions loans by CITIC Group and its associates to the Group and the subscription by CITIC Group and its associates for the beneficiary certificates issued by the Group are exempted from reporting, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules as such transactions constitute financial assistance provided by a connected person for the benefit of the Group upon normal commercial terms with no security given for such financial assistance.

The Company has obtained a waiver from setting up the maximum daily balance of deposits, including the Group's proprietary funds and its customers' funds, with the banking subsidiaries of CITIC Group in the PRC and Hong Kong for the three financial years ending 31 December 2022.

## **EXTRAORDINARY GENERAL MEETING**

The Company will convene an extraordinary general meeting for the purposes of, among other things, obtaining the Independent Shareholders' approval for the renewal of the Securities and Financial Products Transactions and Services Framework Agreement and the proposed annual caps for each of the continuing securities and financial products transactions and securities and financial services transactions contemplated thereunder and the proposed maximum daily balance of non-exempted loans by CITIC Group and its associates to the Group, as well as the maximum daily balance of non-exempted loans by the Group to CITIC Group and its associates. CITIC Group and its associates will abstain from voting on the resolution.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders on the terms of the Securities and Financial Products Transactions and Services Framework Agreement proposed to be renewed and the proposed annual caps for the continuing securities and financial products transactions and securities and financial services transactions contemplated thereunder and the proposed maximum daily balance of non-exempted loans by CITIC Group and its associates to the Group, as well as the maximum daily balance of non-exempted loans by the Group to CITIC Group and its associates.

Somerley Capital Limited has also been appointed to advise the Independent Board Committee and the Independent Shareholders on the same matters.

A circular containing further details of the Securities and Financial Products Transactions and Services Framework Agreement, a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders and a letter from the Independent Board Committee to the Independent Shareholders on the same and its recommendation on voting, on the proposed terms to be renewed and the proposed annual caps of the continuing connected transactions contemplated thereunder, together with the notice of the extraordinary general meeting of the Company, will be despatched to the Shareholders on or before 22 November 2019.

## **1 BACKGROUND**

### **1.1 The existing continuing connected transaction agreements**

References are made to the prospectus of the Company dated 22 September 2011, the announcements of the Company dated 26 September 2013 and 30 October 2016 and the circulars of the Company dated 14 October 2013 and 2 December 2016, in relation to, the continuing connected transactions entered into between the Company and CITIC Group under (a) the Securities and Financial Products Transactions and Services Framework Agreement for mutual transactions of securities and financial products and mutual provision of securities and financial services; (b) the Miscellaneous Services Framework Agreement for the mutual provisions of non-financial services; and (c) the Property Leasing Framework Agreement and the subsequent Property Leasing Supplemental Agreement I and Property Leasing Supplemental Agreement II for the mutual leasing of properties.

As disclosed in the prospectus as well as the above-mentioned announcements and circulars of the Company, the Group has been, in the ordinary and usual course of its businesses, entering into continuing connected transactions with CITIC Group and its associates including securities and financial products transactions, provision of securities and financial services, financing transactions, miscellaneous non-financial services as well as lease of properties.

The term of each of (a) the Securities and Financial Products Transactions and Services Framework Agreement and the relevant annual caps thereunder; (b) the Miscellaneous Services Framework Agreement and the relevant annual caps thereunder; and (c) the Property Leasing Supplemental Agreement II for mutual leasing of properties and the relevant annual caps thereunder, are due to expire by the end of December 2019.

## **1.2 The proposed renewals**

In order to continue and regulate the continuing connected transactions under the Securities and Financial Products Transactions and Services Framework Agreement and upon approval by the Independent Shareholders at the extraordinary general meeting to be convened, the Company proposed to:

- (a) renew the Securities and Financial Products Transactions and Services Framework Agreement with CITIC Group for a further term of three years commencing from 1 January 2020 and ending on 31 December 2022;
- (b) in respect of the securities and financial products transactions under the renewed Securities and Financial Products Transactions and Services Framework Agreement: set the annual caps/maximum daily balances for the continuing connected transactions contemplated thereunder, including:
  - (i) the annual caps for the securities and financial products transactions;
  - (ii) the maximum daily balance of non-exempted loans, including repurchase, by CITIC Group and its associates to the Group; and
  - (iii) the maximum daily balance of non-exempted loans, including reverse repurchase, by the Group to CITIC Group and its associates,for the next three years ending 31 December 2022; and
- (c) in respect of the securities and financial services transactions under the renewed Securities and Financial Products Transactions and Services Framework Agreement: set the annual caps for the securities and financial services transactions for the next three years ending 31 December 2022.

In respect of the balance of the Group's proprietary funds and its customers' funds which are deposited with commercial banks in the PRC, the Company had applied for, and was granted by the Hong Kong Stock Exchange on 11 September 2019, a waiver from setting up the

maximum daily balance of deposits deposited with the banking subsidiaries of CITIC Group in the PRC and Hong Kong for the three financial years ending 31 December 2022.

The provision of inter-financial institutions loans by CITIC Group and its associates to the Group and the subscription by CITIC Group and its associates for the beneficiary certificates issued by the Group are exempted from reporting, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules as such transactions constitute financial assistance provided by a connected person for the benefit of the Group upon normal commercial terms with no security given for such financial assistance.

No approval by the Shareholders is required for the renewal of the Miscellaneous Services Framework Agreement and the entering into of the Property Leasing Supplemental Agreement III as the proposed annual caps thereunder are exempted from independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

## **2 THE SECURITIES AND FINANCIAL PRODUCTS TRANSACTIONS AND SERVICES FRAMEWORK AGREEMENT**

In the normal course of business of the Group, the Group regularly engages in various kinds of securities and financial products transactions with CITIC Group and its associates. The Group also provides securities and financial services in the normal course of its business to its customers, including CITIC Group and its associates. The various financial institutions of CITIC Group also provide securities and financial services to the Group in the normal course of their businesses. To comply with the requirements of the Hong Kong Listing Rules, the Company entered into the Securities and Financial Products Transactions and Services Framework Agreement with CITIC Group on 23 September 2011 and subsequently renewed by the parties on 31 December 2013 and 14 February 2017, respectively.

As the term of the existing Securities and Financial Products Transactions and Services Framework Agreement, as well as the relevant annual caps thereunder are due to expire by the end of December 2019, the Company proposed to further renew the Securities and Financial Products Transactions and Services Framework Agreement for a term of three years ending 31 December 2022, and to set the annual caps for the continuing connected transactions thereunder for the three financial years ending 31 December 2022.

### **2.1 The securities and financial products transactions**

#### ***2.1.1 Introduction***

The Group has been entering into securities and financial products transactions with CITIC Group and its associates in the normal course of its business and upon normal commercial terms. Such transactions involve the trading of securities and financial products on the PRC interbank bond market, and the exchanges (including PRC exchange bond market, futures exchanges and etc.), as well as the lending of funds by CITIC Group and/or its associates to the Group and the lending of funds by the Group to CITIC Group and/or its associates in the interbank money market.

The scope of the securities and financial products transactions under the Securities and Financial Products Transactions and Services Framework Agreement is as below, which is the same as the scope of securities and financial products transactions under the existing Securities and Financial Products Transactions and Services Framework Agreement:

- (a) *Transactions relating to securities products with fixed income features* — including, but not limited to, bonds, funds, trusts, wealth management products, asset management plans, asset securitized products, bond lending and borrowing, structured products, swaps, futures, forwards, options and other financial products with fixed income features;
- (b) *Transactions relating to fixed income related derivative products* — including, but not limited to, interest rates and credit derivatives;
- (c) *Transactions relating to equity-linked products* — including, but not limited to, trading and/or subscription of equity (including market-making activities on the New Third Board), funds, trusts, wealth management products, asset management products and equity derivatives such as return swaps, futures and options;
- (d) *Transactions relating to financing transactions* — financing transactions among financial institutions with or without guarantees/pledges including, but not limited to, interbank lending and borrowing, repurchase, interbank deposits, usufruct, asset securitization, corporate account overdraft, pledge loans, holding debt certificates for each other such as short-term financing bonds, beneficiary certificates, subordinated debts, corporate bonds; and
- (e) *Transactions relating to other related securities and financial products permitted by the regulatory authority* — including, but not limited to, futures, foreign exchange and commodities trading.

In the ordinary and normal course of the Group's business, the Group would enter into repurchase transactions (including collateralized securities repurchase and repurchase agreement transactions) with the financial institutions of CITIC Group and its associates. Collateralized securities repurchase involves the pledge of securities of the Group, including bonds and shares as collateral, to obtain financing from the financial institutions of CITIC Group and its associates and the Group agreeing to repay the funds obtained on a future date to release the pledge. Repurchase agreement refers to the sale of securities to the financial institutions of CITIC Group and its associates for trading at an agreed-upon price, and agreement to repurchase the subject securities at another agreed-upon price on a specific date in the future.

In addition, in the ordinary and normal course of the Group's business, the Group may also enter into lending transactions, including reverse repurchase transactions, with or without collateralized securities, with CITIC Group and its associates.

## ***2.1.2 Pricing basis for securities and financial products transactions***

### ***(a) Securities and financial products transactions***

The securities and financial products transactions are mainly conducted through the PRC interbank bond market and the exchanges (including PRC exchange bond market, futures exchanges and etc.). Such transactions are and will continue to be carried on at the prevailing market prices in the ordinary and usual course of the Group's business and with high frequency. The pricings of such transactions are subject to strict PRC regulatory supervision and requirements of the applicable PRC laws and regulations.

The major types of securities and financial products traded on the PRC interbank bond market and the PRC exchange bond market include a majority of the fixed income products and some repurchase and reverse repurchase transactions. The pricing of transactions conducted on the PRC interbank bond market and the PRC exchange bond market is determined based on the prices quoted in the PRC interbank bond market and the PRC exchange bond market respectively. Such prices are mainly determined with reference to the valuation of the relevant securities and financial products published by China Central Depository & Clearing Co., Ltd. ("CCDC"), as well as the yield curve and the turnover details published by China Foreign Exchange Trading System & National Interbank Funding Centre ("NIFC").

PRC interbank bond market is an open, highly regulated quote-driven market regulated by the PBOC pursuant to the Measures for the Administration of Bond Transactions in the National Interbank Bond Market (全國銀行間債券市場債券交易管理辦法). Transactions in the PRC interbank bond market must be reported to NIFC and are supervised by NIFC, CCDC and the National Association of Financial Market Institutional Investors ("NAFMII").

According to the relevant PRC laws and regulations, prevailing market prices in the PRC interbank bond market are determined with reference to the bid and offer prices quoted on NIFC and all transactions, whether conducted through an authorized intermediate money brokerage firm or a market maker or through over-the-counter negotiations, have to be reported to NIFC and reflected in the price quotations provided by NIFC and CCDC. According to the self-regulatory rules of NAFMII (i.e. the Self-regulatory Rules for Bond Transaction in Interbank Bond Market (銀行間債券市場債券交易自律規則)), abnormal pricing may result in disciplinary action by NAFMII, including public criticism. NAFMII is a self-regulatory organization responsible for supervising interbank transactions.

The PRC exchange bond market is an order-driven market governed by the CSRC. Transactions in the PRC exchange bond market have to be conducted in accordance with the prevailing market prices quoted on the relevant PRC stock exchanges.

The major types of securities and financial products traded on exchanges include equities and bonds. The pricing of transactions conducted on the exchanges is determined based on the prevailing market prices in the relevant stock exchanges.

In the ordinary and normal course of the Group's business, the Group and CITIC Group and its associates may also enter into transactions with each other in securities and financial products over the counter, such as transactions in some fixed income products, such as funds, trusts and wealth management products, fixed income related derivative products, equity-linked products, other related securities and financial products and some repurchase and reverse repurchase transactions. The pricing of transactions in OTC derivatives is determined mainly based on the derivative pricing models, such as Monte carlo simulation, B-S model and etc.. In terms of subscriptions by the Group of the financial products set up by the financial institutions of CITIC Group and subscription by CITIC Group and its associates of the financial products set up by the Group, the subscription price is at the same subscription price as the subscriptions by other investors. Such subscription price is determined by the financial institutions (or by the Group, where the financial product is set up by the Group) which set up the financial products after considering the fundamentals of the assets/businesses to be invested. CITIC Group and its associates are required to satisfy and comply with the relevant PRC administrative rules, regulations and measures regulating issuance, including pricing determination, of their financial products. The relevant rules and measures would normally require information documents to be prepared and disclosed, which would require due diligence, valuation, auditing of financial information, rating etc. to be conducted or prepared for the purpose of the issuance.

(b) *Inter-financial institutions borrowings, repurchase and loans*

For inter-financial institutions borrowings and lendings, transactions are conducted based on the prevailing interest rates quoted on the interbank money market with reference to SHIBOR. The pricings of such transactions are also subject to strict PRC regulatory supervision and requirements of the applicable PRC laws and regulations. Upon the recent relaxation of the relevant PRC rules and regulations, the Group has engaged in inter-financial institutions borrowings from the banking institutions of CITIC Group since 2016. Such borrowings are all conducted at the prevailing interest rates in the interbank money market at the time of the borrowings with no security being given by the Group for such inter-financial institutions borrowings.

The Group also engages in collateralized securities repurchase transactions with the financial institutions of CITIC Group in the ordinary course of its business at interest rates which are available to independent third-party customers of the financial institutions or for better than normal commercial terms. The Group may also enter into repurchase agreements with the financial institutions of CITIC Group upon the same terms applicable to repurchase transactions by the financial institutions of CITIC Group to independent third-party customers or for better than normal commercial terms.

The Group would ensure that the interest rates of repurchase offered by the financial institutions of CITIC Group are at the prevailing market rates by ascertaining from time to time that the terms (including the securities to be collateralized and financing period) and interest rates quoted by the financial institutions of CITIC



Group are comparable to those offered to independent third party customers of the financial institutions of CITIC Group by obtaining terms and interest rates from other major commercial banks to ensure that such terms and interest rates are also comparable to those offered by other comparable financial institutions in the market.

The loans provided by the Group to CITIC Group and its associates, including reverse repurchase, will be entered into upon normal commercial terms at interest rates and terms of reverse repurchase, as applicable to similar loans or repurchase transactions by the Group to its independent third-party customers.

### ***2.1.3 Pricing approval and supervision***

The Company has access to the NIFC and CCDC systems and systems of the domestic stock exchanges for transactions in the interbank bond market and PRC exchange bond market. It also reviews various bond market information published by NIFC and CCDC and other agents. For example, NIFC also composes repurchase rate which is one of the key benchmarks for repurchase transactions in the PRC financial market. The Company has also subscribed for information services provided by information service providers, such as Wind Info, and has access to information channels and websites of official and voluntary industry regulatory authorities, such as Asset Management Association of China, Chinamoney.com.cn and Chinabond.com.cn etc., which publish periodic official and voluntary statistics/information on the industry from time to time.

To ensure the terms of the securities and financial products transactions are on normal commercial terms or on terms no less favourable than terms applicable to independent third parties, the Group has implemented internal approval and monitoring procedures, including the following:

- (a) The Group has established its internal guidelines and policies for conduct of certain types of securities and financial products as well as the internal procedures and systems for approval and supervision such transactions and lending and borrowings. Such policies and guidelines would set out the requirements for pre-trading pricing enquiries, applicable interest rates, the procedures for price determination, approval authority and procedures, record keeping, supervision and review procedures for relevant types of transactions and businesses.
- (b) For example, for products with fixed income features, transactions through the interbank bond market and PRC exchange bond market shall be submitted to the Company's internal system for approval by the relevant department, and for record keeping. The risk management department of the Company will, through the system and daily report issued, monitor and control the transaction process and overall business operations. For capital operations, the Company, in accordance with the PRC rules and regulations, has set up its own internal system for pre-approval of borrowing and lending, collateralized securities repurchase and repurchase agreements, which would require pre-approval by the relevant department to ensure that any such transactions are conducted at market prices.

- (c) For financing transactions involving loans from and to CITIC Group and its associates, the individual department will control the levels of borrowings, including collateralized securities repurchase and repurchase agreements, and the loans to CITIC Group and its associates to ensure compliance with the maximum daily balances. Each department has an annual plan for borrowings, which will set a limit on the level of borrowings. In addition, each business department has designated contact persons for connected transactions, who have received trainings on the requirements relating to connected transactions. All connected transactions, once identified and conducted, will be recorded by the relevant department, which will check to ensure that all applicable restrictions, including the level of borrowings and the maximum daily balances, are observed and complied with.
- (d) The contact persons for connected transactions of the business departments of the Company are responsible for regularly monitoring whether the actual transaction amounts would exceed the annual caps or the maximum daily balances and make alert when necessary.
- (e) The compliance department, Board's Office and other specific operational and administrative departments will also collect data from all business lines and review the actual amounts of different types of securities and financial products transactions on a regular basis to ensure that the annual caps and the maximum daily balances would not be exceeded and remind the business departments on the control of such connected transactions. The legal and compliance departments will also review relevant agreements and grant approval, where appropriate.
- (f) The conduct of continuing connected transactions is also subject to annual review by all independent non-executive Directors, the Supervisory Committee of the Company and the auditors of the Company. The Related Party Transactions Control Committee comprising all independent non-executive Directors is also responsible for monitoring and reviewing major and continuing connected transactions of the Company.

#### ***2.1.4 Historical total net inflow and total net outflow transaction amounts, inter-financial institutions borrowings, repurchase and loans***

##### ***(a) Historical total net inflow and total net outflow***

Set out below are the historical total net inflow and net outflow transaction amounts (after deducting inter-financial institutions borrowings and non-exempted loans) in respect of the securities and financial products transactions between the Group and CITIC Group and its associates under the existing Securities and Financial Products Transactions and Services Framework Agreement for each of the two financial years ended 31 December 2018 and the six months ended 30 June 2019:

<b>Securities and Financial Products Transactions</b>	<b>Approximate historical transaction amounts ended</b>		
	<b>31 December 2017</b>	<b>31 December 2018</b>	<b>30 June 2019</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
<b>Total net inflow</b>			
Total net cash inflow derived from securities and financial products transactions (net of the amount of inter-financial institutions borrowings and repurchase transactions)	25,277.14	22,830.79	4,415.28
<b>Total net outflow</b>			
Total net cash outflow incurred for securities and financial products transactions (net of the amount of reverse repurchase)	20,256.39	25,527.09	15,808.28

(b) *Inter-financial institutions borrowings and beneficiary certificates issued by the Group*

As the inter-financial institutions borrowings by the Group from CITIC Group and its associates are negotiated between the parties based on the prevailing interest rate in the interbank market without security being given by the Group, such borrowings are exempted continuing connected transactions under Rule 14A.90 of the Hong Kong Listing Rules.

In addition, CITIC Group and its associates subscribed for beneficiary certificates issued by the Group in recent years, and independent third parties have also subscribed for such beneficiary certificates from time to time. No security is given by the Group for the issuance of such beneficiary certificates. The prices of such beneficiary certificates are determined by the Group mainly based on the prevailing interest rate of comparable beneficiary certificates in the market and the liquidity position of the Group. Within the same time period, the prices offered to CITIC Group and its associates for subscription of such beneficiary certificates are not more favourable than these offered to independent third parties. As the subscriptions by CITIC Group and its associates for the beneficiary certificates issued by the Group are conducted on normal commercial terms and no security is given by the Group for such beneficiary certificates, such subscriptions are exempted continuing connected transactions under Rule 14A.90 of the Hong Kong Listing Rules.

(c) *Non-exempted Loans between the Group and CITIC Group and its associates*

(i) Non-exempted loans, including repurchase transactions, to the Group

As repurchase transactions (including collateralized securities repurchase transactions and repurchase agreements) are loans provided by CITIC Group and its associates and as securities are provided by the Group for such loans, such continuing connected transactions are non-exempted continuing connected transactions under Rule 14A.90 of the Hong Kong Listing Rules.

Historical maximum balance of repurchase transactions with CITIC Group and its associates in a single day is as follows:

*in RMB million*

<b>For the year ended 31 December 2017</b>	<b>For the year ended 31 December 2018</b>	<b>For the six months ended 30 June 2019</b>
1,460	1,935.15	485.00

(ii) Non-exempted loans, including reverse repurchase, to CITIC Group and its associates

In the ordinary course of its business, the Group may enter into lending transactions, including reverse repurchase, with CITIC Group and its associates. Such loans by the Group to CITIC Group and its associates, including reverse repurchases, are non-exempted continuing connected transactions under the Hong Kong Listing Rules.

Historical maximum balance of inter-financial institutions lendings and reverse repurchase agreements with CITIC Group and its associates in a single day is as follows:

*in RMB million*

<b>For the year ended 31 December 2017</b>	<b>For the year ended 31 December 2018</b>	<b>For the six months ended 30 June 2019</b>
—	500.65	—

**2.1.5 The proposed annual caps for the three financial years ending 31 December 2022**

(a) *Total net inflow and total net outflow*

The Company estimates that the total net inflow and total net outflow in respect of the securities and financial products transactions (excluding inter-financial institutions borrowings, beneficiary certificates issued by the Group and non-

exempted loans) between the Group and CITIC Group and its associates under the Securities and Financial Products Transactions and Services Framework Agreement for each of the three financial years ending 31 December 2022 as follows:

<b>Securities and Financial Products Transactions</b>	<b>Proposed annual caps ending</b>		
	<b>31 December 2020</b>	<b>31 December 2021</b>	<b>31 December 2022</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
<b>Total net inflow</b>			
Total net cash inflow to the Group	75,000	80,000	90,000
<b>Total net outflow</b>			
Total net cash outflow from the Group	170,000	180,000	190,000

(b) *Inter-financial institutions borrowings and beneficiary certificates issued by the Group*

Inter-financial institutions borrowings by the Group from the financial institutions of CITIC Group are on normal commercial terms at the interest rates negotiated on an arms' length basis based on the prevailing interest rates in the interbank market with no security being given over the assets of the Group, and the subscriptions by CITIC Group and its associates for the beneficiary certificates issued by the Group are also conducted on normal commercial terms at issue price determined based on comparable market interest rate after taking into consideration of the liquidity position of the Group with no security being given over the assets of the Group. As such, such borrowings and subscriptions are exempt continuing connected transactions under Rule 14A.90 of the Hong Kong Listing Rules and no cap would be required to be set.

(c) *Non-exempted loans between the Group and CITIC Group and its associates*

(i) Non-exempted loans, including repurchase transactions, to the Group

The Company expects that the Group will continue to enter into repurchase transactions (including collateralized securities repurchase and repurchase agreements transactions) with CITIC Group and its associates. Since such transactions represent financial assistance and as collaterals are provided for such financial assistance, such transactions are non-exempt continuing

connected transactions under the Hong Kong Listing Rules. The Company estimates the maximum daily balance of loans, including collateralized securities repurchase and repurchase agreements, to the Group for the next three financial years ending 31 December 2022 as follows:

<b>Non-exempted loans, including repurchase transactions, to the Group</b>	<b>Year ending 31 December 2020</b>	<b>Year ending 31 December 2021</b>	<b>Year ending 31 December 2022</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Maximum daily balance of loans, including repurchase transactions, to the Group (including interests)	20,000	20,000	20,000

- (ii) Non-exempted loans, including reverse repurchase, to CITIC Group and its associates

The Company expects that the Group will continue to enter into lending transactions, including reverse repurchase, with the CITIC Group and its associates. Such loans by the Group to CITIC Group and its associates, including reverse repurchases, are non-exempted continuing connected transactions under the Hong Kong Listing Rules. The Company estimates the maximum daily balances of loans, including reverse repurchase, to CITIC Group and its associates, for the next three financial years ending 31 December 2022 as follows:

<b>Non-exempted loans, including reverse repurchase, to CITIC Group and associates</b>	<b>Year ending 31 December 2020</b>	<b>Year ending 31 December 2021</b>	<b>Year ending 31 December 2022</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Maximum daily balance of non-exempted loans, including reverse repurchase, to CITIC Group and its associates	8,000	8,000	8,000

### ***2.1.6 Basis of determination of the annual caps***

The estimates of annual caps in this Letter from the Board are estimates only and are based on various assumptions and qualification. The estimates should not be treated as any indication of the levels of revenue or profits of the Company.

#### ***(a) Total net inflow and total net outflow***

When estimating the annual caps for the total net inflow and total net outflow of the securities and financial products transactions (referred to in paragraph 2.1.5(a) above), the Company has made reference to the above historical transaction amounts, and also considered, among other things, the following key factors:

- (i) When estimating the annual caps for total net inflow and total net outflow, the Company has considered whether there are historical transactions in respect of a particular type of securities and financial products. Where there are historical transactions, the Company will calculate the percentage of historical transaction value to the historical total transaction value of that particular product and use the percentage value to calculate the projected transaction value for the next three financial years. The percentage value will be adjusted based on the volatility of the product. Where there are no historical transactions with CITIC Group and its associates, the Company will consider the historical total transaction value of that particular product, estimate a percentage of transaction with CITIC Group and its associates based on the volatility of the product, and use the percentage value to estimate the projected transaction value for the next three financial years. Where applicable, an annual increase of 10% to 20% (depending on whether the securities and financial products are expected to have normal growth or whether the product is the business focus and major product development of the Group in the next three financial years) has also been included.
- (ii) It is expected that the Group may continue to increase its investment in the wealth management products (including structured deposit) of the financial institutions of CITIC Group.
  - a. The liquidity fund of the Company is estimated to be in the range of RMB30 billion to RMB50 billion for the next three financial years. In order to maximize the return of capital, the Company estimates that, in maximum, approximately 10% to 20% of the liquidity fund will be used to purchase wealth management products of the financial institutions of CITIC Group and its associates.
  - b. In particular, the Company plans to continue to subscribe for several short-term wealth management products issued by the financial institutions of CITIC Group and its associates on a rolling basis, including (i) 30-day structured deposit products/fixed term wealth management products with a total subscription amount of approximately RMB2.2 billion and an interest rate of approximately 4%; (ii) 90-day

trust beneficiary right products with a total subscription amount of approximately RMB3.7 billion and an interest rate of approximately 8%; and (iii) a 90-day structured deposit product with an subscription amount of approximately RMB2 billion and an interest rate of approximately 4%, which will generate a cash outflow of approximately RMB49.2 billion in total per year in the next three financial years.

- c. Based on the above factors and considering the opportunity of future cooperation, the Company estimates that the total net cash outflow from purchasing such wealth management products would be approximately RMB61.5 billion in each year for the next three financial years. The return rates of the wealth management products purchased from the financial institutions of CITIC Group and its associates are expected to be in the range of 2.5% to 10% per annum. The Company estimates that the total net cash inflow arising from the purchase of such wealth management products would be approximately RMB1.2 billion in each year for the next three financial years.
- (iii) The Company will continue to conduct bond transactions on the interbank bond market in the normal course of its business, which include subscription for interbank certificate of deposit issued by the financial institutions of CITIC Group and bond transactions with the financial institutions of CITIC Group on the secondary market.
- a. The Company estimates the annual caps based on (i) the total value of bond transactions expected to be conducted by the Group each year in the next three years, and (ii) percentage of transactions expected to be conducted with CITIC Group and its associates. In 2018, the total transaction volume for purchasing bonds by the Group on the secondary market and subscription for interbank certificate of deposit is RMB2.7 trillion and the total transaction volume for sale of bonds by the Group on the secondary market is RMB2.9 trillion. If the capital market recovers in the future and taking into account the continuous innovation of financial products, it is estimated that the total transaction volume for purchasing bonds by the Group on the secondary market and subscription for interbank certificate of deposit from the primary market will be approximately RMB3 trillion per year in the next three financial years and the total transaction volume for sale of bonds by the Group on the secondary market will be approximately RMB3.2 trillion per year in the



next three financial years. In addition, in terms of the bond transactions conducted on the interbank bond market, the Company obtains quotes from money brokerage firms and has no information about the identities of the market participants providing the quotes before the settlement is made. Therefore, the Company includes a large buffer when estimating the percentage value to avoid any undue disruption and detriment to the ordinary course of business of the Group, and it is estimated that approximately 1%–5% of all the transactions is expected to be conducted with CITIC Group and its associates.

- b. Based on the above, the total net cash outflow from subscription for interbank certificate of deposit issued by the financial institutions of CITIC Group and its associates and purchase of bonds from the financial institutions of CITIC Group and its associates on the secondary market would be approximately RMB70 billion to RMB83 billion per year for the next three financial years, and the total net cash inflow from sale of bonds to the financial institutions of CITIC Group on the secondary market would be approximately RMB55 billion to RMB68 billion per year for the next three financial years. In addition, the subscription by the Group for the interbank certificate of deposit issued by the financial institutions of CITIC Group and its associates will result in approximated RMB0.1 billion cash inflow each year in the next three financial years estimated based on a return rate of 5% per annum and an average daily balance of RMB2 billion.
- (iv) The Company has also taken into account the possible transactions in relation to the subscriptions by the Group for the trusts, funds, asset management plans, asset securitized products and structured products controlled by the financial institutions of CITIC Group and its associates as investment managers.
- a. Since the first half of 2019, the Company started to subscribe for the trust plans managed by the financial institutions of CITIC Group, each with a term of approximately 10 days and a subscription amount of no more than RMB0.5 billion. If the Company continues to subscribe for such products on a rolling basis, it is expected to generate a net cash outflow of approximately RMB15 billion each year in the next three financial years.
  - b. If the capital market recovers in the future, and taking into account the continuous innovation of financial products, the Company estimates that the net cash outflow from subscription by the Group for the trusts, funds, asset management plans, asset securitized products and structured products controlled by the financial institutions of CITIC Group and its associates as investment managers would be in the region of RMB18 billion to RMB25 billion for the next three financial years. In addition,

the return rates for the relevant products are expected to be in the range of 2.5% to 10% per annum, thus the total net cash inflow arising from the purchase of such products would be in the region of RMB3.5 billion to RMB4.1 billion for the next three financial years.

- (v) The Company may also enter into equity-linked product transactions with CITIC Group and its associates, including transactions in relation to OTC options and return swap.
  - a. Among the equity-linked products, the Company previously only conducted OTC option transactions with CITIC Group and its associates. The Company obtained the qualifications to engage in OTC option transactions back in 2015. Although the transaction volume of OTC options is relatively low in the beginning years, it has shown fast growth momentum in recent years. It is expected that the cash inflow generating from OTC option transactions with CITIC Group and its associates in 2019 will be approximately RMB650 million, as compared to a cash inflow of approximately RMB2 million in 2017. Due to the rapid growth of such transactions, the Company estimates that the net cash inflow from OTC option transactions conducted with CITIC Group and its associates will be approximately RMB1.4 billion in 2020, RMB1.8 billion in 2021 and RMB1.9 billion in 2022.
  - b. The Company also considers the possible equity-linked return swap transactions with CITIC Group and its associates when estimating the annual caps. The cash flows from equity-linked return swap transactions include (i) a net cash inflow from payment of the margin by the counter party to the Group; and (ii) a net cash outflow from payment of the return, if any, by the Group to the counter party. Given the Group had not conducted such kind of transactions with CITIC Group and its associates in the past years, the Company estimates the net cash inflow (margin to be received by the Group) arising from the transactions with CITIC Group and its associates based on the historical total transaction value of equity-linked return swaps conducted with independent third parties, which was approximately RMB14.3 billion and RMB44.5 billion in 2017 and 2018, respectively, and a prediction of the percentage of transactions (approximately 10%) that might be conducted with CITIC Group and its associates in the next three financial years. Hence it is estimated that the net cash inflow from equity-linked return swap transactions to be conducted with CITIC Group and its associates will be approximately RMB5.4 billion in 2020, RMB5.9 billion in 2021 and RMB6.5 billion in 2022. Meanwhile, the Company estimates the net cash outflow (return to be paid by the Group) arising from equity-linked return swap transactions to be conducted with CITIC Group and its associates in the next three financial years based on the above-mentioned estimated net cash inflow from such transactions in the next three financial years and the historical percentage of the return paid to the counter parties to the margin paid by the counter parties on a monthly or yearly basis. Given that the return of

equity-linked return swap products is linked to the performance of the underlying equity securities or equity index and due to the high volatility and unpredictability of the stock markets, the percentage of the return paid to the counter parties to the margin paid by the counter parties on a monthly or yearly basis fluctuates widely from time to time. From 2016 to 2018, the Company recorded high percentages of 226% and 384% and low percentages below -50%. As such, the Company estimates a 100% percentage for the next three financial years and the net cash outflow from equity-linked return swap transactions to be conducted with CITIC Group and its associates will also be approximately RMB5.4 billion in 2020, RMB5.9 billion in 2021 and RMB6.5 billion in 2022.

- c. Based on the above, the net cash inflow from equity-linked products is estimated to be approximately RMB6.8 billion in 2020, RMB7.7 billion in 2021 and RMB8.4 billion in 2022, and the net cash outflow from equity-linked products is estimated to be approximately RMB8.4 billion in 2020, RMB9.2 billion in 2021 and RMB10.1 billion in 2022.
- (vi) The Company has also considered the following factors when determining the annual caps for the total net inflow and total net outflow of the securities and financial products transactions.
- a. Continuous growth of the PRC financial market and introduction of new securities and financial products

Based on the information available from Wind Info, the size of bond issuance in the PRC bond market increased from RMB363,621.08 trillion in 2016 to RMB438,462.13 trillion in 2018, representing a growth of approximately 20.58%. Innovative bond products have been introduced into the market from time to time, and the OTC derivatives market also recorded considerable growth, leading to the emergence of green financial bonds, beneficiary certificates, OTC options and many trading varieties and the size of business grows continuously. As

the PRC financial market has continued to grow substantially and as new securities and financial products have constantly been launched, the Company expects that total net inflow and total net outflow from securities and financial products transactions between CITIC Group and its associates and the Group will continue to grow substantially.

- b. Increasing co-operation between securities companies and banks and investments in each other's financial products

Liberalization of interest rates in China has led the banking institutions in China to turn to wealth management products to attract deposits from customers. While banks in China have good customer networks, they still lack the expertise and experience of PRC securities companies have in research, investment and settlement management, product design and assets management. In addition, commercial banks in China are restricted by PRC laws and regulations to engage in equity investments. Asset management products and funds of securities companies therefore provide excellent investment channels to commercial banks in China, including investing indirectly in equity investments. Further, with the relaxation of the issuance policy for asset-backed securities since 2014, which only requires such securities to be filed with the regulatory authority before issuance, increasing numbers of commercial banks in China are turning to asset-backed securities to raise funds to strengthen their assets allocations.

It is expected that the banking institutions of CITIC Group will increasingly invest in the asset management products and funds of the Group to take advantage of the expertise and experience of the Group in research and development and management of financial products. On the other hand, the Group will also increase its investment in wealth management products issued by the banking institutions of CITIC Group for stable investment returns.

- c. Rapid expansion of the Group's business scope and introduction of innovative products

The Group provides comprehensive financial products and services to its clients. The Company has now obtained qualifications and authorizations to engage in more than 40 types of business activities. Some qualifications obtained by the Company in earlier years have become very active during the past three years. Meanwhile, it is expected that the number of subsidiaries of CITIC Group may continue to increase in the next three years. As such, it is expected that the chance of transactions in securities and financial products between CITIC Group and its associates and the Group will increase.

*(b) Maximum daily balance for non-exempted loans, including repurchase transactions, to the Group*

When estimating the maximum daily balance of non-exempted loans, including repurchase transactions, to the Group (referred to in paragraph 2.1.5(c)(i) above), the Company has considered the following factors:

- (i) The Group started to enter into repurchase transactions with the financial institutions of CITIC Group since 2014. The daily balance of repurchase transactions with the financial institutions of CITIC Group fluctuated widely from time to time in the past years, mainly due to (i) the high degree of randomness of counterparty which depends on the quotations from all participants on the interbank bond market; and (ii) the influence from the volatile stock market. The highest daily balance of repurchase transactions with the financial institutions of CITIC Group from 1 January 2017 to 30 June 2019 was recorded on 18 January 2019 with an amount of RMB1.91 billion, whilst the lowest daily balance of such transactions was recorded on 22 January 2019 with an amount of RMB0.
- (ii) As the amount of repurchase transactions with the financial institutions of CITIC Group is highly unpredictable given the above reasons, the maximum daily balance for non-exempted loans to the Group is estimated based on (i) the maximum balance of repurchase transactions (including the transaction conducted with CITIC Group and its associates and independent third parties) in a single day in 2018, being approximately RMB58.381 billion; and (ii) approximately 30% of all the transactions are expected to be conducted with the financial institutions of CITIC Group in the next three years. In addition, the Company also considers possible repurchases transactions between the subsidiaries of the Group in Hong Kong and the associates of CITIC Group, the maximum daily balance of which is estimated to be approximately RMB5 billion.
- (iii) The significant growth of repurchase transactions in the interbank money market in the past years could also support the projected maximum daily balance. According to Wind Info, during the period from 3 January 2017 to 30 June 2019, the highest transaction value in repurchase transactions was recorded on 8 May 2019 at RMB4,103.262 billion, as compared to the transaction value in repurchase transactions of RMB1,424.245 billion on 3 January 2017, representing an increase of 188.11%. In addition, the average daily balance of repurchase transactions for the first half of 2019 was RMB3,280.759 billion, as compared to an average daily balance of RMB2,243.524 billion for the first half of 2017, representing an increase of

46.23%. The Company therefore considers that the amount of repurchase transactions will continue to increase as repurchase transactions provide relatively convenient methods to obtain facilities and are frequently used means for obtaining banking facilities.

- (iv) Due to the uncertainty of the amount of loans required for the purpose of the Group's business, a large buffer to the historical amount is included when estimating the relevant maximum daily balance to avoid any undue disruption and detriment to the business operations of the Group if any annual cap or maximum daily balance is to be revised and re-approved by Independent Shareholders.
- (v) Based on the above, the Company considers it appropriate to set the maximum daily balances at RMB20 billion per year for the next three financial years.

(c) *Non-exempted loans, including reverse repurchase, to CITIC Group and associates*

When estimating the maximum daily balance of loans, including reverse repurchase, to CITIC Group and its associates, for the next three financial years (referred to in paragraph 2.1.5(c)(ii) above), the Company has considered the following factors:

- (i) The Group started to provide non-exempted loans to CITIC Group and its associates since 2018, including entering into reverse repurchase transactions with the financial institutions of CITIC Group and its associates and providing inter-financial institution loans to CITIC Group and its associates. Similar to the repurchase transactions, the daily balance of such transactions also fluctuated widely from time to time. The highest daily balance of non-exempted loans to CITIC Group and its associates from 1 January 2017 to 30 June 2019 was recorded on 8 February 2018 with an amount of RMB499 million, whilst the lowest daily balance of such transactions was recorded on 2 March 2018 with an amount of RMB0.
- (ii) Similar to the repurchase transactions, the maximum daily balance for non-exempted loans to CITIC Group and its associates is estimated based on (i) the maximum balance of loans (including the loans provided to CITIC Group and its associates and independent third parties) in a single day in 2018, being approximately RMB23.916 billion; and (ii) approximately 30% of all the transactions are expected to be conducted with the financial institutions of CITIC Group and its associates in the next three years;
- (iii) When estimating the maximum daily balance for non-exempted loans to CITIC Group and its associates, the Company has also considered possible loans provided by the subsidiaries of the Group in Hong Kong to associates of CITIC Group in Hong Kong, which is estimated to be approximately RMB3 billion;

- (iv) Based on the above, the Company considers it appropriate to set the maximum daily balances at RMB8 billion per year for the next three financial years.

### *2.1.7 Maximum daily balance of deposits and waiver*

Pursuant to the Hong Kong Listing Rules, the Company is also required to set the cap in respect of the maximum daily balance of deposits, including the deposits of the Group's proprietary funds and its customers' funds, with the banking subsidiaries of CITIC Group in the PRC and Hong Kong for the three financial years ending 31 December 2022. Given the factors below, the Company had applied for, and was granted by the Hong Kong Stock Exchange on 11 September 2019, a waiver from strict compliance with the requirement of setting the relevant cap:

- (a) In respect of the deposit of customers' funds, it would be extremely difficult and impracticable for the Company to estimate and set a maximum daily balance for such deposits. The Company and CITIC Securities (Shandong), a wholly-owned subsidiary of the Company engaged in securities brokerage business, are required by the relevant PRC regulations to place the cash balances of customers' settlement funds with qualified PRC commercial banks (which may include the banking subsidiaries of CITIC Group) as decided by the customers, so the Company and CITIC Securities (Shandong) have no control over which PRC bank their customers are willing to open their accounts for the purpose of safekeeping the balance of their deposits, as well as the amounts of such deposits and their withdrawals, which are determined entirely by the customers in accordance with their personal requirements. Changes in the amounts of such deposits for which the Company and CITIC Securities (Shandong) have no control could be very substantial and fluctuate widely within short timeframe. In addition, CITIC Futures, a wholly-owned subsidiary of the Company engaged in futures brokerage business, is required by the relevant PRC regulations to place customers' margin deposits in separately opened accounts in the name of CITIC Futures with PRC commercial banks which have the requisite qualification to provide settlement services for futures trading (the "**Settlement Bank**", which may include the banking subsidiaries of CITIC Group). In practice, CITIC Futures may decide which Settlement Bank(s) to deposit customers' margin deposits after taking into consideration the interest rates offered by various Settlement Banks. If one of the Settlement Banks (including relevant banking subsidiary of CITIC Group) offers the most favourable interest rate for such customers' margin deposits, CITIC Futures may place all customers' margin deposits in the special account opened with this specific Settlement Bank. CITIC Futures has no control over the amounts of its customers' margin deposits and their withdrawals, which are determined entirely by the customers in accordance with their personal business requirements. Changes in the amounts of such deposits for which CITIC Futures has no control could be very substantial and fluctuate widely within short timeframe depending on market conditions and the customers' business needs.

- (b) In respect of the deposit of the Company's own proprietary funds in a separately opened account with a PRC commercial bank, which may include the banking subsidiaries of CITIC Group, it is extremely difficult for the Company to estimate the amount of incoming funds to be received on a daily basis, and if a maximum daily balance is set for the deposits in the Company's account maintained with the banking subsidiaries of CITIC Group, not only it would cause undue administrative inconvenience to the Company, but would also be unduly burdensome and unduly disruptive to the operations of the Company.
- (i) As for the proprietary trading business of the Company, such business is highly responsive to the market and may fluctuate widely within short timeframe. Further, the Company may from time to time liquidate some of its own proprietary financial products and portfolios in order to take advantage of the changes in the market, and any such sales are highly uncertain and if proceeded, can be of very substantial amounts. Since the Company's deposit account maintained with CITIC Bank, a subsidiary of CITIC Group, has been designated by the Company as the settlement account for the Company's proprietary trading of financial products (the "**Settlement Account**"), if a maximum daily balance is set for the deposits in such Settlement Account, it would cause undue administrative inconvenience to the Company, and would also hamper the ability of the Company to respond quickly to changes in the volatile financial market and unduly restricts the potential growth of the Group;
- (ii) As for the margin financing and securities lending business of the Company, since the Company's deposit account maintained with CITIC Bank has been registered with CSDC as the Settlement Account for the Company's margin financing and securities lending business, and the prevailing securities market may fluctuate from time to time, it would be difficult for the Company to predict in advance the daily trading volume of the margin financing and securities lending transactions as well as the amount of daily settlement fund received from CSDC. Meanwhile, margin financing and securities lending transactions are initiated by customers and the Company is not able to predict the transactions to be conducted by its customers in advance;
- (iii) As for the underwriting business of the Company, since it is the general practice in Chinese securities market that the investors are asked to wire their subscription funds in such transactions into the lead underwriter's proprietary account first and the lead underwriter will then transfer such funds to the issuer's account in a short period after deducting fees for the sponsors and underwriters, the amount that may be transferred to the Company's account at the PRC commercial banks as chosen by the investors (which may include the banking subsidiaries of CITIC Group) in connection with the underwriting business would be depending on the deals that the Company participates as the lead underwriter and the amount that the corporate clients may raise from the offerings under the prevailing market conditions, which is hard to predict in advance; and



- (iv) As for the private equity investment business of the Company, the Company, through its subsidiaries, CITIC Securities Investment and GoldStone Investment, engages in direct equity investment and investments in private equity funds, asset management schemes and trust products, etc. As for the direct equity investment projects of CITIC Securities Investment and GoldStone Investment, each of which is a subsidiary of the Company, the time of exit from such projects and the amount of income to be received would be depending on various factors including the actual performance of the portfolio companies, the then prevailing market conditions and means of the exit. In respect of the investments in private equity funds, asset management schemes and trust products, the income to be received by CITIC Securities Investment or GoldStone Investment would also be depending on, in addition to the aforesaid factors, the progress of the settlement and distribution of such funds or products. As such, it is hard for CITIC Securities Investment and GoldStone Investment to predict the amount of funds that would be realized from their private equity investments which would be deposited into the Group's proprietary funds account opened with relevant PRC commercial banks (which include the banking subsidiaries of CITIC Group) as well as the timing of receiving such funds.
- (c) The decisions as to which bank the Group would choose to place its own proprietary funds, as well as which Settlement Bank CITIC Futures would choose to place the customers' margin deposits, are entirely commercial-driven after considering various factors such as the deposit rates offered by different PRC major commercial banks, the geographical convenience of the branches of specific PRC commercial banks and other favourable terms offered by the banks.
- (d) The Company chooses to designate/register its deposit account maintained with CITIC Bank as the Settlement Account for its proprietary trading and margin financing and securities lending businesses based on the following considerations:
- (i) The Company has had long-term cooperation with CITIC Bank in fund management. Through such long-term cooperation, CITIC Bank has been quite familiar with the procedures of the Company's fund management, which contributes to the Company's operational efficiency in fund management;
- (ii) As the group's overall development strategy, CITIC Group has been encouraging its member companies (including CITIC Bank) and the Company to cooperate in various aspects to achieve synergistic effect; and
- (iii) CITIC Group and the Company has entered into the Securities and Financial Products Transactions and Services Framework Agreement since the listing of the H Shares of the Company on the main board of the Hong Kong Stock Exchange and renewed the same on a three-year basis, which governs and regulates, among others, the continuing connected transactions in relation to the provision of deposit services by the banking subsidiaries of CITIC Group to the Group. The pricing policies regarding such deposit services as set out

in the Securities and Financial Products Transactions and Services Framework Agreement have been approved by the Independent Shareholders of the Company, and are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

- (e) The Company has adopted below pricing policies in respect of the deposit services under the Securities and Financial Products Transactions and Services Framework Agreement and internal control measures for implementation of such pricing policies:
- (i) The deposits placed by the Group with the banking subsidiaries of CITIC Group under the Securities and Financial Products Transactions and Services Framework Agreement are entered into in the ordinary and usual course of the Group's business and the business of the banking subsidiaries of CITIC Group, based on normal commercial terms and are fair and reasonable and in the interests of the Company and its Shareholders as a whole. As agreed in the Securities and Financial Products Transactions and Services Framework Agreement, the interest rates offered to the Group by the banking subsidiaries of CITIC Group are not lower than each of (i) the interest rates authorized by the PBOC for the same type of deposits offered by commercial banks in the PRC during the same period and (ii) the interest rates for the same type of deposits offered to other customers of such banking subsidiaries of CITIC Group; and
  - (ii) As disclosed in paragraph 2.2.3 below, the Group has adopted a series of internal control and approval procedures to regulate the mutual provision of securities and financial services (including the provision of deposit services by CITIC Group to the Group) between the Group and CITIC Group and its associates under the Securities and Financial Products Transactions and Services Framework Agreement to ensure such continuing connected transactions of the Group will be conducted strictly in compliance with the pricing principles as established by the Securities and Financial Products Transactions and Services Framework Agreement.

## **2.2 Securities and financial services transactions**

### ***2.2.1 Introduction***

Apart from the securities and financial products transactions with CITIC Group and its associates as counterparties as disclosed in paragraph 2.1 above, the Group and CITIC Group and its associates also provide securities and financial services to each other during the normal course of their respective businesses. The Group provides securities and financial services such as advisory, brokerage, agency sale and asset management services for which the Group receives service fees, commission and other payments such as interests. On the other hand, the financial institutions of CITIC Group and its associates also provide financial and other services to the Group and the Group's customers, such as deposit management services and other agency sale services for which service fees are charged by CITIC Group and its associates.

The scope of services to be provided by the Group to CITIC Group and its associates under the Securities and Financial Products Transactions and Services Framework Agreement is as below:

- (i) *Underwriting, and sponsorship services* — including, but not limited to, sponsorship, underwriting and continuous supervision and guidance services for equity securities, fixed income products, structured products and other derivative products;
- (ii) *Other investment banking services* — including, but not limited to, financial advisory services relating to corporate restructuring, mergers and acquisition and sponsorship services for unlisted public companies;
- (iii) *Brokerage services* — including, but not limited to, securities brokerage and related financial products services as well as futures brokerage services such as treasury bond futures;
- (iv) *Financial products sales agency services* — including, but not limited to, provision of sales agency services for financial products;
- (v) *Entrusted asset management services* — including, but not limited to, assets management services for assets entrusted by customers; and
- (vi) *Other securities and financial advisory and consulting services and other commodities services, etc.*

The only proposed change to the scope of services provided by the Group to CITIC Group and its associates is to include sponsorship services for unlisted public companies (as indicated by mark-up above).

The scope of services to be provided by CITIC Group and its associates to the Group under the Securities and Financial Products Transactions and Services Framework Agreement is as below, which is the same as the scope of services provided by CITIC Group and its associates to the Group under the existing Securities and Financial Products Transactions and Services Framework Agreement:

- (i) *Deposit services* — including, but not limited to, (a) deposits of cash balances arising from the business operations of the Group including cash from daily operations, proceeds from fund raising activities such as equity and bond issuances; (b) cash deposits from the customers of the Group; and (c) other deposit services;
- (ii) *Financial products sales agency services* — including, but not limited to, provision of sales agency services for financial products and precious metals;
- (iii) *Client deposits management and custody services* — including, but not limited to, management services provided by the banking subsidiaries of CITIC Group for managing the cash deposits of non-financial institutional customers of the Group, which are required by the relevant PRC laws and regulations to be deposited into

the accounts of the Group with a PRC bank, and custody services provided by the banking subsidiaries of CITIC Group for securities and financial products issued by the Group;

- (iv) *Loan services* — including, but not limited to, funds for business operation and loans as the working capital of the Group provided by CITIC Group and its associates; and
- (v) *Other securities and financial advisory and consulting services, money brokerage services and commodities services, etc.*

### **2.2.2 Pricing basis**

- (a) Pricing basis of the securities and financial services to be provided by the Group to CITIC Group under the Securities and Financial Products Transactions and Services Framework Agreement

The Group primarily charges service fees, commissions and brokerage fees for the securities and financial services to be provided to CITIC Group under the Securities and Financial Products Transactions and Services Framework Agreement. The general pricing principles for such fees or commissions charged by the Group shall be based on negotiations between the parties with reference to the prevailing market rates and the fees or commissions charged by the Group for services provided to independent third parties, while taking into account individual factors such as deal size and complexities, market responses, and competition from other securities companies, and in accordance with the requirements of the applicable laws and regulations of the PRC.

- (i) *underwriting and sponsorship services*: the securities underwriting and sponsorship services market is highly competitive and the commission rates and fees have become generally transparent and standardized across the market. The service fees shall be determined based on arm's length negotiation with reference to, among other things, the prevailing market rates, the proposed total amount of proceeds and fee rates charged by the Group for the provision of similar services to independent third parties.
- (ii) *other investment banking services*: the service fees shall be determined taking into account of factors including the nature and size of transactions, the then market conditions, average fee level applicable to independent third parties for similar transactions and be determined on the basis of arm's length negotiations between the parties.
- (iii) *brokerage services*: the commissions shall be determined with reference to, among other things, the commission rates applicable to independent third parties and the estimated scale of the brokerage transactions and be determined on the basis of arm's length negotiations between the parties.
- (iv) *financial products sales agency services*: the service fees shall be determined

based on the amount of products for sale with reference to the service fee rates applicable to independent third parties.

(v) *entrusted asset management services*: the service fees shall be determined based on the estimated asset size with reference to the service fee rates applicable to independent third parties.

(vi) *other securities and financial advisory and consulting services, and other commodities services*: such fees and commission shall be determined based on the nature of the transactions with reference to the prevailing market rates in accordance with the applicable laws and regulations.

(b) Pricing basis of the securities and financial services to be provided by CITIC Group to the Group under the Securities and Financial Products Transactions and Services Framework Agreement

CITIC Group primarily charge services fees and commissions for the securities and financial services to be provided to the Group. The general pricing principles for such fees or commissions charged by CITIC Group and its associates shall be based on negotiations between the parties with reference to the market rates, the fees or commissions charged for services provided to independent third parties, while taking into account such factors as deal size and complexities, competition from other service providers etc..

(i) *Deposit services*: the interest rates offered to the Group for the deposits placed with the banking subsidiaries of CITIC Group shall not be lower than the interest rates authorized by the PBOC for the same type of deposits offered by the commercial banks in the PRC during the same period and the terms of the deposits placed with the banking subsidiaries of CITIC Group shall not be less favorable than the terms offered by independent third party banking institutions.

(ii) *Financial products sales agency services*: the pricing for financial products sales agency services shall be determined based on the amount of products for sale with reference to the service fee rates applicable to independent third parties. The annualized market fee rate varies for agency services of different types of financial products and precious metals, generally ranging from 0.02% to 1.5%.

(iii) *Client deposits management and custody services*: the management and custody service fees are determined on arm's length negotiation between the parties with reference to prevailing market rates and the fees charged for services provided to independent third parties.

(iv) *Loan services*: the interests on the financing shall be determined by reference to the relevant interest rates stipulated by the PBOC for the same period, and will take into account the factors such as the amount, purpose and terms of the financing as well as the credit rating.

### ***2.2.3 Pricing approval and supervision***

The Company has also subscribed for information services provided by information service providers, such as Wind Info, and has access to information channels and websites of official and voluntary industry regulatory authorities. The Company will consider the various updated market information available, including published information on completed transaction amounts and rates, and terms offered by the transaction parties etc., before entering into any securities and financial services transactions. No specific number of quotations or quotations are required to be obtained before entering into such transactions.

The Group has adopted a series of internal pricing policies and approval procedures to regulate the mutual provision of securities and financial services between the Group and CITIC Group and its associates. The major internal policies include the following:

- (a) The terms (including pricing terms) in respect of the securities and financial services contemplated under the Securities and Financial Products Transactions and Services Framework Agreement shall be comparable to those offered by/to an independent third party for comparable services, and shall be subject to the same internal selection, approval and supervision procedures and pricing policies applicable to an independent third party.
- (b) For services provided by the Group to CITIC Group and its associates, the Company will offer similar pricing terms to CITIC Group as those to other independent third parties and no preferential terms shall be provided to CITIC Group and its associates. Prior to entering into a securities and financial service transaction, the relevant business departments of the Company would conduct inspection and due diligence, and assess whether the pricing is in compliance with relevant policy and procedures of the Group and whether the price is fair and reasonable, after taking into consideration individual factors such as the services provided and will grant approval, where appropriate.
- (c) For securities and financial services provided by CITIC Group and its associates to the Group, the Company will select suppliers and determine the relevant terms of the transactions through inquiry and negotiation process. The Company will also gather information on its suppliers and their levels of fees and prices and compare the fees/prices and quality of services before selection. A prior assessment will be conducted by the responsible officer to assess whether the proposed prices by suppliers are fair and reasonable before submission for consideration and approval by the head of the relevant department. In such case, any offer from CITIC Group or its associates has to pass through the selection process as other suppliers before it could be appointed. As the Company will consider the various updated market information available and because of the uniqueness of financial transactions, there is not specific internal requirement as to the number of suppliers that will be selected for a particular type of services.

- (d) The compliance department of the Group will review relevant agreements and grant approval, where appropriate. The conduct of continuing connected transactions is also subject to annual review by all independent non-executive Directors, the Supervisory Committee of the Company and the auditors of the Company. The Related Party Transactions Control Committee comprising all independent non-executive Directors is also responsible for monitoring and reviewing major and continuing connected transactions of the Company.

#### **2.2.4 Historical transaction amounts**

Set out below is the historical transaction amounts in respect of the securities and financial services between the Group and CITIC Group and its associates under the Securities and Financial Products Transactions and Services Framework Agreement for the preceding two financial years ended 31 December 2018 and the six months ended 30 June 2019 is as follows:

<b>Securities and Financial Services</b>	<b>Approximate historical transaction amounts ended</b>		
	<b>31 December 2017</b>	<b>31 December 2018</b>	<b>30 June 2019</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Income derived from provision of securities and financial services by the Group to CITIC Group and its associates	725.40	632.49	402.28
Expenses incurred for securities and financial services provided by CITIC Group and its associates to the Group	161.24	346.93	85.27

## 2.2.5 Proposed annual caps for the three financial years ending 31 December 2022

The Company estimates the annual caps for the mutual provision of securities and financial services for the next three financial years ending 31 December 2022 as follows:

Securities and Financial Services	Proposed annual caps ending		
	31 December 2020	31 December 2021	31 December 2022
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Income to be derived from provision of securities and financial services by the Group to CITIC Group and its associates	2,400	2,600	2,800
Expenses to be incurred for securities and financial services provided by CITIC Group and its associates to the Group	700	880	1,060

## 2.2.6 Basis of determination of the annual caps

### (a) Revenue

When estimating the annual caps for the revenue to be derived from provision of securities and financial services by the Group to CITIC Group and its associates (referred to in paragraph 2.2.5 above), the Company has considered, among other things, the following key factors:

- (i) As part of its normal course of business, the Company would participate in the potential fund raising exercises such as equity financing, debt financing and initial public offering to be undertaken by members of CITIC Group and its associates in the next three financial years, by providing investment banking services such as underwriting, sponsorship and supervision and guidance services. In particular, the Company will continue to (i) provide underwriting services for various kinds of bonds to be issued by CITIC Group and its associates, which is expected to generate a revenue of approximately RMB14 million each year for the next three years; (ii) provide underwriting services for asset-backed securities to be issued by the associates of CITIC Group, which is expected to generate a revenue of approximately RMB24 million each year for the next three years; and (iii) provide underwriting services for equity-linked products, which is expected to generate a revenue of approximately RMB30 million to RMB60 million each year for the next



three years. In addition, the Company also considers the potential provision of underwriting and sponsorship services by the subsidiaries of the Group in Hong Kong to CITIC Group and its associates, which is expected to generate a revenue of approximately RMB70 million each year for the next three years. If capital market recovers in the future and taking into account the innovation in financial industry, it is estimated that revenue from these services would be in the region of RMB135 million to RMB170 million each year for the next three financial years;

- (ii) Despite the downward trend of corporate restructuring and mergers and acquisitions activities in China in the past years, the Company has been engaged as the financial advisor to several members of the CITIC Group to provide financial and investment advisory services in connection with corporate reorganization and mergers and acquisitions, which is expected to generate an income of approximately RMB60 million to RMB70 million each year for the next two years. Taking into account the potential sponsorship services for unlisted public companies of CITIC Group, the Company expects that revenue from provision of financial and investment advisory services to CITIC Group and its associates would be in the region of RMB120 million to RMB130 million each year for the next three financial years;
- (iii) In the ordinary course of the Group's business, the Group deposits its proprietary funds and customers' funds with the banking institution of CITIC Group. A substantial amount of revenue is expected to be contributed from interests on deposits of the Group's proprietary funds and customers' funds from the banking institution of CITIC Group.
  - a. As the daily balance of proprietary funds and customers' funds deposited with the banking institution of CITIC Group fluctuates widely from time to time, the Company estimates the annual caps for the interests from such deposit with reference to the highest amount of annual average daily balance from 2016 to 2018, being approximately RMB18 billion for 2016, and an interest rate in the range of 2% to 4%.
  - b. Meanwhile, upon completion of the acquisition of Guangzhou Securities by the Company, the amount of proprietary funds and customers' funds of the Company is expected to show a significant growth. As the proprietary funds and customers' funds base of the Company expands, the amount of proprietary funds and customers' funds deposited with the banking institution of CITIC Group may also increase to a large extent.
  - c. Taking into account the possibility of increased interest rates of commercial banks, it is estimated that the annual interest income to be paid by the banking institution of CITIC Group will reach RMB1.5 billion to RMB1.65 billion in the next three financial years.

- (iv) The Company has included an estimate of the fixed and performance-based management fees for the asset management services provided by the Group to CITIC Group and its associates in the proposed annual caps, which amounted to approximately RMB145 million in 2017 and approximately RMB130 million in 2018. In April 2018, the PBOC, the CBIRC, the CSRC and the State Administration of Foreign Exchange jointly promulgated the Guidance Opinions on Regulating the Asset Management Business of Financial Institutions (the “**New Regulations on Asset Management**”), which guided businesses to return to active management. In response to the regulatory changes, the Company has been constantly expanding its active management scale, while reducing the scale of channel business in an orderly way. According to the market data, the management fees for active management business is on average five times more than those for channel business. It is thus expected that the management fees collected by the Group from CITIC Group and its associates will have a substantial increase in the next three years, amounting to approximately RMB280 million in 2020, RMB330 million in 2021 and RMB445 million in 2022, respectively; and
- (v) The Company will also provide other advisory and consulting services to CITIC Group and its associates. For example, the Company will provide consultation services for the financial products to be issued by CITIC Group and its associates with an estimated amount of RMB8 billion to RMB10 billion for the next three years, and the consultation fee for such services will be calculated based on a fixed fee rate of 0.5% plus a floating fee rate. The provision of such services will bring an annual income of RMB40 million to RMB50 million in the next three years. Considering the expertise of the Group in providing research, investment advice, investment management and custodian services, and with the increasing cooperation between the Group and CITIC Group as well as the expansion of the Group’s business and launch of new businesses, the advisory and consultation fees is expected to increase from an estimate of RMB140 million in 2020 to approximately RMB180 million in 2021 and RMB240 million in 2022.

(b) *Expenses*

When estimating the annual caps for the expenses to be incurred by the Group for securities and financial services provided by CITIC Group and its associates (referred to in paragraph 2.2.5 above), the Company has made reference to the above historical transaction amounts, and also considered, among other things, the following key factors:

- (i) It is estimated that a substantial portion of the total expenses paid by the Group to CITIC Group and its associates are for commission or agency fees for sale of financial products by CITIC Group and its associates. The financial institutions of CITIC Group have good sale networks and potential customers for the Group’s financial products. Such services include, among other things, agency sale of bonds, asset management products, fund products etc. The commission or agency fees for sale of financial products paid by the Group to

CITIC Group and its associates amounted to approximately RMB32.3 million in 2016 and over RMB136.5 million in 2018, representing an increase of approximately 323%. Considering that both the size and scope of financial products to be issued by the Group will continue to increase in the next three years, it is expected that the aggregate expenses payable by the Group for such services will be approximately RMB300 million, RMB370 million and RMB435 million in 2020, 2021 and 2022, respectively.

- (ii) For asset management products and funds set up and managed by the Group, the financial institutions of CITIC Group may be appointed as custodians to provide custody services and client deposit management services. As mentioned in paragraph 2.2.6(a)(iv) above, the Company has been constantly expanding its active management scale, while reducing the scale of channel business in line with the New Regulations on Asset Management. Based on the historical figures, the custodian fees for active management business is on average five times more than those for channel business. Accordingly, it is estimated that expenses in this respect payable by the Group to CITIC Group and its associates would be approximately RMB290 million in 2020 and with more management products and funds being set up and managed by the Group, such fees and expenses are expected to be further increased to RMB370 million in 2021 and RMB460 million in 2022.
- (iii) With the further expansion of the Group's businesses and the potential launch of new products, the Group and CITIC Group and its associates will cooperate in an increasing number of areas, such as investment banking, brokerage, assets management, financial advisory services, distribution of financial products and other innovative businesses by providing more value-added services. Therefore, expenses to be paid by the Group to CITIC Group and its associates are expected to have a very substantial increase.

(c) *Factors considered*

When estimating the annual caps for the securities and financial services transactions, the Company has taken into account various considerations and factors, including principally the following:

- (i) The Company has considered the historical connected transaction amounts as well as the rate of growth/fluctuations of the relevant securities and financial products or services and other similar products or services; and
- (ii) The Company has also considered the Group's corporate strategic planning and business planning of individual departments and has applied a high rate of growth for those services/transactions which are the focus of business development. For example, a higher rate of growth is attributed to entrusted asset management services, which remains one of the business focuses of the Company and is expected to continue to grow as the demands for asset management services continue to grow.

In addition, in arriving at the above proposed annual caps, the Directors have also taken into account the inflation factor. The National Bureau of Statistics of China uses the annual growth rate of the consumer price index (CPI) to indirectly reflect the extent of inflation instead of directly calculating the inflation rate. Based on the growth rate of the CPI of China of 2016, 2017 and 2018 published by the National Bureau of Statistics of China (being 2.0% in 2016, 1.6% in 2017 and 2.1% in 2018), it is expected that the growth rate of CPI of China for 2020, 2021 and 2022 will be approximately 2.5%. The Company has taken such estimation into account as an indicator of inflation level when estimating the annual caps for the next three financial years. In determining the proposed annual caps for the next three financial years, the Company also assumes that during the term of the Securities and Financial Products Transactions and Services Framework Agreement proposed to be renewed, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group and those of CITIC Group and/or its associates.

### **2.3 Payment arrangements**

According to the Securities and Financial Products Transactions and Services Framework Agreement, payment arrangements for interests, service fees, commission or brokerage fees shall be specified in the individual service agreement to be signed by members of the Group and CITIC Group and its associates under such framework agreement.

### **2.4 Implementation agreements**

During the term of the Securities and Financial Products Transactions and Services Framework Agreement proposed to be renewed, members of the Group and CITIC Group and its associates will enter into, from time to time and as necessary, individual implementation agreement for each of the specific transactions contemplated under such framework agreement (including such implementation agreement entered into during the term of the existing Securities and Financial Products Transactions and Services Framework Agreement which has an expiring date within the term of the agreement to be renewed), provided that any such implementation agreement shall be within the ambit of the Securities and Financial Products Transactions and Services Framework Agreement proposed to be renewed.

### **2.5 Reasons and benefits of renewal of the Securities and Financial Products Transactions and Services Framework Agreement**

The reasons and benefits are:

- (a) The securities and financial products transactions and securities and financial services transactions under the Securities and Financial Products Transactions and Services Framework Agreement are and will be conducted in the ordinary and usual course of business of the Group. Such transactions will continue to be agreed on arm's length basis with terms that are fair and reasonable to the Company. Due to the historical and future long-term cooperation relationship between the Group and CITIC Group and its associates, the Directors believe that it is beneficial to the Group to renew the Securities

and Financial Products Transactions and Services Framework Agreement with CITIC Group as the transactions thereunder have facilitated and will continue to facilitate the overall business operations and growth of the Group's business.

- (b) These transactions will provide cost synergies by integrating advantageous resources between the Group and CITIC Group and its associates, thereby reducing the aggregate operational cost and general expenditure so as to improve the profitability and to strengthen leading position of the Company in the securities industry.
- (c) Further, such continuing connected transactions will enable CITIC Group and its associates to develop a deeper understanding in the operations of the Group, which in turn will render them more expedient and efficient services and/or product provisions to the Group when compared to those services and/or products provided by independent third parties.

The Directors (excluding the independent non-executive Directors, whose view on the Securities and Financial Products Transactions and Services Framework Agreement proposed to be renewed and the proposed annual caps and maximum daily balances will be set out in the letter from the Independent Board Committee contained in the circular to be despatched after considering the advice from the independent financial adviser) are of the view that the securities and financial products transactions and the securities and financial services transactions under the Securities and Financial Products Transactions and Services Framework Agreement proposed to be renewed will be conducted on normal commercial terms, and the terms and conditions therein as well as the proposed annual caps for the continuing connected transactions and the maximum daily balance of non-exempted loans by CITIC Group and its associates to the Group as well as the maximum daily balance of non-exempted loans by the Group to CITIC Group and its associates contemplated thereunder are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole.

### **3. THE MISCELLANEOUS SERVICES FRAMEWORK AGREEMENT**

#### **3.1 Introduction**

In the ordinary and usual course of businesses of the Group and CITIC Group and its associates, members of the respective groups have been engaging in the mutual provision of various miscellaneous non-financial services under the Miscellaneous Services Framework Agreement in accordance with the applicable normal market practices and on normal commercial terms.

As the term of the existing Miscellaneous Services Framework Agreement, as well as the relevant annual caps thereunder are due to expire by the end of December 2019, the Company proposed to renew the Miscellaneous Services Framework Agreement on the same terms and conditions for a further term of three years from 1 January 2020 to 31 December 2022, except

with the following changes in the scope of miscellaneous non-financial services, as indicated by the mark-ups:

- (a) *In respect of the miscellaneous non-financial services to be provided by members of the Group to CITIC Group and its associates* include, among other things, information technologies and internet network, advertising rentals, trainings, conference services, sale of customized products, logistics, warehousing and other miscellaneous non-financial services.
- (b) *In respect of the miscellaneous non-financial services to be provided by CITIC Group and its associates to members of the Group* include, among other things, information technologies and internet network, network maintenance, printing and publication, books and audio/video products, trainings, conference services, insurance, medical care, corporate travel management, enterprise annuity management services, advertising and promoting, archive outsourcing services, decoration or property management services, owner representative services, construction project services and other miscellaneous non-financial services.

### **3.2 Pricing basis**

Pursuant to the Miscellaneous Services Framework Agreement, and as a general principle, the mutual provision of non-financial services under the Miscellaneous Services Framework Agreement will be provided in the ordinary and usual course of business of the respective parties on normal commercial terms based on arm's length negotiations.

The non-financial services will be provided according to the market price by public tender or invitational tender procedure or other means (as the case may be). For construction project services, if the service provider is selected through open tender process, the general contractor and the price of the relevant project shall be determined in accordance with the Construction Law, the Bidding Law, the Contract Law, and other applicable laws, regulations and regulatory requirements, after taking into consideration of the bidding price, the relevant experience in construction, and whether the bidder has the top grade qualification in general contracting of engineering and construction. For information technologies and internet network and network maintenance services, the fees shall be determined in accordance with standard prices in the telecom industry and prevailing market prices. For insurance, the price shall be determined and adjusted by reference to the prevailing market prices for comparable insurance schemes and the number of insurance policies purchased by and claims made by the Group in past years. For other miscellaneous non-financial services, the fees shall be based on prevailing market prices and arm's length negotiations between the parties.

### **3.3 Pricing approval and supervision**

To ensure that the transactions under the Miscellaneous Services Framework Agreement are conducted on normal commercial terms or on terms no less favorable than terms applicable to independent third parties, the Company has adopted relevant internal control policies. As for the services provided by CITIC Group and its associates to members of the Group, the Company has formulated rules in relation to procurement management and adopted the

following procedures to determine the terms (including pricing terms) of the transactions. An application, which includes the information and pricing of the procurement item, proposed procurement methods and recommended suppliers, shall be firstly submitted for approval. The relevant management department and the procurement management committee will conduct a review and approve the item, where appropriate, and determine the scope of suppliers and procurement methods. The supplier will be determined through tender, inquiry, negotiation or other procedures (as the case may be) and the procurement agreement will be entered into after report and approval as required. The finance department of the Company is also responsible for the approval, inspection and payment of the procurement items. For the services provided by members of the Group to CITIC Group and its associates, the Company has adopted pricing approval and supervision procedures similar to the procedures for procurement management as mentioned above.

### **3.4 Payment arrangements**

According to the Miscellaneous Services Framework Agreement, payment of service fees by the parties shall be specified in the individual service agreement to be signed by members of the Group and CITIC Group and its associates under such framework agreement.

### **3.5 Implementation agreements**

During the term of the Miscellaneous Services Framework Agreement proposed to be renewed, members of the Group and CITIC Group and its associates will enter into, from time to time and as necessary, individual implementation agreement for each of the specific transactions contemplated under such framework agreement (including such implementation agreement entered into during the term of the existing Miscellaneous Services Framework Agreement which has an expiring date within the term of the agreement to be renewed), provided that any such implementation agreement shall be within the ambit of the Miscellaneous Services Framework Agreement proposed to be renewed.

### 3.6 Historical transaction amounts

Set out below is the historical transaction amount in respect of the miscellaneous non-financial services between the Group and CITIC Group and its associates for the preceding two financial years ended 31 December 2018 and the six months ended 30 June 2019:

Miscellaneous Non-financial Services	Approximate historical transaction amounts ended		
	31 December 2017	31 December 2018	30 June 2019
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Revenue derived from provision of non-financial services by the Group to CITIC Group and its associates	2.63	6.94	2.35
Expenses incurred from provision of non-financial services by CITIC Group and its associates to the Group	121.00	109.03	63.83

### 3.7 Proposed annual caps for the three financial years ending 31 December 2022

The Company estimates the annual caps for the continuing connected transactions between the Group and CITIC Group and its associates under the Miscellaneous Services Framework Agreement proposed to be renewed for the next three financial years ending 31 December 2022 as follows:

Miscellaneous Non-financial Services	Proposed annual caps ending		
	31 December 2020	31 December 2021	31 December 2022
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Revenue to be derived from provision of non-financial services by the Group to CITIC Group and its associates	27	45	63
Expenses to be incurred from provision of non-financial services by CITIC Group and its associates to the Group	1,000	1,120	1,650



### **3.8 Basis of determination of the annual caps**

#### **(a) Revenue**

The annual caps for the revenue to be derived by the Group from provision of non-financial services to CITIC Group and its associates have been estimated by making reference to the above historical transaction amount (in particular, the highest historical transaction amount in the past three years), and also taking into consideration, the following factors:

- (i) the training and sale of customized products services to be provided by the Group to CITIC Group and its associates in the next three years under the Miscellaneous Services Framework Agreement proposed to be renewed and the anticipated revenue derived from provision of such services; and
- (ii) the potential increase in the revenue of the Group under the Miscellaneous Services Framework Agreement proposed to be renewed resulting from the possibility of provision of any other non-financial miscellaneous services which may be provided to CITIC Group and its associates by members of the Group in the next three years according to the provisions of the aforesaid framework agreement.

#### **(b) Expenses**

The annual caps for the expenses paid to CITIC Group and its associates for the provision of non-financial services have been estimated by making reference to the above historical transaction amounts (in particular, the highest transaction amounts in the past three years), and also taking into consideration, among other things, the following key factors:

- (i) the conference services, archive outsourcing services, owner representative services and construction project services to be provided by CITIC Group and its associates to members of the Group in the next three years under the Miscellaneous Services Framework Agreement proposed to be renewed and the anticipated expenses incurred by the Group for obtaining of such services. The expenses paid to CITIC Group and its associates for the provision of construction project services would be approximately RMB650 million to RMB1,300 million, and the expenses paid to CITIC Group and its associates for the provision of conference services, archive outsourcing services and owner representative services would be approximately RMB35 million to RMB40 million each year for the next three financial years;

- (ii) with the continuous development of information technology and internet network, the expected increase in the demand for information technologies, internet network and network maintenance services of the Group, which will lead to the continuous increase in the supply of such services by CITIC Group and its associates to the Group in the next three years. It is estimated that the expenses paid by the Group to CITIC Group and its associates for the provision of information technologies and internet network services would be approximately RMB26 million to RMB28 million each year for the next three financial years;
- (iii) the expected increase in the expenses incurred in connection with the provision of decoration services and property management services by CITIC Group and its associates to the Group resulting from the possible increase in the Group's own properties and the proposed establishment of new securities outlets and branch offices with the expansion of brokerage business of the Group. It is estimated that the expenses paid by the Group to CITIC Group and its associates for the provision of decoration services and property management services would be approximately RMB140 million to RMB250 million each year for the next three financial year;
- (iv) the expected increase in the insurance premium to be paid to CITIC Prudential Life Insurance Co., Ltd., an associate of CITIC Group, for commercial insurance of the employees of the Group, as the number of employees of the Group is expected to continue to increase in the three financial years ending 31 December 2022. It is estimated that the expenses paid by the Group to CITIC Group and its associates for the provision of insurance services would be approximately RMB110 million to RMB160 million each year for the next three financial year; and
- (v) the potential increase in the expenses of the Group under the Miscellaneous Services Framework Agreement proposed to be renewed resulting from the possibility of obtaining of any other non-financial miscellaneous services which may be provided by CITIC Group and its associates to members of the Group in the next three years according to the provisions of the aforesaid framework agreement.

In addition, in arriving at the above proposed annual caps, the Directors have also taken into account the inflation factor. The National Bureau of Statistics of China uses the annual growth rate of the consumer price index (CPI) to indirectly reflect the extent of inflation instead of directly calculating the inflation rate. Based on the growth rate of the CPI of China of 2016, 2017 and 2018 published by the National Bureau of Statistics

of China (being 2.0% in 2016, 1.6% in 2017 and 2.1% in 2018), it is expected that the growth rate of CPI of China for 2020, 2021 and 2022 will be approximately 2.5%. The Company has taken such estimation into account as an indicator of inflation level when estimating the annual caps for the next three financial years. In determining the proposed annual caps for the next three financial years, the Company also assumes that during the term of the Miscellaneous Services Framework Agreement proposed to be renewed, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect the businesses of the Group and those of CITIC Group and/or its associates.

### **3.9 Reasons for and benefits of renewal of the Miscellaneous Services Framework Agreement**

The reasons and benefits are:

- (a) Due to the historical and future long-term cooperation relationship between the Group and CITIC Group and its associates as well as the wide scope of industries, including finance, resources and energy, manufacturing, project contracting and real estate, in which CITIC Group and its associates involve, the services mentioned in the service scope of the Miscellaneous Services Framework Agreement could be provided to/by CITIC Group and its associates during the daily commercial operation process of the Company;
- (b) These transactions will provide cost synergies by integrating advantageous resources between the Group and CITIC Group and its associates, thereby reducing the aggregate operational cost and general expenditure so as to further improve the profitability and the leading position of the Company in the securities industry; and
- (c) Further, such continuing connected transactions will enable CITIC Group and its associates to develop a deeper understanding in the operations of the Group, which in turn will render them more expedient and efficient services provisions to the Group when compared to those services provided by independent third parties.

The Directors (including the independent non-executive Directors) are of the view that transactions under the Miscellaneous Services Framework Agreement proposed to be renewed will be conducted on normal commercial terms, and the terms and conditions therein as well as the proposed annual caps for the continuing connected transactions contemplated thereunder are fair and reasonable, and are in the interests of the Company and its Shareholders as a whole.

## **4. THE PROPERTY LEASING FRAMEWORK AGREEMENT**

### **4.1 Property Leasing Framework Agreement**

In order to regulate the continuing connected transactions in respect of leasing of properties between the parties, the Company and CITIC Group entered into the Property Leasing Framework Agreement on 23 September 2011 for a term of 10 years commencing from 23 September 2011 and expiring on 22 September 2021 (subject to renewal), and set the annual caps for the continuing connected transactions conducted thereunder for the three financial years ended 31 December 2013. On 31 December 2013, the Company and CITIC Group renewed the annual caps for such continuing connected transactions for another three years ended 31 December 2016 by entering into the Supplemental Agreement I to the Property Leasing Framework Agreement. On 14 February 2017, the Company and CITIC Group further renewed the annual caps for such continuing connected transactions for another three years ending 31 December 2019 by entering into the Supplemental Agreement II to the Property Leasing Framework Agreement.

Since the annual caps set up in the Supplemental agreement II will expire by 31 December 2019 and the Property Leasing Framework Agreement will expire on 22 September 2021, in accordance with the relevant requirements of the Hong Kong Listing Rules, the Company proposes to further renew the caps for such rentals for the year ending 31 December 2020 and the period from 1 January 2021 to 22 September 2021 by entering into the Supplemental Agreement III to the Property Leasing Framework Agreement with CITIC Group.

### **4.2 The principal terms**

Pursuant to the Property Leasing Framework Agreement, the Group agrees to lease certain properties from and to CITIC Group and its associates, the principal terms of which are summarized as follows:

- (a) members of the Group and CITIC Group or its relevant associates shall enter into individual lease agreement to set out the specific terms and conditions in respect of the relevant leased properties according to the principles, and within the ambit of the Property Leasing Framework Agreement;
- (b) the Group is entitled to lease additional gross floor areas from and among the available properties owned by CITIC Group and its associates during the term of the Property Leasing Framework Agreement;
- (c) CITIC Group and its associates are entitled to lease additional gross floor areas from and among the available properties owned by the Group during the term of the Property Leasing Framework Agreement; and
- (d) either party may, at any time before the Property Leasing Framework Agreement expires, by giving not less than six months' written notice, to terminate any lease made under the Property Leasing Framework Agreement, and the rentals payable under such circumstances will accordingly be reduced as agreed by the parties.

### **4.3 Determination and payment of rentals and taxes**

The rentals and taxes shall be determined by the following:

- (a) The rentals for the leased properties under the Property Leasing Framework Agreement (including the additional properties that may be leased to either party during the term of the Property Leasing Framework Agreement) shall be determined by the parties through negotiation according to the relevant laws and regulations and the local fair market value as confirmed by qualified independent property valuer.
- (b) Both parties shall settle the aggregate rentals for the preceding year, which shall be paid by cash, on an annual basis. The payment method of such annual rentals shall be determined and specified in the individual lease agreement.
- (c) The lessor shall be responsible for handling all formalities for paying property tax and other statutory taxes on such leased properties during the term of lease and bear the cost of relevant taxes.
- (d) During the term of lease, all expenses incurred for using the leased properties, such as water, electricity, heating fees, maintenance fee, air-conditioning fee, and parking space fee, shall be borne by the lessee. Management fees in respect of the leased properties shall be determined and specified by the parties in the individual lease agreement. If such management fees are to be borne by the lessor, it shall be included in the amount of the annual rentals for the relevant leased properties.
- (e) During the term of lease, both parties agree to adjust the annual rentals for the leased properties every three years after negotiation and by reference to the then prevailing market price, provided that adjusted rentals shall not exceed the market price as confirmed by the independent property valuer recognized by both parties. The cost of appointment of the independent property valuer shall be borne by the lessee.

#### 4.4 Historical transaction amounts

Set out below is the historical transaction amount in respect of the rentals received and paid by the Group from and to CITIC Group and its associates for the preceding two financial years ended 31 December 2018 and the six months ended 30 June 2019 is as follows:

<b>Property Leasing</b>	<b>Approximate historical transaction amounts ended</b>		
	<b>31 December 2017</b>	<b>31 December 2018</b>	<b>30 June 2019</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Rental income received by the Group from lease of properties to CITIC Group and its associates	19.90	30.09	27.03
Rental expenses incurred by the Group for lease of properties from CITIC Group and its associates	48.76	44.71	15.63

#### 4.5 Proposed caps

As HKFRS 16 “Lease” has taken effect from 1 January 2019 and applied to financial years beginning on or after 1 January 2019, with respect to the continuing connected transactions contemplated under the Property Leasing Framework Agreement for the year ending 31 December 2020 and the period from 1 January 2021 to 22 September 2021 under which the Group is the lessee and where HKFRS 16 “Lease” is applicable, the annual caps for the continuing connected transactions in respect of lease of properties from CITIC Group and its associates shall be set based on the total value of right-of-use assets relating to the relevant leases in accordance with the relevant requirements of the Hong Kong Stock Exchange.

Taking into consideration of the above, the Company estimates the caps for the rentals (inclusive of management fees relating to the relevant leased properties, if any) payable and receivable by the Group under the Property Leasing Framework Agreement for the year ending 31 December 2020 and the period from 1 January 2021 to 22 September 2021 as follows:

<b>Property Leasing</b>	<b>Proposed cap for the year ending 31 December 2020</b>	<b>Proposed cap for the period from 1 January 2021 to 22 September 2021</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>
Rental income to be received from lease of properties to CITIC Group and its associates	600	500
Rental expenses/total value of right-of-use assets <sup>note</sup> in respect of lease of properties from CITIC Group and its associates	1,000	800

*Note:* The cap for continuing connected transactions in respect of lease of properties from CITIC Group and its associates with a term of one year or less is calculated based on the rental expenses, whereas the cap for continuing connected transactions in respect of lease of properties from CITIC Group and its associates with a term of more than one year is calculated based on the total value of the right-of-use assets.

#### **4.6 Basis of determination of the caps**

##### **(a) Rental expenses**

When estimating the proposed caps for the rental expenses to be incurred by the Group, the Company has taken into account the coming into effect of HKFRS 16 and made reference to the above historical transaction amount and also considered, among other things, the following key factors:

- (i) the potential expansion of the Group's business and the consequential increase in the Group's demand for additional office space, which may be leased from CITIC Group and its associates. For instance, the expansion of the Company's brokerage business will lead to increasing demand on leased properties by the newly established securities outlets and branch offices;
- (ii) the potential expansion of the Group's business in Hong Kong and overseas may require additional office space in Hong Kong, which may be leased from CITIC Group and its associates;
- (iii) the expected rental increase upon renewal of some of the leases in the PRC and Hong Kong with CITIC Group or its associates during the term of the Supplemental Agreement III; and
- (iv) any potential increase in the gross floor area to be leased from CITIC Group and its associates.

**(b) Rental income**

When estimating the proposed annual caps for the rental income to be received by the Group, the Company has made reference to the above historical transaction amount and also considered, among other things, the following key factors:

- (i) CITIC Group and its associates may lease more gross floor area from the Group with an estimated annual total rental of over RMB50 million, considering the potential business expansion of CITIC Group and its associates in the PRC;
- (ii) with the increase in the Group's own properties, CITIC Group and its associates may lease more properties from the Group; and
- (iii) the potential rental increases pursuant to the existing leasing agreements and the then prevailing market conditions during the term of the Supplemental Agreement III.

The Directors (including the independent non-executive Directors) are of the view that the proposed caps for the continuing connected transactions contemplated under the Property Leasing Framework Agreement for the year ending 31 December 2020 and the period from 1 January 2021 to 22 September 2021 are fair and reasonable, and are in the best interests of the Shareholders and the Company as a whole.

## **5. HONG KONG LISTING RULES IMPLICATIONS**

CITIC Group is a substantial Shareholder of the Company directly and indirectly holding an aggregate of 16.50% interest in the Company as at the date of this announcement. Accordingly, CITIC Group and its associates are connected persons of the Company under Chapter 14A of the Hong Kong Listing Rules and the proposed transactions to be conducted between the Group and CITIC Group and its associates under the Framework Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest of the applicable percentage ratios in respect of each of: (a) the proposed annual caps for the continuing securities and financial products transactions; (b) (i) the proposed maximum daily balance of non-exempted loans by CITIC Group and its associates to the Group, and the (ii) proposed maximum daily balance of non-exempted loans by the Group to CITIC Group and its associates; and (c) the proposed annual caps for the continuing securities and financial services transactions contemplated under the Securities and Financial Products Transactions and Services Framework Agreement proposed to be renewed exceeds 5% calculated according to the percentage ratios under the Hong Kong Listing Rules, such continuing connected transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the highest of the applicable percentage ratios in respect of each of: (a) the proposed annual caps for the continuing connected transactions contemplated under the Miscellaneous



Services Framework Agreement proposed to be renewed for the next three years ending 31 December 2022; and (b) the caps for the continuing connected transactions contemplated under the Property Leasing Supplemental Agreement III proposed to be renewed for the year ending 31 December 2020 and the period from 1 January 2021 to 22 September 2021 is more than 0.1% but less than 5%, such continuing connected transactions are only subject to the reporting, announcement and annual review requirements, but are exempted from independent shareholders' approval requirement under Chapter 14A of the Hong Kong Listing Rules.

The provision of inter-financial institutions loans by CITIC Group and its associates to the Group and the subscription by CITIC Group and its associates for the beneficiary certificates issued by the Group are exempted from reporting, announcement and independent shareholders' approval requirements under the Hong Kong Listing Rules as such transactions constitute financial assistance provided by a connected person for the benefit of the Group upon normal commercial terms with no security given for such financial assistance.

The Company has obtained a waiver from setting up the maximum daily balance of deposits, including the Group's proprietary funds and its customers' funds, with the banking subsidiaries of CITIC Group in the PRC and Hong Kong for the three financial years ending 31 December 2022.

Mr. Zhang Youjun, the chairman of the Company, also acts as the assistant to the general manager of CITIC Group, CITIC Limited and CITIC Corporation Limited. Therefore, he is deemed to have material interest in all the above-mentioned continuing connected transactions contemplated between the Group and CITIC Group, and thus has abstained from voting on the relevant resolutions at the Board meeting. Save as mentioned above, none of the other Directors has a material interest in such transactions and is required to abstain from voting on the relevant resolution at the Board meeting.

## **6. GENERAL INFORMATION**

### **6.1 Information on CITIC Group**

CITIC Group, established in the PRC in 1979, is a large-scale state-owned comprehensive multinational conglomerate engaging in both financial and non-financial businesses. Its financial business covers industries and fields including banking, securities, trust, insurance, funds, and asset management, while its non-financial business covers industries and fields including resources and energy, manufacturing, engineering contracting and real estate. As at the date of the announcement, CITIC Group indirectly holds an aggregate of 16.50% interest in the Company.

Among the subsidiaries of CITIC Group, the following companies engage in more business transactions with the Company: CITIC Holdings Limited, CITIC Bank, CITIC Trust Co., Ltd., CITIC Pacific Limited, Dah Chong Hong Holdings Limited, CITIC Prudential Life Insurance Co., Ltd., China CITIC Bank International Limited, CITIC Networks Co., Ltd., etc.

## **6.2 Information on the Company**

The principal businesses of the Company include securities brokerage (for areas other than Shandong Province, Henan Province, Tiantai and Cangnan Counties of Zhejiang Province); securities investment consulting; financial advisory services related to securities trading and securities investment activities; securities underwriting and sponsorship; securities proprietary business; securities asset management; margin financing and securities lending; securities investment fund sales agency; provision of brokerage services to futures companies; distribution of financial products; and stock options market making.

## **7. EXTRAORDINARY GENERAL MEETING**

The Company will convene an extraordinary general meeting for the purposes of, among other things, obtaining the Independent Shareholders' approval for the renewal of the Securities and Financial Products Transactions and Services Framework Agreement and the proposed annual caps for each of the continuing securities and financial products transactions and securities and financial services transactions contemplated thereunder and the proposed maximum daily balance of non-exempted loans by CITIC Group and its associates to the Group, as well as the maximum daily balance of non-exempted loans by the Group to CITIC Group and its associates. CITIC Group and its associates will abstain from voting on the resolution.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders on the terms of the Securities and Financial Products Transactions and Services Framework Agreement proposed to be renewed and the proposed annual caps for the continuing securities and financial products transactions and securities and financial services transactions contemplated thereunder and the proposed maximum daily balance of non-exempted loans by CITIC Group and its associates to the Group, as well as the maximum daily balance of non-exempted loans by the Group to CITIC Group and its associates.

Somerley Capital Limited has also been appointed to advise the Independent Board Committee and the Independent Shareholders on the same matters.

A circular containing further details of the Securities and Financial Products Transactions and Services Framework Agreement, a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders and a letter from the Independent Board Committee to the Independent Shareholders on the same and its recommendation on voting, on the proposed terms to be renewed and the proposed annual caps of the continuing connected transactions contemplated thereunder, together with the notice of the extraordinary general meeting of the Company, will be despatched to the Shareholders on or before 22 November 2019.

## 8. DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it in the Hong Kong Listing Rules
“Board”	the board of Directors of the Company
“CITIC Bank”	China CITIC Bank Corporation Limited (中信銀行股份有限公司)
“CITIC Futures”	CITIC Futures Company Limited (中信期貨有限公司)
“CITIC Group”	CITIC Group Corporation (中國中信集團有限公司)
“CITIC Securities (Shandong)”	CITIC Securities (Shandong) Co., Ltd. (中信証券(山東)有限責任公司)
“CITIC Securities Investment”	CITIC Securities Investment Limited (中信証券投資有限公司)
“Company”	CITIC Securities Company Limited (中信証券股份有限公司), a joint stock company incorporated in the PRC with limited liability, whose H shares and A shares are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively
“CSDC”	China Securities Depository and Clearing Corporation Limited
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Framework Agreements”	(i) the Securities and Financial Products Transactions and Services Framework Agreement; (ii) the Miscellaneous Services Framework Agreement; and (iii) the Property Leasing Framework Agreement
“Group”	the Company and its subsidiaries
“GoldStone Investment”	GoldStone Investment Co., Ltd. (金石投資有限公司)
“Guangzhou Securities”	Guangzhou Securities Company Limited (廣州證券股份有限公司)

“HKFRS(s)”	Hong Kong Financial Reporting Standard(s) issued by the Hong Kong Institute of Certified Public Accountants from time to time:
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	an independent committee of the Board comprising all independent non-executive Directors, namely, Mr. LIU Ke, Mr. HE Jia, and Mr. ZHOU Zhonghui, which was established to advise the Independent Shareholders in relation to the Securities and Financial Products Transactions and Services Framework Agreement proposed to be renewed, as well as the proposed annual caps and maximum daily balances for the continuing connected transactions contemplated thereunder
“Independent Shareholders”	Shareholders (other than CITIC Group and its associates) who are not required to abstain from voting on the resolution to be proposed at the extraordinary general meeting in relation to the renewal of the Securities and Financial Products Transactions and Services Framework Agreement and the proposed annual caps and maximum daily balances for the continuing connected transactions contemplated thereunder
“New Third Board”	the National Equities Exchange and Quotation
“PBOC”	The People’s Bank of China
“PRC” or China	the People’s Republic of China, which for the purpose of this announcement only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Property Leasing Framework Agreement”	the property leasing framework agreement entered into between the Company and CITIC Group on 23 September 2011 for a term of 10 years expiring on 22 September 2021, as supplemented by the Property Leasing Supplemental Agreement I signed by the parties on 31 December 2013 and the Property Leasing Supplemental Agreement II signed by the parties on 14 February 2017

“Property Leasing Supplemental Agreement I”	the Supplemental Agreement I to the Property Leasing Framework Agreement entered into between the Company and CITIC Group on 31 December 2013 to renew the annual caps for the rentals payable and receivable by the Group under the Property Leasing Framework Agreement for the three financial years ended 31 December 2016
“Property Leasing Supplemental Agreement II”	the Supplemental Agreement II to the Property Leasing Framework Agreement entered into between the Company and CITIC Group on 14 February 2017 to renew the annual caps for the rentals payable and receivable by the Group under the Property Leasing Framework Agreement for the three financial years ending 31 December 2019
“Property Leasing Supplemental Agreement III”	the Supplemental Agreement III to the Property Leasing Framework Agreement proposed to be entered into between the Company and CITIC Group before 31 December 2019 to renew the annual caps for the rentals payable and receivable by the Group under the Property Leasing Framework Agreement for the year ending 31 December 2020 and the period from 1 January 2021 to 22 September 2021
“RMB”	Renminbi, the lawful currency of the PRC
“Securities and Financial Products Transactions and Services Framework Agreement”	the Securities and Financial Products Transactions and Services Framework Agreement entered into between the Company and CITIC Group on 23 September 2011 and subsequently renewed by the parties on 31 December 2013 and 14 February 2017, respectively, which, subject to the approval of the Independent Shareholders, is proposed to be further renewed by the parties for another term of three years expiring on 31 December 2022
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shareholder(s)”	shareholders of the Company
“SHIBOR”	Shanghai Interbank Offered Rate

“Somerley”

Somerley Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, is the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the non-exempt continuing connected transactions contemplated under the Securities and Financial Products Transactions and Services Framework Agreement and the proposed annual caps and maximum daily balances thereof

“Wind Info”

Wind Information Co., Ltd., a company with limited liability incorporated in the PRC in 1994 and an integrated service provider of financial data, information and software

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

Beijing, the PRC  
13 November 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. ZHOU Zhonghui.*