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## CONNECTED TRANSACTIONS

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### CONNECTED TRANSACTIONS

Upon the listing of our H Shares on the Hong Kong Stock Exchange, transactions between us and our connected persons (as defined under the Hong Kong Listing Rules) will constitute connected transactions for us under Chapter 14A of the Hong Kong Listing Rules. The definition of connected persons under Chapter 14A of the Hong Kong Listing Rules is different from (a) the definition of related parties under International Accounting Standard 24, “Related Party Disclosures”, and its interpretations by the IASB and (b) the definition of connected persons under the Shanghai Listing Rules. Accordingly, connected transactions set out in this section, which are described and disclosed in accordance with Chapter 14A of the Hong Kong Listing Rules, differ from the related party transactions set out in Note 42 of Section II to Appendix I — “Accountants’ Report”, as well as the connected transactions disclosed in our previous periodic reports published under the Shanghai Listing Rules. We set out below details of our connected transactions.

### CONNECTED PERSONS

Our transactions or continuing transactions with the following entities will constitute our connected transactions or continuing connected transactions under the Hong Kong Listing Rules upon completion of the H Share Listing. The entities, which will be our connected persons for the purposes of the Hong Kong Listing Rules, include:

- (i) CITIC Group: Immediately following completion of the H Share Listing, CITIC Group will, directly and indirectly, own approximately 21.05% of our then issued share capital if the Over-allotment Option is not exercised (or approximately 20.63% if the Over-allotment Option is exercised in full) and assuming that CITIC Group is the only State-owned Shareholder who will reduce its Shares in accordance with the relevant PRC regulations on reduction of State-owned shares. CITIC Group will therefore remain as a Substantial Shareholder of the Company, and hence is our connected person by virtue of Rule 14A.11(1) of the Hong Kong Listing Rules.
- (ii) certain associates (as defined under Chapter 19A of the Hong Kong Listing Rules) of CITIC Group, excluding us. Such associates will be our connected persons by virtue of Rule 14A.11(4) of the Hong Kong Listing Rules.

### HISTORICAL CONNECTED TRANSACTIONS

#### *1. Guarantee provided in favour of our Group by CITIC Group or its associates*

In 2006, CITIC Group provided a guarantee in our favour in respect of a corporate bond issued by us in the principal amount of RMB1.5 billion. Such a guarantee will expire on the second anniversary of the expiry date of the corporate bond. Since the guarantee is provided by CITIC Group in our favour with no security being given for the provision of such guarantee, the guarantee will not be discharged and will continue after the H Share Listing. As such guarantee is a historical one-off transaction entered into between CITIC Group and us prior to the H Share Listing, such transaction is not subject to the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

#### *2. Trademarks*

Pursuant to a Trademark Agreement dated 23 September 2001, China International Trust and Investment Corporation, the predecessor of CITIC Group, licensed to us for our exclusive use two trademarks for an indefinite period, pending the simultaneous registrations of such trademarks in the PRC. As the licence is granted to us for nil consideration, the transaction under the Trademark Agreement is an exempt transaction which is exempt from reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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### CONTINUING CONNECTED TRANSACTIONS

Historically, we and our subsidiaries have leased properties from and to CITIC Group and its associates. We and CITIC Group and its associates have mutually entered into securities and financial products and services transactions in the ordinary and normal course of businesses and have mutually provided miscellaneous non-financial services to each other. All such transactions were, and will continue to be, entered into upon normal commercial terms and in accordance with the terms of the individual agreements entered into between us and CITIC Group and its associates. Upon completion of the H Share Listing, such transactions will also have to comply with the disclosure and, if applicable, shareholders' approval requirements under the Hong Kong Listing Rules. To comply with the requirements of the Hong Kong Listing Rules, we have categorized our existing continuing connected transactions with CITIC Group and its associates into three categories, namely (i) property leasing, (ii) securities and financial products transactions and services and (iii) miscellaneous services and will enter into three separate framework agreements to govern such transactions on or before completion of the H Share Listing. These transactions are as follows.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### *1. Property Leasing Framework Agreement*

Historically, we and our subsidiaries have leased certain properties in Beijing, Hong Kong, and various other locations in the PRC from CITIC Group and its associates for our offices and business uses. On the other hand, CITIC Group and its associates have leased certain properties from us in the PRC mainly for their business operations. Prior to the end of 2010, the gross floor area leased by us to CITIC Group and its associates was very small. However, since the beginning of 2011, and with the completion of our acquisition of a number of floors in three office buildings in Qingdao, Shenzhen and Beijing, the gross floor area leased by us to CITIC Group and its associates has increased and is expected to further increase, as part of such buildings are available for leasing, including leasing to CITIC Group and its associates. Further, upon our gradual removal to the new office building in Beijing beginning in May 2011, we will terminate some of our leases with CITIC Group in Beijing.

To comply with the requirements of the Hong Kong Listing Rules, and to provide for the anticipated changes in the gross floor areas leased to and by us from CITIC Group and its associates for the year ending 31 December 2011, we and CITIC Group will enter into a Property Leasing Framework Agreement (the "**Property Leasing Framework Agreement**") on or before completion of the H Share Listing to regulate our lease of properties relationship. The agreement is for a term of 10 years, subject to renewal. The principal terms of the Property Leasing Framework Agreement are as follows:

- The rentals shall be determined with the prevailing market rent at the relevant location;
- We and CITIC Group or its relevant associates shall enter into separate agreements to set out the specific terms and conditions in respect of the relevant leased properties according to the principles, and within the parameters, provided for under the Property Leasing Framework Agreement;
- We are entitled to lease additional gross floor area from and among the available properties owned by CITIC Group and its associates during the term of the Property Leasing Framework Agreement;
- CITIC Group and its associates are entitled to lease from us additional gross floor area from and among the available properties owned by us during the term of the Property Leasing Framework Agreement; and
- Either party may, at any time before the Property Leasing Framework Agreement expires, by giving not less than six months' notice, to terminate any lease made pursuant to and contemplated under such agreement, and the rentals will accordingly be reduced.

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The Property Leasing Framework Agreement is for a duration longer than three years as otherwise normally permitted under the connected transaction regulatory regime of the Hong Kong Listing Rules. We consider that the term of the Property Leasing Framework Agreement is consistent with normal commercial terms, which can secure long-term property rights for us, thus avoiding unnecessary disruptions to our business and enabling us to ensure long-term development and continuity of our operations. The Joint Sponsors are of the view that it is consistent with normal business practice for us to enter into the Property Leasing Framework Agreement with a term longer than three years.

### *Historical Rentals*

A breakdown of the approximate historical transaction figures in respect of the rental received and paid by us to and from CITIC Group and its associates for the three years ended 31 December 2010 and the three months ended 31 March 2011 is as follows:

<u>Property leasing</u>	<b>Historical figures</b> <b>For the three years ended 31 December 2010</b> <b>and the three months ended 31 March 2011</b>			
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>31 March 2011</u>
	(RMB million)			
Rental expenses incurred for lease of properties from CITIC Group and its associates .....	46.74	52.67	52.48	14.01
Rental income received from lease of properties to CITIC Group and its associates .....	—	0.44	0.12	6.03

### *Annual caps*

The Directors estimate the aggregate annual caps for the rental payable and receivable by us under the Property Leasing Framework Agreement with CITIC Group for the three financial years ending 31 December 2013 as set out in the table below. These caps are inclusive of management fees relating to the relevant leased properties (if any) and are subject to adjustments which may be made once every three years in accordance with the then prevailing market rates:

<u>Property leasing</u>	<b>Annual caps</b> <b>For the year ending 31 December</b>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	(RMB million)		
Rental expenses to be incurred for lease of properties from CITIC Group and its associates .....	65	110	120
Rental income to be received from lease of properties to CITIC Group and its associates .....	40	60	80

When estimating the annual caps for the rental expenses to be incurred by us, the Directors have made reference to the above historical figures (in particular, the highest transaction amount in the past three years), and also considered, among other things, the following key factors:

- the potential expansion of our business in Hong Kong and overseas and the consequential increase in demand for additional office space, which may be leased from CITIC Group and its associates. In particular, the planned expansion of our overseas business to be headquartered in Hong Kong will lead to a substantial increase in our office space in Hong Kong to accommodate such expansion. As the Hong Kong leased properties currently accounted for approximately 40% to 60% of the total annual rental expenses payable to CITIC Group and its associates, we therefore anticipate a substantial increase

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in the annual rental in 2012 arising from our overseas business expansion. We may lease our new office space from CITIC Tower in Hong Kong so that our overseas and Hong Kong operations could be conveniently located close to each other;

- the expected increase in market rental upon a total area of approximately 952 sq. m. and 2,203 sq. m. of our Hong Kong offices coming up for renewal in the years 2011 and 2012, respectively;
- the termination of some of the leases leased from CITIC Group and its associates for our office use following the gradual removal to our new office building in Beijing beginning in May 2011;
- the expected rental increase upon renewal of some of the leases in Hong Kong with CITIC Group or its associates for the three years ending 31 December 2013; and
- any potential increase in the gross floor area to be leased from CITIC Group and its associates for the three financial years ending 31 December 2013.

When estimating the annual caps for the rental income to be received from CITIC Group and its associates, the Directors have considered the following:

- upon the completion of our acquisition of a number of floors in two office buildings in Qingdao and Shenzhen in early 2011 and the more than half of the office building in Beijing in early 2011 and the availability of part of such buildings for leasing, the gross floor area leased by us to CITIC Group and its associates has substantially increased by over 13,186 m<sup>2</sup> in the first half of 2011 leading to a consequential increase in the estimated rental to be paid by CITIC Group and its associates for the year ending 31 December 2011 will be approximately RMB22.85 million;
- CITIC Group and its associates will continue to lease more gross floor area from us from our newly acquired properties in Qingdao, Shenzhen and Beijing in the three financial years ending 31 December 2013, considering the potential expansion of the business of CITIC Group and its associates in the PRC. In particular, with the completion of acquisition of more than half of the office building in Beijing, more office space is available since June 2011 for leasing, including leasing to CITIC Group and its associates; similarly, as there is office space in the two office buildings in Qingdao and Shenzhen available for leasing, we expect that the total area rented to and the rental to be payable by CITIC Group and its associates will further increase during the three years ending 31 December 2013; and
- the potential increase in market rentals for the three financial years ending 31 December 2013.

Having reviewed the terms of and the annual rentals receivable and payable under the existing lease agreements entered into between us and CITIC Group and/or its associates, Sallmanns has confirmed that the annual rentals receivable and payable under these lease agreements were fair and reasonable and were consistent with the prevailing market rent for similar premises in similar locations as at 30 June 2011.

### **2. *Securities and Financial Products Transactions and Services Framework Agreement***

In the normal course of our business, we regularly engage in various kinds of securities and financial products transactions with our various counterparties, including CITIC Group and its associates. We also provide securities and financial services in the normal course of our business to our customers, including CITIC Group and its associates. The banking and trust subsidiaries of CITIC Group, including CITIC Bank and CITIC Trust, also provide securities and financial services for us in the normal course of their businesses. To comply with the requirements of the Hong Kong Listing Rules, we will enter into a Securities and Financial Products

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Transactions and Services Framework Agreement (the “**Securities and Financial Products Transactions and Services Framework Agreement**”) with CITIC Group on or before completion of the H Share Listing. CITIC Group and us will agree to (i) in respect of securities and financial products transactions in which CITIC Group or its associates are the counterparties, conduct such transactions in the ordinary and usual course of our respective businesses at the prevailing market prices or rates in accordance with applicable normal market practices and on normal commercial terms; and (ii) mutually provide securities and financial services to each other in the ordinary and usual course of our business and upon normal commercial terms. The Securities and Financial Products Transactions and Services Framework Agreement is for a fixed term of three years, subject to renewal.

### A. *Securities and Financial Products Transactions*

In China, the securities industry is highly regulated with specified categories of issuers for different financial products and are regulated by different government regulatory authorities. For example, corporate bonds could only be issued primarily by listed companies and are regulated by CSRC, whereas enterprise bonds could only be issued primarily by unlisted companies and are regulated by the NDRC and financial bonds can only be issued by commercial banks, insurance companies and are regulated by the CBRC and the PBOC. Please see “Business — Principal Lines of Business — Investment Banking — Debt and structured finance”.

Other than corporate bonds, which are regulated by the CSRC, bonds including commercial papers, medium term notes, national bonds, finance bonds, subordinated debt, enterprise bonds, etc. can be traded on China’s interbank bond market. China’s interbank bond market is an open market regulated by the PBOC, which regulates bond trading activities on a daily basis. All interbank bond market transactions are conducted with high frequency and are market-driven. They are required to go through the Electronic Brokerage System (“EBS”), which ensures that all transactions in the system will be executed according to the prevailing market rates. EBS would list out all the bid/ask orders and transactions will be executed when an order is matched with a counterparty. As such, market participants do not have control over the counterparty with which a particular transaction is executed.

In the ordinary and usual course of our business, we enter into securities and financial products transactions with various counterparties, including CITIC Group and its associates both in the PRC and Hong Kong on normal commercial terms. Likewise, CITIC Group and its associates also enter into securities and financial products transactions with us as counterparties both in the PRC and Hong Kong on normal commercial terms. Such transactions will predominantly be conducted through the PRC interbank bond market at the prevailing market prices. Transactions which are not conducted in the PRC interbank bond market have been conducted and will continue to be conducted at the prevailing market prices or in the case of financing transactions, market rates upon normal commercial terms. Such transactions include the following:

- Products with fixed income features — including bonds, funds, trust, wealth management products and assets securitized products, convertible bonds and structured products with fixed income feature;
- Fixed income related derivative products — including interest rates and credit risk derivative products;
- Equity-linked products — including equity, funds, trust, wealth management products and equity derivatives;
- Financing transactions — financing transactions among financial institutions with or without guarantees/securities including borrowings for interbank market loans and repurchase; and
- Other related securities and financial products — including futures, foreign exchange and commodities trading.

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### *Pricing basis*

There are no fixed prices or rates for the transactions under the Securities and Financial Products Transactions and Services Framework Agreement. Such transactions, whether or not conducted on the PRC interbank bond markets, will be conducted at the prevailing market prices or, in the case of financing transactions, market rates normally applicable to independent counterparties for the particular type of transactions concerned.

### *Historical figures*

The historical amounts of our securities and financial products transactions with CITIC Group and its associates (predominantly with CITIC Bank and CITIC Trust) for the three years ended 31 December 2010 and the three months ended 31 March 2011 were as follows:

<u>Securities and Financial Products Transactions</u>	<b>Historical figures</b> <b>For the three years ended 31 December 2010</b> <b>and the three months ended 31 March 2011</b>			
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>31 March 2011</u>
	(RMB million)			
In <sup>(1)</sup> .....	66,050.11	19,661.20	12,737.64	609.90
Out <sup>(2)</sup> .....	<u>50,917.25</u>	<u>18,844.08</u>	<u>11,673.85</u>	<u>662.85</u>
<b>Total turnover</b> .....	116,967.36	38,505.28	24,411.49	1,272.75

### *Notes:*

- (1) “In” means the total cash inflow to our Group arising from sale of fixed income products and equity-linked products, interest received from fixed income derivative products, and through borrowing/repurchase from financing transactions.
- (2) “Out” means the total cash outflow from our Group arising from purchase of fixed income products and equity-linked products, interest paid for fixed income derivative products, and through lending/ reverse repurchase from financing transactions.

### *Annual caps*

Pursuant to the Hong Kong Listing Rules, we are required to set a maximum aggregate annual value or a “cap” for each category of financial products transactions with CITIC Group and its associates. A maximum daily balance is also required to be set for the deposits (as referred to in “B. — Securities and Financial Services” below) placed by us with the banking subsidiaries of CITIC Group in the PRC and Hong Kong. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the annual cap and maximum daily balance requirements on the basis (but not limited to) of the following:

in respect of the annual caps for the securities and financial products transactions:

- each of the securities and financial products transactions is entered into at the prevailing market prices in the ordinary and usual course of our business with high frequency and is market-driven, which is based on, among others, the bidding price and timeliness of the bids. The value of each of these transactions is determined by the market and varies from time to time and from year to year depending on various factors, including the economic conditions as well as the fluctuations in the PRC and Hong Kong financial markets;
- the value of each of these transactions is very substantial, and it would be extremely difficult and impracticable to estimate and set a maximum aggregate annual value for these transactions;
- most of these transactions are entered into in a very short timeframe and are very sensitive to market prices. If an annual cap is set for these transactions, it would cause significant delay to such transactions



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and undue disruption to our existing operations and potential growth to the detriment of our Company and our Shareholders as a whole and restrict our overall competitiveness in a highly competitive securities industry;

- reference to historical figures for each of these transactions may not be a fair indication as to the expected aggregate value of the transactions for the next three years; and
- all such transactions will continue to be entered into at the prevailing market prices in an open market in the ordinary and usual course of our business.

in respect of the maximum daily deposit balance limit imposed on the deposits of our proprietary funds and our customers' funds placed with the banking subsidiaries of CITIC Group in the PRC and Hong Kong:

- the deposits of our proprietary funds and our customers' funds with the banking subsidiaries of CITIC Group are entered into at interest rates not lower than the interest rates authorized by the PBOC and in the ordinary and usual course of our business and the business of the banking subsidiaries of CITIC Group;
- pursuant to the *Notices in relation to Management of Third-party Depository Accounts by Securities Companies* issued by the CSRC to local securities regulatory bureaus in 2006 and 2007, all our customers' transaction settlement funds must be deposited with commercial banks qualified to engage in the third-party depository services and be managed with separately opened accounts. It is up to the customers to decide which PRC bank they would like to deposit their cash balance. Once a customer has decided on a particular bank, we have no control over the amounts of such deposits and withdrawals, which are entirely at the discretion of the customer in accordance with his own trading requirements and we must act upon such instruction accordingly. In light of this, it would be extremely onerous and impracticable for us to estimate and set a maximum daily balance limit for such deposits;
- as we have no control over the maximum balance of our customers' deposits, we will not be in a position to comply with the limit, and therefore should not be required to set a limit which we will not be in a position to comply;
- in relation to our proprietary funds deposited with the banking subsidiaries of CITIC Group, it is difficult for us to estimate the amount of incoming funds to be received by us on a daily basis, given that the financial and securities businesses in which we are engaged are highly responsive to the market. In addition, we may from time to time liquidate some of our proprietary financial products and portfolios in order to realize funds, the amount of which however is highly uncertain and can be very substantial. Therefore, imposing a maximum daily deposit balance limit would not only cause undue administrative inconvenience to us but would also cause undue disruption to our operations and hamper our ability to respond quickly to changes in the highly volatile financial market;
- during the Track Record Period, we placed our proprietary funds with various large PRC commercial banks, which are all highly regulated by the CBRC and PBOC. In choosing which bank we should place our deposits with, we will consider various factors such as the deposit rate offered by the banks, the geographical convenience of the branches located both domestically and overseas and other favourable terms offered by the banks. The decision made by us in choosing the most appropriate bank to place our deposits with is entirely commercial-driven and the deposit arrangements between us and the banking subsidiaries of CITIC Group are also conducted based on normal commercial terms; and
- if a maximum daily balance is set for such deposits, it would be unduly burdensome to our existing operations and unduly restrictive to our potential growth to the detriment of our Company and our Shareholders as a whole.

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Our Directors (including the independent non-executive Directors) and the Joint Sponsors are of the view that, based on the reasons set out above, the abovementioned continuing connected transactions are entered into on normal commercial terms and that the no-cap arrangement would not be prejudicial to the interest of our Shareholders as a whole.

### *B. Securities and Financial Services*

Apart from the securities and financial products transactions with CITIC Group and its associates as counterparties as mentioned in paragraph 2A above, our Group and CITIC Group and its associates also provide securities and financial services to each others during the normal course of our respective businesses. In particular, we provide securities and financial services to our customers, including CITIC Group and its associates, such as advisory, brokerage, agency sale and asset management services in which we receive service fees, commission and other payments such as interests. On the other hand, the banking and trust subsidiaries of CITIC Group, including CITIC Bank and CITIC Trust, also provide financial and other services to us and our customers, such as deposit management services and other agency sale services for which service fees are charged by CITIC Group and its associates.

The mutual provision of securities and financial services between CITIC Group and its associates and us under the Securities and Financial Products Transactions and Services Framework Agreement include, among other things, the following:

#### *Our services provided to CITIC Group*

- underwriting and sponsorship services — including underwriting and sponsorship services for equity securities, fixed income products, structure products and other derivative products;
- other investment banking services — including corporate restructuring, mergers and acquisition advisory services;
- securities brokerage services — including brokerage and related financial products services;
- financial products sale services — including provision of agency sale services;
- entrusted asset management services — including asset management services for assets entrusted by customers; and
- other miscellaneous securities and financial services;

#### *CITIC Group's services to us*

- deposit services — including (a) deposits of cash balances arising from our business operations including cash from our daily operations, proceeds from our fund raising activities such as equity and bond issues; (b) cash deposits from our customers; and (c) other deposits;
- financial products sale services — including provision of agency sale services for our financial products;
- client deposits management services — including management services provided by CITIC Bank for managing the cash deposits of our non-financial institution customers, which are required by the relevant PRC laws and regulations to be deposited into our account with a PRC bank;



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- loan services — including loans as our working capital provided by CITIC Group and its associates; and
- other miscellaneous securities and financial services.

In respect of the deposit services provided by CITIC Group and its associates to us, we receive interest on such deposits and there is no expense incurred by us for such services. In respect of the client deposits management services provided by CITIC Bank to us, we have to pay out the interest received from CITIC Bank to our customers including CITIC Group and its associates. In respect of other securities and financial services provided by CITIC Group and its associates to us, we have to pay service fees for the services provided.

### *Pricing basis*

The pricing principles for the various securities and financial services under the Securities and Financial Products Transactions and Services Framework Agreement are as follows:

- interest rates on deposits — interest rates for our deposits shall not be lower than the interest rates authorised by the PBOC for the same type of deposits offered by the commercial banks in the PRC during the same period and shall not be lower than the interest rates for the same type of deposits by other customers of such banking subsidiaries of CITIC Group.
- service fees or commission or brokerage — such fees or commissions charged shall be based on negotiations between the parties with reference to the prevailing market rates and shall be in compliance with the applicable laws and regulations.

### *Historical figures*

A breakdown of the approximate historical transaction figures in respect of the mutual provision of securities and financial services between CITIC Group and its associates and us for the three years ended 31 December 2010 and the three months ended 31 March 2011 was as follows:

<u>Securities and Financial services</u>	<b>Historical figures</b> <b>For the three years ended 31 December 2010</b> <b>and the three months ended 31 March 2011</b>			
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>31 March 2011</u>
	(RMB million)			
<b><i>Revenue</i></b>				
Underwriting and sponsorship services . . . . .	9.00	45.56	132.66	0.05
Other investment banking services . . . . .	109.97	118.53	24.72	1.28
Securities brokerage services . . . . .	—	7.81	36.07	5.97
Financial products sale services . . . . .	7.44	0.01	—	0.02
Entrusted asset management services . . . . .	10.56	9.66	0.45	0.50
Interest on deposits . . . . .	718.32	150.97	178.90	109.92
<b>Total . . . . .</b>	<b><u>855.29</u></b>	<b><u>332.54</u></b>	<b><u>372.80</u></b>	<b><u>117.74</u></b>
<b><i>Expenses</i></b>				
Financial products sale services . . . . .	79.43	51.09	46.17	11.21
Interest expenses . . . . .	4.77	1.77	9.57	2.14
Service fees for client deposits management services . . . . .	—	8.38	9.98	2.25
<b>Total . . . . .</b>	<b><u>84.20</u></b>	<b><u>61.24</u></b>	<b><u>65.72</u></b>	<b><u>15.60</u></b>

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### *Annual caps*

The Directors estimate the annual caps for the continuing connected transactions in respect of the mutual provision of securities and financial services between CITIC Group and its associates and us for the three financial years ending 31 December 2013 as follows:

<u>Securities and Financial services</u>	Annual caps For the year ending 31 December		
	2011	2012	2013
	(RMB million)		
Revenue from provisions of securities and financial services by us to CITIC Group and its associates . . . . .	1,300	2,000	2,400
Expenses from provision of securities and financial services by CITIC Group and its associates to us . . . . .	120	180	210

When estimating the annual caps for the revenue to be received from provisions of securities and financial services to CITIC Group and its associates, the Directors have based the estimates on the total transaction amounts for the year ended 31 December 2008 as they are more representative of the transaction relationships between CITIC Group and us unaffected by the financial crisis. In addition, the Directors have further considered, among other things, the following key factors:

- the completion of rights issue by CITIC Bank in August 2011, in which we are the leading underwriter; the potential initial public offering of one associated/subsidiary company of CITIC Group, the fixed income products issuance by CITIC Group or its associated/subsidiary companies in 2011, in which we are the underwriters; and the potential merger and acquisition to be conducted by the associated/subsidiary companies of CITIC Group, in which we provide advisory services;
- the expected increases in underwriting commissions and other service fees in connection with the potential initial public offerings upon the completion of the restructuring of CITIC Group and/or its subsidiaries or associated companies, the follow-on fund raisings of several associated/subsidiary companies of CITIC Group, and the issuance of fix income products by CITIC Group and its associated/subsidiary companies, most of which are expected to be completed in the two financial years ending 31 December 2013;
- the potential growth in the securities and financial services associated with the business growth of CITIC Group and its associates leading to increasing cooperation between us and CITIC Group for the three financial years ending 31 December 2013; and
- in respect of the interest on deposits, the expected increase in future interest rates for the three financial years ending 31 December 2013 and the potential increase in the amounts of client deposits with CITIC Bank arising from the proposed expansion of our retail brokerage network in China.

When estimating the annual caps for the expenses paid to CITIC Group and its associates for the provisions of securities and financial services, the Directors have based the estimates on the total transaction amounts for the year ended 31 December 2008 as they are more representative of the transaction relationship between CITIC Group and us unaffected by the financial crisis. In addition, the Directors have considered, among other things, the following key factors:

- the potential growth in the securities and financial services provided to us arising from the business growth of CITIC Group and its associates and the increasing level of business cooperation between

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CITIC Group, its associates and us for the three financial years ending 31 December 2013. CITIC Group and its associates will cooperate with us in an increasing number of areas, such as investment banking, brokerage, asset management and private equity business by providing more value-added services;

- the potential increase in client deposits management services arising from our business growth in the PRC. As at 30 June 2011, we had 151 retail brokerage branches in China. Starting from January 2011, we became eligible under the new PRC regulations to provide investment advisory services to our brokerage customers and we plan to increase the number of retail brokerage branches in China. We expect that our expansion plan will lead to an increase in our customer base and consequently increase in client deposits management services provided by CITIC Bank to us; and
- in respect of loans services, the expected increase in future interest rates for the three financial years ending 31 December 2013 and the increase in the amount of loans for working capital arising from our proposed business expansion.

In addition, the proposed annual caps have taken into account the inflation factor and on the principal assumptions that, for the duration of the projected period, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect our businesses and those of CITIC Group and/or its associates during the term of the Securities and Financial Products Transactions and Services Framework Agreement.

### ***3. Miscellaneous Services Framework Agreement***

CITIC Group and its associates have provided miscellaneous non-financial services to us and our subsidiaries. Such services include, among other things, provision of internet network services, network maintenance, renovation/decorations, insurance, enterprise annuity management services, and miscellaneous building management services. On the other hand, we also provide miscellaneous non-financial services to CITIC Group and its associates. Such services include, among other things, internet network and other IT related services for which we charge certain service fees. To comply with the requirements of the Hong Kong Listing Rules, we will enter into a Miscellaneous Services Framework Agreement (the “**Miscellaneous Services Framework Agreement**”) with CITIC Group on or before completion of the H Share Listing pursuant to which CITIC Group and us will agree to mutually provide certain non-financial services to each other during the term of the Miscellaneous Services Framework Agreement. The Miscellaneous Services Framework Agreement will be for a term of three years, subject to renewal.

### ***Pricing basis***

Pursuant to the Miscellaneous Services Framework Agreement, and as a general principle, the non-financial services under the Miscellaneous Services Framework Agreement will be provided to us in the ordinary and usual course of business on normal commercial terms, negotiated on an arm’s length basis and at prices and terms no less favourable to us than prices and terms available to or from independent third parties to us.

## CONNECTED TRANSACTIONS

### *Historical figures*

A breakdown of the approximate historical transaction figures in respect of the mutual provision of miscellaneous non-financial services between CITIC Group and us for the three years ended 31 December 2010 and the three months ended 31 March 2011 was as follows:

<u>Miscellaneous Services</u>	<b>Historical figures</b> <b>For the three years ended 31 December 2010</b> <b>and three months ended 31 March 2011</b>			
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>31 March 2011</u>
	(RMB million)			
Revenue from provision of non-financial services by us to CITIC Group and its associates . . . . .	1.95	0.31	0.14	—
Expenses for non-financial services rendered to us by CITIC Group and its associates . . . . .	8.15	19.88	16.01	14.79

### *Annual caps*

The Directors estimate the annual caps for the continuing connected transactions in respect of the mutual provision of miscellaneous non-financial services between CITIC Group and us for the three financial years ending 31 December 2013 as follows:

<u>Miscellaneous Services</u>	<b>Annual caps</b> <b>For the year ending 31 December</b>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	(RMB million)		
Revenue from provision of non-financial services by us to CITIC Group and its associates . . . . .	3	5	7
Expenses for non-financial services rendered by CITIC Group and its associates to us . . . . .	60	120	180

The annual caps for the revenue received by us under the Miscellaneous Services Framework Agreement have been estimated based on the highest historical transaction amounts in the Track Record Period and taking into consideration the following;

- the expected increase in the internet network and IT services provide by us to CITIC Group and its associates; and
- the increase in the sharing of administrative expenses between us and CITIC Group and its associates arising from the increase in the leased area by CITIC Group and its associates to us.

The annual caps for the expenses paid to CITIC Group and its associates by us under the Miscellaneous Services Framework Agreement have been estimated by making reference to the historical figures (in particular, the highest transaction amounts in the past three years) of such transactions, and also taking into consideration of, among other things, the following key factors:

- the expected increase in decoration work provided by CITIC Group and its associates as a result of the proposed expansion of our sales network. As at 30 June 2011, we had a total of 151 retail brokerage branches and we plan to further increase the number of our retail brokerage branches to increase our coverage;

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## CONNECTED TRANSACTIONS

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- the proposed increase in IT investments by us and the potential supply of IT equipment by CITIC Group and its associates; and
- the expected increase in insurance premium to be paid to CITIC Prudential Life, an associate of CITIC Group, for medical and traffic accident insurance as the number of our employees increases. The insurance premium has increased from an average of RMB1,120.00 per annum per employee to RMB2,780.00 per annum per employee and that the number of our employees has increased from 10,487 as at 31 December 2009 to 15,476 as at 31 December 2010.

In addition, the proposed annual caps have also taken into account the estimated future demand, inflation factor and on the principal assumptions that, for the duration of the projected period, there will not be any adverse change or disruption in market conditions, operation and business environment or government policies which may materially affect our businesses and those of CITIC Group and/or its associates during the term of the Miscellaneous Services Framework Agreement.

### *Implications under Hong Kong Listing Rules*

The transactions described in paragraphs 1 and 3 in the “— Non-exempt Continuing Connected Transactions” above will, upon the H Share Listing, constitute partially exempted continuing connected transactions of the Company. These transactions are entered into on normal commercial terms and in accordance with the requirements of the Hong Kong Listing Rules, and are subject to the reporting and announcement requirements but exempt from independent shareholders’ approval requirement under Chapter 14A of the Hong Kong Listing Rules. Accordingly, we have applied to the Hong Kong Stock Exchange pursuant to Rule 14A.42(3) of the Hong Kong Listing Rules for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the announcement requirement set out in Rule 14A.47 of the Hong Kong Listing Rules in respect of the non-exempt continuing connected transactions described in paragraphs 1 and 3.

The securities and financial products transactions and services described in paragraph 2 above will constitute non-exempt continuing connected transactions under the Hong Kong Listing Rules. In accordance with the requirements of the Hong Kong Listing Rules, such continuing connected transactions contemplated under the Securities and Financial Products Transactions and Services Framework Agreement would be subject to reporting, announcement and prior approval by independent shareholders requirements. We have applied to the Hong Kong Stock Exchange pursuant to Rule 14A.42(3) of the Hong Kong Listing Rules for, and the Hong Kong Stock Exchange has granted to us, a waiver in relation to the transactions and Services as described in paragraphs 2A and 2B from the announcement and independent shareholders’ approval requirements of Rules 14A.47 and 14A.48 of the Hong Kong Listing Rules, subject to the annual caps set out for the transactions described in paragraph 2B.

In respect of the securities and financial products transactions as described in paragraph 2A, the Directors, including the independent non-executive Directors, consider that full compliance with the requirements to set a maximum aggregate annual value for the transactions and a maximum daily balance for the deposits would be unduly burdensome to our existing operations and unduly restrictive to our potential growth to the detriment of our Company and our Shareholders as a whole. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with the requirement to set a maximum aggregate annual value for the securities and financial products transactions as well as a maximum daily balance for the deposits under the Securities and Financial Products Transactions and Services Framework Agreement for the reasons set out in paragraph 2A above.

Our Directors, including the independent non-executive Directors, consider that it is in our interests to continue these transactions with CITIC Group and its associates after the listing of our H Shares and that all such

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## CONNECTED TRANSACTIONS

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continuing connected transactions have been entered into and will be carried out in the ordinary and usual course of our business and on normal or better than normal commercial terms, and are fair and reasonable so far as our Company and our Shareholders as a whole are concerned and that the proposed annual caps (where applicable) for these continuing connected transactions referred to above are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

In addition, we will comply with the reporting requirements and disclose the details of all continuing connected transactions described in paragraphs 1, 2 and 3 above in our subsequent annual reports for the three financial years ending 31 December 2013 pursuant to Rules 14A.45 and 14A.46 of the Hong Kong Listing Rules. Upon expiry of the waiver after 31 December 2013, we shall re-comply with the applicable provisions of Chapter 14A of the Hong Kong Listing Rules as amended from time to time.

### *Joint Sponsors' confirmation*

The Joint Sponsors are of the view that the Company's continuing connected transactions described in this "Non-exempt Continuing Connected Transactions" sub-section are entered into in the ordinary and usual course of business of the Company, on normal commercial terms, and are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and that the proposed annual caps (where applicable) for these continuing connected transactions referred to above are fair and reasonable and in the interests of our Company and our Shareholders as a whole.