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东方证券
DFZQ

(A joint stock company incorporated in the People's Republic of China with limited liability under the Chinese corporate name "东方证券股份有限公司" and carrying on business in Hong Kong as "東方證券" (in Chinese) and "DFZQ" (in English))

(Stock Code: 03958)

AMENDMENTS TO THE ANNUAL CAP FOR CONTINUING CONNECTED TRANSACTIONS

References are made to the announcements of 東方證券股份有限公司 (the "**Company**") dated June 26, 2018 in relation to the proposed continuing connected transactions (the "**Continuing Connected Transactions**") under the Framework Agreement (the "**Original Framework Agreement**") to be entered into by the Company and the Shenergy Group, and the announcement of the Company dated July 5, 2018 in relation to the update on proposed Continuing Connected Transactions and supplemental information. The Original Framework Agreement was related to the transactions of the securities and financial products services, the securities and financial products transactions and the purchase of goods and services that have been and will continue to be carried out between the Group and Shenergy Group and its associates in the ordinary and usual course of business for a period from January 1, 2018 to December 31, 2020. Unless otherwise defined herein, capitalized terms used in this announcement shall have the same meanings as those defined in the Announcement.

AMENDMENTS TO THE ANNUAL CAP FOR CONTINUING CONNECTED TRANSACTIONS

Since Shenergy Group and some of its associates are high-quality bond issuers, the Group has certain transaction demand for its bonds. It is expected that the Group's demand for transaction volume of its bond will continue to increase in the future. The Company believes that the existing annual cap on the total capital outflow from securities and financial products transactions under the securities and financial products transactions will not fulfil the current business requirements of the Group. Accordingly, the Company proposes to enter into a supplemental agreement to the Connected Transactions Framework Agreement (the "**Supplemental Agreement**") with the Shenergy Group, and proposes to amend the annual caps for the years ended December 31, 2019 and December 31, 2020 to RMB2.3 billion, respectively, for the total capital outflow from securities and financial products transactions under the securities and financial products transactions between the Group and Shenergy Group and its associates.

The Board announces that on June 3, 2019, the Board reviewed and approved the Company to enter into the Supplemental Agreement with Shenergy Group, and only amended the existing annual caps for the years ended December 31, 2019 and December 31, 2020 for the total capital outflow from securities and financial products transactions under the securities and financial products transactions between the Group and Shenergy Group and its associates, details of which are as follows:

Unit: RMB in ten thousand

Total capital outflow from securities and financial products transactions under the securities and financial products transactions	**For the year ending December 31, 2019**	**For the year ending December 31, 2020**
Existing annual caps set out in the Original Framework Agreement	50,000	50,000
Amended annual caps set out in the Supplemental Agreement	230,000	230,000

Amended annual caps set out in the Supplemental Agreement have been determined based on fair negotiations between the Group and Shenergy Group and their associates. The other existing annual caps set out in the Original Framework Agreement remain unchanged.

In determining the amended annual caps, the Company has considered the following factors:

1. The historical transaction amounts for the total capital outflow from securities and financial products transactions under the securities and financial products transactions between the Group and Shenergy Group and its associates, details of the historical transaction amounts are as follows:

Unit: RMB in ten thousand

Transaction Type	**For the year ended December 31, 2016 (audited)**	**For the year ended December 31, 2017 (audited)**	**For the year ended December 31, 2018 (audited)**	**For the five months ended May 31, 2019 (unaudited)**
Total capital outflow from securities and financial products transactions under the securities and financial products transactions	43,000	41,000	12,188	42,000

2. Since Shenergy Group and some of its associates are high-quality bond issuers, the Group has certain transaction demand for its bonds and will further carry out bonds proprietary trading in the inter-bank market, and subscribe for its issued bonds, funds, wealth management products or trust plans, etc. It is expected that the Group's demand for transaction volume of its bond will continue to increase in the future. Therefore, the Company expects that the total capital outflow from securities and financial products transactions under the securities and financial products transactions between the Group and Shenergy Group and its associates will continue to grow in the future.

PRICING POLICIES

The fee rates of the various securities and financial products transactions under the Supplemental Agreement are fairly transparent and standardized across the whole market. For the exchange traded transactions of securities and financial products, the prevailing applicable market prices of that type of securities and financial products or the prevailing market rates will be applied. Over-the-counter and other transactions of securities and financial products are made at prices negotiated by both parties based on the prevailing applicable market prices or prevailing market rates for that type of securities and financial products. If there is no prevailing applicable market prices or market rates for that type of securities and financial products, the prices or the rates of the transactions will be determined by the prices or rates negotiated between the parties based on the principle of arm's length transaction. For example, transactions in the interbank bond market and PRC exchange bond market shall be at the prices quoted in the interbank bond market and the PRC exchange bond market respectively; transactions in the stock exchanges shall be at the prevailing market prices in the relevant stock exchanges. For inter-financial institutions borrowings and lending, transactions are conducted based on the prevailing interest rates quoted on the interbank money market. The pricings of such transactions are subject to strict PRC regulatory supervision and requirements of the applicable PRC laws and regulations.

In terms of subscriptions by the Group of the securities and financial products set up by Shenergy Group and its associates, and subscriptions by the Shenergy Group of the securities and financial products set up by the Group, the subscription price is at the same subscription price as the subscriptions by other investors. Such subscription price is determined by the financial institutions which set up the securities and financial products after considering the fundamentals of the assets/businesses to be invested.

REGULATE MEASURES

The major internal measures of the Company to regulate the Continuing Connected Transactions include the following:

1. The terms (including pricing terms) in respect of the securities and financial products transactions 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.

2. Before determining the price, pricing proposals and supporting materials for the continuing connected transactions will be submitted to the relevant internal departments for review and approval. The relevant internal departments will conduct qualification examination and due diligence, and assess whether the pricing of a particular transaction has been in compliance with relevant policy and procedure of the Group and whether the price is fair and reasonable, and will grant approval, where appropriate. The internal audit department and the finance department are responsible for reviewing whether the continuing connected transactions are in compliance with the aforementioned pricing policies and monitoring the payments of such transactions.

3. Company has formulated internal guidelines in accordance with the Hong Kong Listing Rules, stipulating relevant approval procedures for connected transactions.

The independent non-executive Directors and auditors of the Company will conduct an annual review of the continuing connected transactions of the Company and provide confirmations that such transactions are conducted on normal commercial terms and in the interests of the Shareholders as a whole.

REASONS AND EXPECTED BENEFITS OF ENTERING INTO THE SUPPLEMENTAL AGREEMENT

Since Shenergy Group and some of its associates are high-quality bond issuers, the Group has certain transaction demand for its bonds. The historical transaction amounts of the total capital outflow from securities and financial products transactions under the securities and financial products transactions between the Group and Shenergy Group and its associates increased significantly from RMB121.88 million in 2018 to RMB420.00 million for the five months ended May 31, 2019, which is close to the existing annual caps set out in the Original Framework Agreement. It is expected that the Group's demand for transaction volume of its bond will continue to increase in the future. The Company believes that the adjustment to the annual caps of the total capital outflow from securities and financial products transactions under the securities and financial products transactions between the Group and Shenergy Group and its associates could better fulfil the business development needs of the Company.

VIEWS OF THE BOARD

On June 3, 2019, the Board reviewed and approved the Company to enter into the Supplemental Agreement with Shenergy Group. The Directors (including the independent non-executive Directors) considered that the signing of the Supplemental Agreement between the Company and Shenergy Group was essential for the day-to-day operation and business development of the Company to facilitate the centralized management and supervision of the relevant continuing connected transactions that may be undertaken between the Group and Shenergy Group and its associates. The Board believes that the pricing basis is fair and reasonable and are in line with industry and market practices. The Company believes that the Supplemental Agreement would not damage the interests of the Company or the Shareholders which are not connected persons, or result in any material negative impact on the independence of the Company from Shenergy Group. The examination and voting process taken by the Board for the approval of the entering into the Supplemental Agreement between the Company and Shenergy Group complies with the requirements of relevant laws, regulations and the Articles of Association.

The Directors (including the independent non-executive Directors) considered that the terms of the Supplemental Agreement are fair and reasonable, on normal commercial terms or better for the Group and has been entered into in the ordinary and usual course of business of the Group, and therefore the entry into of the Supplemental Agreement is in the interests of the Company and its Shareholders as a whole.

Mr. Liu Wei and Mr. Wu Junhao, both being non-executive Directors, are holding positions in Shenergy Group. Accordingly, for good corporate governance, they have abstained from voting on the resolution of the Board approving the Supplemental Agreement. Save as mentioned above, none of the other Directors has abstained from voting on the relevant resolution of the Board.

IMPLICATIONS OF THE HONG KONG LISTING RULES

As at the date of this announcement, Shenergy Group, which is the largest shareholder of the Company, holds approximately 25.27% of the issued share capital of the Company. Therefore, pursuant to Rule 14A.07(1) of the Hong Kong Listing Rules, Shenergy Group and its associates are connected persons of the Company and the transactions contemplated by the Group and Shenergy Group and its associates under the Supplemental Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the highest percentage ratios applicable to the securities and financial products transactions under the Supplemental Agreement (as defined in Rule 14.07 of the Hong Kong Listing Rules) are higher than 0.1% but lower than 5%, pursuant to Chapter 14A of the Hong Kong Listing Rules, the amended annual caps contemplated under the Supplemental Agreement are subject to reporting and announcement requirements but are exempt from the approval requirements of independent shareholders.

GENERAL INFORMATION

Information about Shenergy Group

Shenergy Group was established on November 18, 1996 by the Shanghai State-owned Assets Supervision and Administration Commission. The registered capital is RMB10 billion. The legal representative is Huang Dinan. Shenergy Group holds 25.27% of the shares of the Company and is the largest shareholder of the Company. Shenergy Group is a limited liability company incorporated under the laws of the PRC and is principally engaged in the investment, development and management of electric power and energy infrastructure industry, the investment of natural gas resources, the investment of municipal gas pipe network, the investment and management of real estate and high-technology industry, the industrial investment, the assets management and the domestic trades (except for specific items).

Information about the Group

The Group is principally engaged in securities sales and trading, investment management, brokerage and securities finance, investment banking and other businesses.

By order of the Board
PAN Xinjun
Chairman

Shanghai, PRC
June 3, 2019

As at the date of this announcement, the Board comprises Mr. PAN Xinjun and Mr. JIN Wenzhong as executive Directors; Mr. LIU Wei, Mr. WU Junhao, Mr. CHEN Bin, Mr. LI Xiang, Ms. XIA Jinghan, Mr. XU Jianguo and Mr. DU Weihua as non-executive Directors; and Mr. XU Guoxiang, Mr. TAO Xiuming, Mr. WEI Anning, Mr. XU Zhiming and Mr. JIN Qinglu as independent non-executive Directors.