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中州证券

Central China Securities Co., Ltd.

(a joint stock company incorporated in 2002 in Henan Province, the People's Republic of China with limited liability under the Chinese corporate name "中原证券股份有限公司" and carrying on business in Hong Kong as "中州证券")

(Stock Code: 01375)

CONTINUING CONNECTED TRANSACTIONS

ENTERING INTO SECURITIES AND FINANCIAL PRODUCTS TRANSACTIONS AND SERVICES FRAMEWORK AGREEMENTS WITH HENAN INVESTMENT GROUP AND EQUITY EXCHANGE CO.

SECURITIES AND FINANCIAL PRODUCTS TRANSACTIONS AND SERVICES FRAMEWORK AGREEMENT WITH HENAN INVESTMENT GROUP

The Group has been, in the ordinary and usual course of its businesses, engaged in continuing transactions with Henan Investment Group and its associates including, securities and financial products transactions and provision of securities and financial services. As Henan Investment Group and its associates are connected persons of the Company and transactions between the Group and Henan Investment Group and its associates are continuing connected transactions of the Group, the Company and Henan Investment Group entered into the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group on 27 March 2019 for a term of three years from 1 January 2019 to 31 December 2021 in order to regulate such continuing connected transactions of the Company more effectively.

SECURITIES AND FINANCIAL PRODUCTS TRANSACTIONS AND SERVICES FRAMEWORK AGREEMENT WITH EQUITY EXCHANGE CO.

The Group has been, in the ordinary and usual course of its businesses, engaged in continuing transactions with Equity Exchange Co. including, securities and financial products transactions and mutual provision of securities and financial services. As Equity Exchange Co. is connected person of the Company and transactions between the Group and Equity Exchange Co. are continuing connected transactions of the Group, the Company and Equity Exchange Co. entered into the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co. on 27 March 2019 for a term of three years from 1 January 2019 to 31 December 2021 in order to regulate such continuing connected transactions of the Company more effectively.

HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, Henan Investment Group is a substantial shareholder of the Company and holds approximately 21.27% of the issued share capital of the Company, thus it is a connected person of the Company. Therefore, the transactions proposed to be conducted between the Group and Henan Investment Group and its associates under the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group constitute continuing connected transactions for the Company under Chapter 14A of the Hong Kong Listing Rules.

Since Henan Investment Group holds 10% equity interest in Equity Exchange Co., a subsidiary of the Company, Equity Exchange Co. is thus a connected subsidiary of the Company. Therefore, the transactions proposed to be conducted between the Group and Equity Exchange Co. under the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co. constitute continuing connected transactions for the Company under Chapter 14A of the Hong Kong Listing Rules.

When calculating the size of the continuing connected transactions of the Company under the Securities and Financial Products Transactions and Services Framework Agreements with both of Henan Investment Group and Equity Exchange Co., the Company has aggregated the proposed annual caps for the continuing connected transactions under both of the aforesaid agreements pursuant to Rule 14A.81 of the Hong Kong Listing Rules.

As the highest of the applicable percentage ratios in respect of the proposed annual caps for the continuing connected transactions contemplated under the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group and the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co. for the next three years ending 31 December 2021, after the aforesaid aggregation, 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 loans by Henan Investment Group and its associates to the Group under the Securities and Financial Products Transactions and Services Framework Agreements with Henan Investment 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.

I. SECURITIES AND FINANCIAL PRODUCTS TRANSACTIONS AND SERVICES FRAMEWORK AGREEMENT WITH HENAN INVESTMENT GROUP

1. Background

The Group has been, in the ordinary and usual course of its businesses, engaged in continuing transactions with Henan Investment Group and its associates including, securities and financial products transactions and provision of securities and financial services. As Henan Investment Group and its associates are connected persons of the Company and transactions between the Group and Henan Investment Group and its associates are continuing connected transactions of the Group, the Company and Henan Investment Group entered into the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group on 27 March 2019 for a term of three years from 1 January 2019 to 31 December 2021 in order to regulate such continuing connected transactions of the Company more effectively.

The principal terms of the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group are set out as follows:

2. Securities and Financial Products Transactions

Scope of the securities and financial products transactions

The securities and financial products transactions to be entered into between the Group and Henan Investment Group and its associates include the following:

- (i) Securities products with fixed income features — including, but not limited to, bonds, funds, trusts, wealth management products, asset management plans, assets securitized products, bond lending and borrowing, structured products, swaps, futures, forwards, options and other financial products with fixed income features, etc.;
- (ii) 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 swaps, futures and options, etc.;
- (iii) Financing transactions — financing transactions among financial institutions with or without guarantees/pledges including, but not limited to, capital lending and borrowing, repurchase, asset securitization, pledged loans, holding of debt certificates for each other including (but not limited to) short-term financing bonds, beneficiary certificates, subordinated debts and corporate bonds, etc.; and
- (iv) Other related securities and financial products permitted by the regulatory authority — including, but not limited to, futures, foreign exchange and commodities trading, etc.

Pricing basis

(i) Securities and financial products transactions

The securities and financial products transactions will be conducted at the prevailing market prices in the ordinary and usual course of the Group's business. In terms of subscriptions by the Group of the financial products set up by Henan Investment Group and its associates, the subscription price is at the same subscription price as the subscriptions by other investors. Such subscription price is determined by the financial institutions which set up the financial products after considering the fundamentals of the assets/businesses to be invested.

Henan Investment 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. In addition, issuance price may be required to be set in accordance with the methods prescribed in the relevant rules and regulations and all subscribers for the same financial product will subscribe at the same issuance price.

The gains (if any) to be derived from subscriptions by the Group of financial products set up by Henan Investment Group and its associates will be recognized as “Total net cash inflow to the Group” in respect of the continuing connected transactions contemplated under the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group. Other than the foregoing, for the time being and in the next three years, none of Henan Investment Group or its associates has plan to subscribe for securities and financial products set up by the Group.

(ii) *Inter-financial institutions borrowings*

In accordance with relevant PRC rules and regulations, the financial institutions in Henan Investment Group and its associates may provide loans to the Group in the ordinary course of business. Such loans will be conducted upon normal commercial terms or better at interest rates and terms, as applicable to similar loans provided by independent third party institutions.

The provision of loans by Henan Investment Group and its associates to the Group under the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment 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.

Pricing approval and supervision

The Group has adopted a series of internal approval and supervision procedures to regulate the securities and financial products transactions between the Group and Henan Investment Group and its associates. 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:

The Group has established its internal guidelines and policies for conduct of different types of securities and financial products as well as the internal procedures and systems for approval and supervision such transactions 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 different types of transactions and businesses. For loans provided by Henan Investment Group and its associates, the individual department will control the levels of borrowings and set a limit on the level of borrowings in accordance with the annual plan for borrowings.

In addition, trainings will be provided to traders/dealers on the requirements relating to connected transactions and all connected transactions, once identified and conducted, will be recorded by the relevant department, which will check to ensure that all applicable restrictions are observed and complied with. The relevant business department of the Company is responsible for reviewing whether the actual transaction amounts would exceed the annual caps and alert relevant business lines if close to the annual caps. The legal department, compliance department, Board Office, financial department 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 or irregular basis to ensure that the annual caps 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.

The conduct of continuing connected transactions is also subject to annual review by all independent non-executive Directors and the supervisory committee of the Company.

Historical transaction amounts

The approximate historical transaction amounts in respect of the securities and financial products transactions between the Group and Henan Investment Group and its associates under the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group for each of the two financial years ended 31 December 2017 and the nine months ended 30 September 2018 are set out as follows:

Securities and Financial Products Transactions	Approximate historical transaction amounts		
	For the year ended 31 December		For the nine months ended 30 September
	2016	2017	2018
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Total net cash outflow from the Group	—	480.00	36.00
Total net cash inflow to the Group*	—	16.92	30.37

* The figure represents gains derived from subscriptions by the Group of financial products set up by Henan Investment Group and its associates.

The proposed annual caps for the three financial years ending 31 December 2021

The Company estimates that the annual caps in respect of the securities and financial products transactions between the Group and Henan Investment Group and its associates under the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group for each of the three financial years ending 31 December 2021 as follows:

Securities and Financial Products Transactions	Proposed annual caps ending for the year ending 31 December		
	2019	2020	2021
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Total net cash outflow from the Group	123.00	123.00	123.00
Total net cash inflow to the Group*	12.43	12.43	12.43

* The figure represents gains to be derived from subscriptions by the Group of financial products set up by Henan Investment Group and its associates.

Basis of determination of the annual caps

When estimating the annual caps for the total net cash outflow of the securities and financial products transactions, the Company has made reference to the above historical transaction amounts, and also considered, among other things, the following key factors:

- (i) the anticipated subscription by Equity Exchange Co., a subsidiary of the Company, of approximately RMB58 million trust products set up by Zhongyuan Trust, a subsidiary of Henan Investment Group;
- (ii) the anticipated subscription by CCBO, a wholly-owned subsidiary of the Company, of approximately RMB35 million trust products set up by Zhongyuan Trust; and
- (iii) the anticipated subscription by the asset management plan set up by the Company using its own fund of approximately RMB30 million trust products set up by Zhongyuan Trust.

The annual caps for the total net cash inflow of the securities and financial products transactions are determined based on the above annual caps for the net cash outflow and the estimation by the Company of the yield of relevant securities and financial products.

3. Securities and Financial Services

Scope of the securities and financial services

The securities and financial products services to be provided by the Group to Henan Investment Group and its associates include the following:

- (i) Underwriting, and sponsorship services — including, but not limited to, underwriting, sponsorship 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;
- (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, consulting services and commodities services, etc.

Pricing basis

The pricing principles for the provision of the securities and financial services by the Group are as follows:

The general pricing principles for service fees or commission or brokerage fees charged shall be based on negotiations between the parties with reference to the prevailing market rates and in accordance with the requirements of the applicable laws and regulations of the PRC. More specifically, the pricing policies of services which account for the major part of the securities and financial services transactions are as follows:

- (i) underwriting and sponsorship services: the service fees shall be determined 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;
- (iv) financial products sales agency services: the service fees shall be determined based on the amount of products for sale or the estimated asset size 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 amount of products for sale or the estimated asset size with reference to the service fee rates applicable to independent third parties; and

- (vi) other securities and financial 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.

Pricing approval and supervision

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

- (i) 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 with Henan Investment Group 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.
- (ii) For services provided by the Group to Henan Investment Group and its associates, the Company will offer similar pricing terms to Henan Investment Group and its associates as the pricing to other independent third parties and shall not offer pricing terms to Henan Investment Group and its associates more favorable than those offered to independent third parties or at market level. 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.
- (iii) The legal department and 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 and the supervisory committee of the Company.

Historical transaction amounts

The approximate historical transaction amounts in respect of the provision of securities and financial services by the Group to Henan Investment Group and its associates under the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group for each of the two financial years ended 31 December 2017 and the nine months ended 30 September 2018 are set out as follows:

	Approximate historical transaction amounts		
	For the year ended 31 December		For the nine months ended 30 September
Securities and Financial Services	2016	2017	2018
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Revenue derived from provision of securities and financial services to Henan Investment Group and its associates	3.01	10.02	6.79

Proposed annual caps for the three financial years ending 31 December 2021

	Proposed annual caps ending for the year ending 31 December		
	2019	2020	2021
Securities and Financial Services	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Revenue from provision of securities and financial services to Henan Investment Group and its associates	33.81	33.81	33.81

Basis of determination of the annual caps

When estimating the annual caps for the revenue to be derived from provision of securities and financial services by the Group to Henan Investment Group and its associates, the Company has made reference to the above historical transaction amounts, and also considered, among other things, the following key factors:

- (i) the commission and fee income anticipated to be received by the Group for provision of securities trading agency and investment consulting services to Henan Investment Group and its subsidiary, Henan Asset Management Co. Ltd.* (河南資產管理有限公司);

- (ii) In the recent years, there is a growing demand of trust products with fixed income by the customers of the Company. In order to improve customer loyalty and offer more diversified products portfolio, the Company proposes to add the provision of sales agency services for trust products to the current scope of services from 2019, among which the commission and fee income to be received by the Group for provision of sales agency services for trust products to Zhongyuan Trust is anticipated to be not more than RMB7 million; and
- (iii) In the event that Henan Investment Group and its associates issue corporate bonds in the next three years, the Company intends to provide related sponsoring and underwriting and financial advisory services to Henan Investment Group and its associates, for which the commission and fee income is estimated to be received by the Company.

4. Payment Arrangements

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

5. Implementation Agreements

During the term of the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group, members of the Group and Henan Investment 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, provided that any such implementation agreement shall be within the ambit of the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group. And all existing specific agreements in respect of securities and financial products transactions and services entered into separately by the Group and Henan Investment Group and its associates shall be included in and regulated by the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group.

6. Reasons and Benefits

The reasons and benefits are as follows:

The securities and financial products transactions and securities and financial services transactions under the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group has been 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 Group. In order to take full advantage of and allocate proprietary funds in a reasonable manner, preserve and increase the value of the Group's assets as well as promote safety of assets, the Group has entered into and will continue to enter into securities and financial products transactions with financial institutions such as trust companies (including but not limited to Zhongyuan Trust). Such transactions will facilitate to exert the resource advantages of the parties and provide synergies, thereby enhance the income of the Group and improve the interest of the Company and its shareholders as a whole. Meanwhile, as a leading securities company in Henan Province with a full-service business platform, the Company provides various securities and financial services to its clients (including its connected persons and independent third parties). The Group will provide similar pricing and service terms to all clients and will not offer to the clients being connected persons of the Group more favourable terms than those offered to independent third party clients. Due to the historical and future long-term cooperation relationship between the Group and Henan Investment Group and its associates, the Company believes that it is beneficial to the Group to enter into the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group as the transactions thereunder have facilitated and will continue to facilitate the overall business operations and growth of the Group's business.

The Directors (excluding Mr. Li Xingjia who is required to abstain from voting on the relevant Board resolution but including the independent non-executive Directors) are of the view that the transactions under the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group 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.

As Mr. Li Xingjia, the non-executive Director, also serves as a director of Henan Investment Group, he is regarded as being interested in the transaction contemplated under the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group and thus has abstained from voting on the relevant Board resolution. Save as mentioned above, none of the Directors has any material interest in the transaction contemplated under the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group and thus be required to abstain from voting on the relevant Board resolution.

II. SECURITIES AND FINANCIAL PRODUCTS TRANSACTIONS AND SERVICES FRAMEWORK AGREEMENT WITH EQUITY EXCHANGE CO.

1. Background

The Group has been, in the ordinary and usual course of its businesses, engaged in continuing transactions with Equity Exchange Co. including, securities and financial products transactions and mutual provision of securities and financial services. As Equity Exchange Co. is a connected person of the Company and transactions between the Group and Equity Exchange Co. are continuing connected transactions of the Group, the Company and Equity Exchange Co. entered into the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co. on 27 March 2019 for a term of three years from 1 January 2019 to 31 December 2021 in order to regulate such continuing connected transactions of the Company more effectively.

The principal terms of the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co. are set out as follows:

2. Securities and Financial Products Transactions

Scope of the securities and financial products transactions

The securities and financial products transactions to be entered into between the Group and Equity Exchange Co. include the following:

- (i) Securities products with fixed income features — including, but not limited to, bonds, funds, trusts, wealth management products, asset management plans, assets securitized products, bond lending and borrowing, structured products, swaps, futures, forwards, options and other financial products with fixed income features, etc.;

- (ii) 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, private equity funds and equity derivatives such as swaps, futures and options, etc.; and
- (iii) Other related securities and financial products permitted by the regulatory authority — including, but not limited to, futures, foreign exchange and commodities trading, etc.

Pricing basis

The securities and financial products transactions will be conducted at the prevailing market prices in the ordinary and usual course of the Group's business. In terms of subscriptions by Equity Exchange Co. 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 Group after considering the fundamentals of the assets/businesses to be invested.

The Group is required to satisfy and comply with the relevant PRC administrative rules, regulations and measures regulating issuance, including pricing determination, of the 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. In addition, issuance price may be required to be set in accordance with the methods prescribed in the relevant rules and regulations and all subscribers for the same financial product will subscribe at the same issuance price.

The gains (if any) to be derived from subscriptions by Equity Exchange Co. of financial products set up by the Group that need to be paid to Equity Exchange Co. by the Group will be recognized as "Total net cash outflow from the Group" in respect of the continuing connected transactions contemplated under the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co.. Other than the foregoing, the Group expects that there is no other net cash outflow derived from the securities and financial products transactions between the Group and Equity Exchange Co. for the time being and in the next three years.

Pricing approval and supervision

The Group has adopted a series of internal approval and supervision procedures to regulate the securities and financial products transactions between the Group and Equity Exchange Co.. The major internal policies include the following:

The Group has established its internal guidelines and policies for conduct of different types of securities and financial products as well as the internal procedures and systems for approval and supervision such transactions. 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 different types of transactions and businesses.

In addition, trainings will be provided to traders/dealers on the requirements relating to connected transactions and all connected transactions, once identified and conducted, will be recorded by the relevant department, which will check to ensure that all applicable restrictions are observed and complied with. The relevant business department of the Company is responsible for reviewing whether the actual transaction amounts would exceed the annual caps and alert relevant business lines if close to the annual caps. The legal department, compliance department, Board Office, financial department 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 or irregular basis to ensure that the annual caps 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.

Historical transaction amounts

The approximate historical transaction amounts in respect of the securities and financial products transactions between the Group and Equity Exchange Co. under the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co. for each of the two financial years ended 31 December 2017 and the nine months ended 30 September 2018 are set out as follows:

Securities and Financial Products Transactions	Approximate historical transaction amounts		
	For the year ended		For the nine
	31 December	2017	months ended
	2016		30 September
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Total net cash inflow to the Group	72.40	71.00	23.00
Total net cash outflow from the Group*	0.28	—	—

* The figure represents net cash outflow arising from payment to Equity Exchange Co. of the gains derived from subscriptions by Equity Exchange Co. of financial products set up by the Group.

The proposed annual caps for the three financial years ending 31 December 2021

The Company estimates that the annual caps in respect of the securities and financial products transactions between the Group and Equity Exchange Co. under the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co. for each of the three financial years ending 31 December 2021 as follows:

Securities and Financial Products Transactions	Proposed annual caps ending		
	for the year ending 31 December		
	2019	2020	2021
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Total net cash inflow to the Group	75.00	75.00	75.00
Total net cash outflow from the Group*	2.40	2.40	2.40

* The figure represents net cash outflow arising from payment to Equity Exchange Co. of the gains to be derived from subscriptions by Equity Exchange Co. of financial products set up by the Group.

Basis of determination of the annual caps

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

- (i) the estimated amount of anticipated subscription by Equity Exchange Co. of asset management products set up by the Company; and
- (ii) Pursuant to the arrangement under certain agreement, Equity Exchange Co. committed to contribute certain amounts to the limited partnership funds managed by ZZKY Venture Capital, a subsidiary of the Company. Currently, Equity Exchange Co. intends to make such contribution in the next three years.

The annual caps for the total net cash outflow of the securities and financial products transactions are determined based on the above annual caps for the net cash inflow and the estimation by the Company of the yield of relevant securities and financial products to be subscribed by Equity Exchange Co. from the Group.

3. Securities and Financial Services

Scope of the securities and financial services

The securities and financial products services to be provided by Equity Exchange Co. to the Group include the following:

- (i) Financial advisory services — including, but not limited to, financial advisory services relating to corporate restructuring, mergers and acquisition; and
- (ii) Other securities and financial advisory and consulting services, membership services, intermediary services, business training services, money brokerage services and commodities services, etc.

The securities and financial products services to be provided by the Group to Equity Exchange Co. include the following:

- (i) Entrusted asset management services — including, but not limited to, assets management services for assets entrusted by customers;
- (ii) Fund management services — including, but not limited to, fund management services and related consulting services; and

- (iii) Other securities and financial advisory and consulting services and commodities services, etc.

Pricing basis

The pricing principles for the mutual provision of the securities and financial services are as follows:

The general pricing principles for service fees charged shall be based on negotiations between the parties with reference to the prevailing market rates and in accordance with the requirements of the applicable laws and regulations of the PRC. More specifically, the pricing policies of services which account for the major part of the securities and financial services transactions are as follows:

- (i) For the financial advisory, membership and intermediary services to be provided by Equity Exchange Co. to the Group: 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; and
- (ii) For fund management services to be provided by the Group to Equity Exchange Co.: the service fees shall be determined based on the size of funds with reference to the service fee rates applicable to independent third parties.

Pricing approval and supervision

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 Equity Exchange Co.. 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:

The Group has established its internal guidelines and policies for conduct of different types of securities and financial products as well as the internal procedures and systems for approval and supervision such transactions 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 different types of transactions and businesses.

In addition, trainings will be provided to traders/dealers on the requirements relating to connected transactions and all connected transactions, once identified and conducted, will be recorded by the relevant department, which will check to ensure that all applicable restrictions are observed and complied with. The relevant business department of the Company is responsible for reviewing whether the actual transaction amounts would exceed the annual caps and alert relevant business lines if close to the annual caps. The legal department, compliance department, Board Office, financial department 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 or irregular basis to ensure that the annual caps 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.

The conduct of continuing connected transactions is also subject to annual review by all independent non-executive Directors and the supervisory committee of the Company.

Historical transaction amounts

The approximate historical transaction amounts in respect of the mutual provision of securities and financial services between the Group and Equity Exchange Co. under the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co. for each of the two financial years ended 31 December 2017 and the nine months ended 30 September 2018 are set out as follows:

	Approximate historical transaction amounts		
	For the year ended 31 December		For the nine months ended 30 September
Securities and Financial Services	2016	2017	2018
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Revenue derived from provision of securities and financial services to Equity Exchange Co.	1.55	1.78	1.71
Expenses incurred by provision of securities and financial services provided to the Group	5.10	2.10	2.10

Proposed annual caps for the three financial years ending 31 December 2021

Securities and Financial Services	Proposed annual caps ending for the year ending 31 December		
	2019	2020	2021
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Revenue from provision of securities and financial services to Equity Exchange Co.	1.95	1.95	1.95
Expenses to be incurred by provision of securities and financial services to the Group	10.10	10.10	10.10

Basis of determination of the annual caps

The annual caps for the revenue to be derived from provision of securities and financial services by the Group to Equity Exchange Co. are determined with reference to the above historical transaction amounts and after taking into consideration of a buffer of 20% increase in 2019.

When estimating the annual caps for the expenses to be incurred by the Group for securities and financial services provided by Equity Exchange Co., the Company has made reference to the above historical transaction amounts, and also considered, among other things, that in accordance with the regulatory policies as well as the business plan of Central China Micro-lending, a subsidiary of the Company, Central China Micro-lending proposes to issue convertible bonds for financing purpose through Equity Exchange Co. with an estimated issuing size of not more than RMB500 million, and the various service fees to be paid by Central China Micro-lending to Equity Exchange Co. in connection with the services proposed to be provided by Equity Exchange Co. including underwriting, filing, registration and custody and settlement agent are anticipated to be approximately RMB5 million.

4. Payment Arrangements

According to the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co., payment arrangements for considerations and service fees shall be specified in the individual service agreement to be signed by members of the Group and Equity Exchange Co. under such framework agreement.

5. Implementation Agreements

During the term of the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co., members of the Group and Equity Exchange Co. will enter into, from time to time and as necessary, individual implementation agreement for each of the specific transactions contemplated under such framework agreement, provided that any such implementation agreement shall be within the ambit of the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co.. And all existing agreements in respect of securities and financial products transactions and services entered into separately by the Group and Equity Exchange Co. shall be included in and regulated by the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co..

6. Reasons and Benefits

The reasons and benefits are as follows:

The securities and financial products transactions and securities and financial services transactions under the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co. 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. In order to fully exert the resource advantages of the Group and Equity Exchange Co. and provide synergies, as a qualified investor of asset management plan and private equity fund, Equity Exchange Co. can enter into securities and financial products transactions with the Group with terms no less favourable than terms offered to the clients (including connected persons and independent third parties) by the Group. Such transactions will facilitate to enhance the income of the Group so as to improve the interest of the Company and its shareholders as a whole. Meanwhile, in terms of the financial advisory services provided by Equity Exchange Co. to the Company, it will contribute to the increase customer resource and provide more cooperative opportunities for the Company's investment banking and investment businesses. As a member of Equity Exchange Co., the Company can conduct regional equity market businesses including recommendation of enterprises for listing which will benefit the increase in the income of the Group. In terms of the convertible bonds services provided by Equity Exchange Co. to Central China Micro-lending, it will contribute to enhancement of the capital strength of Central China Micro-lending and expansion of business scale. Due to the historical and future long-term cooperation relationship between the Group and Equity Exchange Co., the Company believes that it is beneficial to the Group to enter into the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co. as the transactions thereunder have facilitated and will continue to facilitate the overall business operations and growth of the Group's business.

The Directors (excluding Mr. Li Xingjia who is required to abstain from voting on the relevant Board resolution but including the independent non-executive Directors) are of the view that the transactions under the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co. 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.

As Mr. Li Xingjia, the non-executive Director, also serves as a director of Henan Investment Group, he is regarded as being interested in the transaction contemplated under the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co. and thus has abstained from voting on the relevant Board resolution. Save as mentioned above, none of the Directors has any material interest in the transaction contemplated under the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co. and thus be required to abstain from voting on the relevant Board resolution.

III. HONG KONG LISTING RULES IMPLICATIONS

As at the date of this announcement, Henan Investment Group is a substantial shareholder of the Company and holds approximately 21.27% of the issued share capital of the Company, thus it is a connected person of the Company. Therefore, the transactions proposed to be conducted between the Group and Henan Investment Group and its associates under the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group constitute continuing connected transactions for the Company under Chapter 14A of the Hong Kong Listing Rules.

Since Henan Investment Group holds 10% equity interest in Equity Exchange Co., a subsidiary of the Company, Equity Exchange Co. is thus a connected subsidiary of the Company. Therefore, the transactions proposed to be conducted between the Group and Equity Exchange Co. under the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co. constitute continuing connected transactions for the Company under Chapter 14A of the Hong Kong Listing Rules.

When calculating the size of the continuing connected transactions of the Company under the Securities and Financial Products Transactions and Services Framework Agreements with both of Henan Investment Group and Equity Exchange Co., the Company has aggregated the proposed annual caps for the continuing connected transactions under both of the aforesaid agreements pursuant to Rule 14A.81 of the Hong Kong Listing Rules.

As the highest of the applicable percentage ratios in respect of the proposed annual caps for the continuing connected transactions contemplated under the Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group and the Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co. for the next three years ending 31 December 2021, after the aforesaid aggregation, 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.

IV. INFORMATION ON THE COMPANY, HENAN INVESTMENT GROUP AND EQUITY EXCHANGE CO.

The Company

The Company is a leading securities firm in Henan Province with a full-service business platform and strategic presence in the PRC, which principally engages in, among others, the brokerage, investment banking, investment management and proprietary trading businesses.

Henan Investment Group

Henan Investment Group is a wholly state-owned enterprise, which is a provincial government investment and financial entity established under the approval of the Henan Provincial Government for promoting economic development in the Henan Province in order to conform with the investment and financing systems reform requirements in the PRC. It is the largest substantial shareholder and a connected person of the Company.

Equity Exchange Co.

Equity Exchange Co. is the only regional equity exchange approved by the People's Government of Henan Province, and is principally engaged in the provision of services related to registration, custodian, listing, transfer and financing of equities, bonds and other equity assets of non-publicly listed companies under the supervision and guidance of Financial Service Office of the Henan Provincial Government of the PRC and Henan Branch of the China Securities Regulatory Commission.

V. DEFINITIONS

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

“A Shares”	domestic listed ordinary shares with a nominal value of RMB1.00 each in the share capital of the Company, which are listed and traded on the Shanghai Stock Exchange
“associate(s)”	has the same meaning as ascribed to it under the Hong Kong Listing Rules
“Board”	the board of Directors
“CCBO”	Central China Blue Ocean Investment Management Company Limited* (中州藍海投資管理有限公司) a limited liability company incorporated in the PRC and a wholly-owned subsidiary of the Company as at the date of this announcement
“Central China Micro-lending”	Henan Central China Micro-lending Company Limited* (河南省中原小額貸款有限公司), a limited liability company incorporated in the PRC and a subsidiary of the Company as the Company holds 65% of its equity interest as at the date of this announcement
“Company”	Central China Securities Co., Ltd. (中原證券股份有限公司) (carrying on business in Hong Kong as “中州證券”, a joint stock company incorporated on 8 November 2002 in Henan Province, the PRC with limited liability, the H Shares and A Shares of which are listed on the Main Board of the Stock Exchange (stock code: 01375) and the Shanghai Stock Exchange (stock code: 601375) respectively)
“connected person”	has the same meaning as ascribed to it under the Hong Kong Listing Rules

“connected subsidiary”	has the same meaning as ascribed to it under the Hong Kong Listing Rules
“connected transaction”	has the same meaning as ascribed to it under the Hong Kong Listing Rules
“Director(s)”	the director(s) of the Company
“Equity Exchange Co.”	Central China Equity Exchange Co., Ltd.* (中原股權交易中心股份有限公司), a joint stock company incorporated in the PRC with limited liability, and as at the date of this announcement, the Company holds 35% of its equity interest and the Company can exercise control at the meetings of its board of directors and at its general meetings; and in accordance with the requirements under the International Financial Reporting Standards, as at the date of this announcement, it is regarded as a subsidiary of the Company
“Group”	the Company and its subsidiaries
“H Shares”	overseas listed foreign ordinary shares with a nominal value of RMB1.00 each in the share capital of the Company, which are listed on the Main Board of the Stock Exchange
“Henan Investment Group”	Henan Investment Group Co., Ltd.* (河南投資集團有限公司), a limited liability company incorporated in the PRC which, as at the date of this announcement, is the largest substantial shareholder of the Company, holding approximately 21.27% of the issued share capital of the Company
“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

“New Third Board”	the National Equities Exchange and Quotation
“PRC” or “China”	the People’s Republic of China (excluding, for the purpose of this announcement, Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan)
“RMB”	Renminbi, the lawful currency of the PRC
“Securities and Financial Products Transactions and Services Framework Agreement with Equity Exchange Co.”	the securities and financial products transactions and services framework agreement entered into between the Company and Equity Exchange Co. on 27 March 2019
“Securities and Financial Products Transactions and Services Framework Agreement with Henan Investment Group”	the securities and financial products transactions and services framework agreement entered into between the Company and Henan Investment Group on 27 March 2019
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary”	has the same meaning as ascribed to it under the Hong Kong Listing Rules
“substantial shareholder”	has the same meaning as ascribed to it under the Hong Kong Listing Rules
“Zhongyuan Trust”	Zhongyuan Trust Co., Ltd.* (中原信託有限公司), a limited liability company incorporated in the PRC and a subsidiary of Henan Investment Group as Henan Investment Group holds approximately 46.43% of its equity interest as at the date of this announcement

“ZZKY Venture Capital”

Henan Zhongzheng Kaiyuan Venture Capital Fund Management Co., Ltd.* (河南中證開元創業投資基金管理有限公司), a limited liability company incorporated in the PRC and a subsidiary of the Company as the Company holds 60% of its equity interest as at the date of this announcement

“%”

per cent.

By order of the Board of
Central China Securities Co., Ltd.
Jian Mingjun
Chairman

Henan, the PRC
27 March 2019

As at the date of this announcement, the Board comprises executive directors Mr. JIAN Mingjun and Mr. CHANG Junsheng, non-executive directors Mr. LI Xingjia, Mr. WANG Lixin, Mr. TIAN Shengchun, Mr. ZHANG Xiaoqi and Mr. LU Benson Cheng, and independent non-executive directors Mr. YUEN Chi Wai, Mr. NING Jincheng, Mr. YU Xugang and Ms. ZHANG Dongming.

* *For identification purposes only*