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(A joint stock company incorporated in the People's Republic of China with limited liability)
(Stock Code: 6099)

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO RENEWAL OF THE SECURITIES AND
FINANCIAL PRODUCTS, TRANSACTIONS AND
SERVICES FRAMEWORK AGREEMENT**

THE 2022 CMG FRAMEWORK AGREEMENT

References are made to (i) the prospectus for the global offering of H Shares of the Company dated September 27, 2016, (ii) the announcement of the Company dated February 15, 2019, and (iii) the announcement of the Company dated May 21, 2019, respectively, in relation to, among others, the continuing connected transactions under the 2016 CMG Framework Agreement, the 2019 Half Year Agreement, the 2019 CMG Framework Agreement.

As (i) the validity of the 2019 CMG Framework Agreement expired on December 31, 2021; and (ii) the Group and China Merchants Group and/or its associates expect to continually conduct securities and financial transactions with each other and provide securities and financial products to each other, and the Group expects to continually provide financial services to China Merchants Group and/or its associates thereafter in the ordinary course of business based on normal commercial terms and market practices at prevailing market prices or rates, the Company entered into the 2022 CMG Framework Agreement with China Merchants Group on May 27, 2022 to renew the 2019 CMG Framework Agreement. The term of the 2022 CMG Framework Agreement shall take effect upon obtaining the approval from the Independent Shareholders, and shall expire on December 31, 2024.

THE 2022 COSCO FRAMEWORK AGREEMENT

Reference is made to the announcement of the Company dated December 30, 2020 in relation to the continuing connected transactions under the 2020 COSCO Framework Agreement.

As (i) the validity of the 2020 COSCO Framework Agreement expired on December 31, 2021; and (ii) the Group and COSCO Shipping and/or its associates expect to continually conduct securities and financial transactions with each other and provide securities and financial products to each other, and the Group expects to continually provide financial services to COSCO Shipping and/or its associates thereafter in the ordinary course of business based on normal commercial terms and market practices at prevailing market prices or rates, the Company entered into the 2022 COSCO Framework Agreement with COSCO Shipping on May 27, 2022 to renew the 2020 COSCO Framework Agreement. The term of the 2022 COSCO Framework Agreement shall take effect upon obtaining the approval from the Independent Shareholders, and shall expire on December 31, 2024.

IMPLICATIONS UNDER THE LISTING RULES

China Merchants Group is a controlling shareholder of the Company. As at the date of this announcement, China Merchants Group indirectly holds approximately 44.17% in aggregate of the equity interest of the Company. Accordingly, China Merchants Group and its associates are connected persons of the Company under the Listing Rules, and the transactions contemplated under the 2022 CMG Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the transactions contemplated under the 2022 CMG Framework Agreement exceed 5%, the transactions contemplated under the 2022 CMG Framework Agreement are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

COSCO Shipping is a substantial shareholder of the Company. As at the date of this announcement, COSCO Shipping indirectly holds approximately 10.02% in aggregate of the equity interest of the Company. Accordingly, COSCO Shipping and its associates are connected persons of the Company under the Listing Rules, and the transactions contemplated under the 2022 COSCO Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the transactions contemplated under the 2022 COSCO Framework Agreement exceed 5%, the transactions contemplated under the 2022 COSCO Framework Agreement are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will obtain the Independent Shareholders' approval for the transactions contemplated under the 2022 CMG Framework Agreement and the 2022 COSCO Framework Agreement at the general meeting of the Company. China Merchants Group, COSCO Shipping and their respective associates will abstain from voting on the relevant resolutions.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to consider the 2022 CMG Framework Agreement and the 2022 COSCO Framework Agreement and to advise the Independent Shareholders on the entering into of the 2022 CMG Framework Agreement and the 2022 COSCO Framework Agreement. Lego Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the 2022 CMG Framework Agreement and the 2022 COSCO Framework Agreement are on normal commercial terms or better in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole.

GENERAL

Pursuant to Chapter 14A of the Listing Rules, the Company is required to prepare a circular containing, amongst others, further details of the 2022 CMG Framework Agreement and the 2022 COSCO Framework Agreement, a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders and a letter from the Independent Board Committee to the Independent Shareholders on the same and its recommendation on voting, on the terms of the 2022 CMG Framework Agreement and the 2022 COSCO Framework Agreement and the Proposed Annual Caps. Since the Company requires additional time to prepare the circular, it is expected that the circular will be despatched to the Shareholders on or before July 22, 2022.

THE 2022 CMG FRAMEWORK AGREEMENT

References are made to (i) the prospectus for the global offering of H Shares of the Company dated September 27, 2016, (ii) the announcement of the Company dated February 15, 2019, and (iii) the announcement of the Company dated May 21, 2019, respectively, in relation to, among others, the continuing connected transactions under the 2016 CMG Framework Agreement, the 2019 Half Year Agreement, the 2019 CMG Framework Agreement.

As (i) the validity of the 2019 CMG Framework Agreement expired on December 31, 2021; and (ii) the Group and China Merchants Group and/or its associates expect to continually conduct securities and financial transactions with each other and provide securities and financial products to each other, and the Group expects to continually provide financial services to China Merchants Group and/or its associates thereafter in the ordinary course of business based on normal commercial terms and market practices at prevailing market prices or rates, the Company entered into the 2022 CMG Framework Agreement with China Merchants Group on May 27, 2022 to renew the 2019 CMG Framework Agreement. The term of the 2022 CMG Framework Agreement shall take effect upon obtaining the approval from the Independent Shareholders, and shall expire on December 31, 2024.

The principal terms of the 2022 CMG Framework Agreement are set out as follows:

Date

May 27, 2022

Parties

1. The Company; and
2. China Merchants Group

Term

The term of the 2022 CMG Framework Agreement shall take effect upon obtaining the approval from the Independent Shareholders, and shall expire on December 31, 2024.

Scope of the Transactions and Services

1. Securities and financial products and transactions

All the securities and financial products and transactions between the Group and China Merchants Group and/or its associates have been provided to each other and conducted in the usual course of business pursuant to normal commercial terms. Such securities and financial products and transactions are related to securities and financial products and transactions conducted in the inter-bank bond markets, exchange bond markets, exchanges (including stock exchanges, futures exchanges, Shanghai Gold Exchange and China Foreign Exchange Trade System) and other over-the-counter (“**OTC**”) markets. The securities and financial transactions to be conducted between the Group and China Merchants Group and/or its associates and the securities and financial products to be provided to each other include (but are not limited to) (i) fixed income products or transactions, (ii) equity products or transactions, (iii) financing transactions, and (iv) other securities and financial products and transactions as permitted by regulatory authorities.

Pursuant to the 2022 CMG Framework Agreement, the securities and financial transactions to be conducted between the Group and China Merchants Group and/or its associates and the securities and financial products to be provided to each other include (but are not limited to):

- (1) fixed income products or transactions – including bonds, funds with fixed income features, trust, wealth management products, asset management schemes, asset securitization products, convertible bonds, structured products, interest rates and credit risk derivative products and other fixed income products or transactions;

- (2) equity products or transactions – including stocks, equity, equity funds, trust, wealth management products, asset management schemes and equity derivative products or transactions;
- (3) financing transactions – including interbank lendings, repurchase, transfer of income right, pledged loans, reciprocal holding of debt certificates including but not limited to short-term financing bills, beneficiary certificates, subordinated bonds, corporate bonds, asset-backed securities, etc.; and
- (4) other related securities and financial products and derivative products – including swaps, futures, forward contracts, commodities and foreign exchange.

2. *Financial services*

The Group provides various financial services to its clients, which include China Merchants Group and/or its associates, in its ordinary course of business. Due to the expertise and professional capabilities of the Group, the Group has been engaged by China Merchants Group and/or its associates to provide financial services including but not limited to (i) underwriting and sponsoring services, (ii) other investment banking services, and (iii) other financial services, from time to time.

Pursuant to the 2022 CMG Framework Agreement, the financial services to be provided by the Group to China Merchants Group and/or its associates include (but are not limited to):

- (1) underwriting and sponsoring services – including the underwriting and sponsoring of equity and bonds. The Group shall receive underwriting commissions and sponsoring fees for such services;
- (2) other investment banking services – including financial advisory services for, among others, mergers and acquisitions and restructuring. The Group shall receive financial advisory fees and/or other fees for such services; and
- (3) other financial services (excluding brokerage, agency sale of financial products and investment advisory services).

Pricing Basis

1. Securities and financial products and transactions

The securities and financial products are conducted through the PRC inter-bank bond market and the PRC exchange bond market, exchanges (including stock exchanges, futures exchanges, the Shanghai Gold Exchange and the China Foreign Exchange Trade System) and other OTC markets.

The transaction prices and related fees for each type of the securities and financial products and transactions shall be determined by the prevailing market price or the market price normally applicable to independent third parties for similar types of products and transactions as referred in the 2022 CMG Framework Agreement at the time of the transaction. The pricings of such transactions are also subject to strict PRC regulatory supervision and requirements of the applicable PRC laws and regulations.

The fixed income products and transactions conducted in the PRC are mainly conducted through inter-bank bond markets and securities markets (through centralised bidding transaction mechanism, block trade platform and fixed income platform). Except for centralised bidding transactions conducted at securities markets, pricing of transactions conducted at inter-bank bond markets, block trade platform and fixed income platform of securities markets is determined mainly with reference to the bond valuation published by China Central Depository & Clearing Co., Ltd. (the “CCDC”) and China Securities Depository and Clearing Corporation Limited (the “CSDC”). The price quotations of the transactions conducted at inter-bank bond markets shall be within 2% of the valuation published by the CCDC. Otherwise, such transactions must be reported to CCDC. Abnormal pricing, if without reasonable reason(s), may result in warning or penalty by the regulatory institution(s). For fixed income products and transactions conducted at securities markets, prices of centralised bidding transactions are prevailing market prices and non-centralised bidding transactions are determined mainly with reference to the bond valuation published by the CSDC. In terms of subscriptions by the Group of the fixed-income financial instruments offered by China Merchants Group and/or its associates, or subscription by China Merchants Group and/or its associates of such financial instruments offered by the Group, the subscription price is determined by the issuers of such financial instruments with reference to the valuation published by CCDC of financial instruments of similar credit

quality with a similar term, and is the same subscription price as the subscriptions by other investors. Both the Group and China Merchants Group and/or 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 instruments. In addition, fixed income products conducted outside the PRC are mainly conducted through OTC markets and pricing of the transactions is determined mainly with reference to the market price quotations obtained from market makers.

For equity products and transactions, certain of these products and transactions are conducted through securities markets (including stock exchanges) and majority of which are conducted through system(s), where the counterparties do not have knowledge of the identities with each other and the transaction prices are based on the quotes made by the counterparties in the market. The Company could access to the trading systems of the relevant exchanges to obtain the real-time quotations of the relevant securities and financial products. For equity products of which no reference market price can be obtained from the market, the Group will mainly make reference to the market-based valuation methods and the market price of products of similar nature to ascertain the price.

For financing transactions, (i) in terms of interbank lendings and interbank market repurchases, they are variably quoted based on SHIBOR of the National Interbank Funding Center and the time-weighted rate of repurchase at the front office along with certain factors, such as assessment of prevailing capital adequacy, the credit quality of counterparties and the quality of collaterals, such as pledged bonds. The pricings of such transactions are also subject to strict PRC regulatory supervision and requirements of the applicable PRC laws and regulations; and (ii) in terms of subscriptions by the Group of the financial instruments offered by China Merchants Group and/or its associates, or subscriptions by China Merchants Group and/or its associates of such financial instruments offered by the Group, the subscription price is determined by the issuers of such financial instruments with reference to the valuation published by CCDC of financial instruments of similar credit quality with a similar term, and is the same subscription price as the subscriptions by other investors. The Group and China Merchants Group and/or 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 instruments.

The pricing in respect of transactions in OTC derivatives is determined mainly (i) based on the derivative pricing models, such as Monte Carlo simulation, B-S model; or (ii) with reference to the expected changes in the price of relevant subject.

For bullion products, futures and foreign exchange products tradings, such transactions are mainly conducted on the Shanghai Gold Exchange, the China Financial Futures Exchange and the China Foreign Exchange Trade System. Call auction mechanism or quote request mechanism is mainly adopted in these exchanges and the pricing is primarily determined with reference to the turnover of a particular securities and financial product. The Company has access to the trading systems of the relevant exchanges to obtain the real-time quotations of the relevant securities and financial products.

Securities and financial products and transactions also include subscriptions of funds, trust, wealth management products and asset management schemes (the “**Products**”). The pricing of such transactions is determined based on the unit net value of the relevant Products on the date of transaction. The unit net value of such Products is calculated by dividing the net asset value of the Products by the total number of the fund units. The net asset value of the Products is the sum of the values of various marketable securities and notes, principals and interests of bank deposits, fund subscription monies receivables and other assets invested by such Products, less the liabilities of such Products, the calculation of which shall be in compliance with the China Accounting Standards for Business Enterprises. The net value of such Products are audited by a manager, reviewed by a custodian and confirmed by an external audit firm on a regular basis. The calculation of the unit net value of the Products is set forth in the relevant fund contract and prospectus, and equally applies to all investors of the Products.

To ensure that the above transactions with China Merchants Group and/or its associates are on normal commercial terms and to safeguard the interests of the Shareholders as a whole, including the minority Shareholders, the Group has put in place internal approval and monitoring procedures relating to the connected transactions, the details of which are set out in the section headed “Internal Control Measures of Continuing Connected Transactions” below.

2. *Financial services*

The pricing basis for the financial services to be provided by the Group to China Merchants Group and/or its associates is as follows:

- (1) underwriting and sponsoring services – underwriting commissions and sponsoring fees shall be determined by arm's length negotiation after taking into account numerous factors including the prevailing market conditions, size of the proposed issue and commission rates of recent issues of similar nature and size in the market generally as well as the rates that the Group charges from independent third parties. With respect to the equity-related underwriting and sponsor services, the fees are determined with reference to the prevailing market rates for transactions of similar type and size and taking into account the nature of the particular offering, the size of the transaction, the complexity of the transaction, the frequency the relevant customer engaging in transactions with the Company and the prevailing market conditions. Based on the above-mentioned factors, the fees are determined through competitive bidding and business negotiation or with reference to the standard fee charged by independent third parties in other similar projects.

With respect to the underwriting fees for enterprise bonds, the Company refers mainly to the standard underwriting fee proposed under the Notice of National Development and Reform Commission regarding Certain Matters on Instructing the Issue Size and Issue Approval for the First Batch of Enterprise Bonds in 2007 (《國家發展改革委關於下達二零零七年第一批企業債券發行規模及發行核准有關問題的通知》) and makes corresponding adjustments after taking into account the enterprise bond issuer's qualifications and market conditions.

With respect to the underwriting fees for corporate bonds, asset securitization products and other interbank products, as there is no guidance formulated by the competent authorities on the underwriting fees of such products, the underwriting fees among the industry vary according to the issuer, type and term of the products. The rate charged by the Company generally ranges from 0.01% to 1.5%, which is mainly determined based on the above-mentioned factors and negotiations with issuer and competitive bidding;

- (2) other investment banking services – financial advisory fees and other services fees shall be determined after taking into account factors including the transaction nature and size, and the prevailing market conditions. As at the date of this announcement, it was estimated that the range of financial advisory fees for each case is approximately from RMB one million to RMB several ten million. The range of financial advisory fees and other services fees shall be determined in accordance with the nature and complexity of such transactions and then prevailing market rates for financial advisory fees and the relevant services fees for similar transactions; and
- (3) other financial services – other financial services fees shall be determined after taking into account factors including market prices and industry practices, with reference to price level in respect of similar financial services provided by the Group to independent third parties.

The terms, including pricing terms, between China Merchants Group and/or its associates and the Group to be entered into in respect of the provision of financial services above to be provided by the Group shall be comparable to those offered to the Group's other institutional clients of a similar size and with similar transaction volume who are independent third parties, and shall be subject to the same internal approval and monitoring procedures and pricing policies applicable to independent third party clients. For more details, please refer to the section headed "Internal Control Measures of Continuing Connected Transactions" below.

Condition Precedent

The 2022 CMG Framework Agreement is conditional upon the obtaining of the approval from the Independent Shareholders.

Miscellaneous

The Company and China Merchants Group agreed that under Rule 14A.54 of the Listing Rules, if at any time during the term of the 2022 CMG Framework Agreement, the total transaction amount may or is expected to exceed the Proposed CMG Annual Caps and thus requires re-approval from the Independent Shareholders, the Group shall fulfil all applicable and necessary regulatory obligations under the Listing Rules as soon as practicable. Before

the fulfilment of all relevant regulatory requirements, both parties agreed to use their best efforts to prevent the aggregated amount for the relevant transaction in such year from exceeding the relevant monetary cap. Otherwise, the execution of relevant transactions under the 2022 CMG Framework Agreement shall be suspended.

Historical Figures

1. *Securities and financial products and transactions*

The approximate historical figures of securities and financial products and transactions between the Group and China Merchants Group and/or its associates for the three years ending December 31, 2021 were as follows:

	Historical figures⁽³⁾ (RMB million)		
	For the year ended December 31, 2019	For the year ended December 31, 2020	For the year ended December 31, 2021
Securities and financial products and transactions			
Inflow ⁽¹⁾	1,753.52	6,752.11	1,793.08
Outflow ⁽²⁾	1,302.80	7,258.64	1,174.12

Notes:

- (1) “Inflow” refers to the Group’s total cash inflow arising from the sale of fixed income products and equity products to, transactions of derivative products with, and/or borrowing/repurchase from financing transactions with, China Merchants Group and/or its associates.
- (2) “Outflow” refers to the Group’s total cash outflow arising from the purchase of fixed income products and equity products from, transactions of derivative products with, and/or lending/resale from financing transactions with, China Merchants Group and/or its associates.
- (3) The approximate historical figures do not include the figures concerning the transactions between the Group and China Merchants Bank or China Merchants Fund.

2. *Financial services*

The approximate historical figures of revenue generated by the Group from providing financial services to China Merchants Group and/or its associates for the three years ending December 31, 2021 were as follows:

	Historical figures⁽¹⁾ (RMB million)		
	For the year ended December 31, 2019	For the year ended December 31, 2020	For the year ended December 31, 2021
Financial services			
Revenue generated by the Group	136.94	31.85	36.06

Note:

- (1) The approximate historical figures do not include the figures concerning the transactions between the Group and China Merchants Bank or China Merchants Fund.

Proposed CMG Annual Caps

In setting the Proposed CMG Annual Caps under the 2016 CMG Framework Agreement, it was assumed that China Merchants Bank would become a connected person of the Company. However, as at the date of this announcement, China Merchants Group holds approximately 29.97% in aggregate of the equity interests in China Merchants Bank, thus China Merchants Bank is not a connected person of the Company. Accordingly, similar to the 2019 Half Year Agreement and the 2019 CMG Framework Agreement, the transactions (including deposit services, customer depository services, custodian, lending services and other services) that were or might be carried out between the Group and China Merchants Bank were not taken into consideration when determining the Proposed CMG Annual Caps under the 2022 CMG Framework Agreement. In addition, considering that (i) China Merchants Group's 45% equity interest in China Merchants Fund is held through the Company; and (ii) neither China Merchants Group nor any of its associates (China Merchants Bank is not an associate of China Merchants Group) has a direct interest in China Merchants Fund, China Merchants Fund is not an associate of China Merchants Group and is therefore not a connected person of the Company. Accordingly, transactions that were or might be carried out between the Group and China Merchants Fund were not taken into consideration when determining the Proposed CMG Annual Caps under the 2022 CMG Framework Agreement. The Company will make further announcement(s) as and when appropriate to provide updates to the Shareholders about the relationship between China Merchants Bank and the Group.

The Proposed CMG Annual Caps for the transaction amounts under the 2022 CMG Framework Agreement are as follows:

1. Securities and financial products and transactions

The Company considers that it is impracticable and extremely difficult to set a separate cap for each category of the securities and financial products and transactions for the following main reasons: (i) the securities and financial products and transactions are frequently conducted at the prevailing market prices in the ordinary and usual course of business of the Group. Such transactions are market-driven and are entered into depending on various factors including the bidding price and timing; (ii) most of these transactions are conducted within a very short timeframe and are very sensitive to market prices; (iii) as the variety and characteristics of products are experiencing rapid innovations in the ever-changing securities and financial market, it is difficult to precisely estimate when new products will be launched, however, once new securities and financial products and transactions are launched, it is expected that the total inflow and the total outflow of securities and financial products and transactions between China Merchants Group and/or its associates and the Group will increase; (iv) all such transactions will continue to be entered into at the prevailing market prices in the ordinary and usual course of business of the Group; and (v) if an annual cap is set for each category of these transactions, it would cause significant delay to such transactions and harm to the Group's existing operations and potential growth to the detriment of the Company and the Shareholders as a whole and restrict the Company's overall competitiveness in a highly competitive securities industry. In light of the above, the Company considers that it is more practicable to set a cap for the total inflow and the total outflow of all the securities and financial products and transactions under the 2022 CMG Framework Agreement, instead of a separate cap for each category of those products and transactions.

The Proposed CMG Annual Caps of expected total inflow⁽¹⁾ amount and total outflow⁽²⁾ amount of the securities and financial products and transactions between the Group and China Merchants Group and/or its associates under the 2022 CMG Framework Agreement for each of the three years ending December 31, 2024 are as follows:

	The Proposed CMG Annual Caps (RMB million)		
	For the year ending December 31, 2022	For the year ending December 31, 2023	For the year ending December 31, 2024
Securities and financial products and transactions			
Inflow ⁽¹⁾	7,000	7,500	7,500
Outflow ⁽²⁾	11,150	11,660	11,670

Notes:

- (1) “Inflow” refers to the Group’s total cash inflow arising from the sale of fixed income products and equity products to, transactions of derivative products with, and/or borrowing/repurchase from financing transactions with, China Merchants Group and/or its associates.
- (2) “Outflow” refers to the Group’s total cash outflow arising from the purchase of fixed income products and equity products from, transactions of derivative products with, and/or lending/resale from financing transactions with, China Merchants Group and/or its associates.

In estimating the Proposed CMG Annual Caps of the total inflow amount and the total outflow amount of the securities and financial products and transactions between the Group and China Merchants Group and/or its associates for the three years ending December 31, 2024, the Group has considered, among other things, the following key factors:

- approximate historical figures of the total inflow amount and the total outflow amount of those securities and financial products and transactions between the Group and China Merchants Group and/or its associates for the three years ending December 31, 2021;

- the expected amounts of securities and financial products and transactions to be conducted between the Group and China Merchants Group and/or its associates. Certain of the expected amounts, subject to market condition, are as follows:
 - it is estimated that for each of the three years ending December 31, 2024, the estimated inflow and outflow from the purchase and redemption of the products (including fixed income products, equity products, cash products and customized products) managed by CMS Asset Management, a wholly-owned subsidiary of the Company, by China Merchants Group and/or its associates will be approximately RMB3 billion;
 - it is estimated that the outflow from the purchase of the financial instruments to be issued by China Merchants Group and/or its associates by the Group and/or the asset management products managed by the Group will be approximately RMB7.65 billion, RMB7.66 billion and RMB7.67 billion in 2022, 2023 and 2024, respectively, while the inflow from the redemption by the Group and/or the asset management products managed by the Group of such financial instruments issued by China Merchants Group and/or its associates will be approximately RMB3.5 billion, RMB3.5 billion and RMB3.5 billion, respectively, which was estimated based on the following facts:
 - i. the financing demands of the parties will continue to increase in order to support their respective rapid business growth;
 - ii. in accordance with the development initiative of “collaboration between investment banking and underwriting” (投承聯動) of the Group, it is estimated that the total amounts of the financial instruments issued by China Merchants Group and its associates to be underwritten by the Group will be approximately RMB10 billion for each of the next three financial years and approximately 16% of such products will be fully underwritten by the Group, resulting in an outflow of approximately RMB1.6 billion for each of the three years ending December 31, 2024;

- iii. it is estimated that for each of the three years ending December 31, 2024, the expected inflow and outflow from the purchase and redemption of the fixed-income financial instruments to be issued by China Merchants Group and/or its associates by the Group will be approximately RMB1.0 billion, respectively, which was determined with reference to (i) the maximum scale of purchase of the fixed-income financial instruments issued by China Merchants Group and/or its associates by the Group in the past three years (2019-2021); and (ii) the possible further strengthened business cooperation between the Group and China Merchants Group and/or its associates;
- iv. it is estimated that the outflow from agency primary bond auction business, flow trading and market making and forward contracts/forward trading conducted between the Group and China Merchants Group and its associates will be approximately RMB3 billion for each of the three years ending 31 December 2024, while the estimated inflow from flow trading and market making and forward contracts/forward trading conducted between the Group and China Merchants Group and its associates will be approximately RMB500 million; and
- v. it is estimated that for each of the three years ending December 31, 2024, the expected inflow and outflow from the purchase and redemption of the asset management products managed by the Group and the equity and fixed-income financial instruments issued by China Merchants Group and/or its associates will be approximately RMB2 billion, which is determined with reference to (i) the scale of the purchase and redemption of the asset management products managed by the Group and the equity and fixed-income financial instruments issued by China Merchants Group and/or its associates in the past three years (2019-2021); and (ii) the possible further strengthened business cooperation between the Group and China Merchants Group and/or its associates;

- it is expected that there will be an increase in the total inflow amount and the total outflow amount for the three years ending December 31, 2024 taking into account (i) the new types of securities and financial products that the Group may offer; and (ii) the business growth and diversification of China Merchants Group and/or its associates, which will create more opportunities for the Group to conduct securities and financial transactions with China Merchants Group and/or its associates and for the Group and China Merchants Group and/or its associates to provide securities and financial products to each other; and
- given that (i) the inherent nature of the securities and financial products and transactions described above, including their market-sensitivity and timeliness, (ii) the Group's limited control over the counterparties in those transactions, and (iii) the volatility and unpredictability of the financial market in general, an adequate buffer should be provided to prevent undue restriction on the future business operations of the Group.

2. *Financial services*

The Proposed CMG Annual Caps of the revenue to be generated by the Group from providing financial services to China Merchants Group and/or its associates under the 2022 CMG Framework Agreement for each of the three years ending December 31, 2024 are as follows:

	The Proposed CMG Annual Caps (<i>RMB million</i>)		
	For the	For the	For the
	year ending	year ending	year ending
	December 31,	December 31,	December 31,
	2022	2023	2024
Financial services			
Revenue to be generated by the Group	90.00	92.00	95.00

In estimating the Proposed CMG Annual Caps of the revenue to be generated by the Group from the provision of financial services to China Merchants Group and/or its associates for the three years ending December 31, 2024, the Group has considered, among other things, the following key factors:

- historical amounts of the revenue generated by the Group from providing financial services to China Merchants Group and/or its associates for the three years ending December 31, 2021, including the different service rates and fees the Group charged for the provision of different types of financial services, and considering, in particular, that the Group's provision of financial services to China Merchants Group and/or its associates is mainly market-driven. Therefore, the Proposed CMG Annual Caps shall include an adequate buffer to cover any market volatility and changes. Otherwise, an annual cap that is too restrictive might cause undue disruption to the operations of the Group and hamper its ability to respond quickly to changes in the highly volatile financial market;
- as part of its normal course of business, the Group will continue to provide underwriting and sponsoring services for the equity and debt financial instruments to be issued by China Merchants Group and/or its associates, which is expected to generate a revenue of approximately RMB80 million, RMB82 million and RMB85 million in 2022, 2023 and 2024, respectively. The above estimation is made after taking into consideration: (i) the ongoing transactions for which the Group is providing underwriting and sponsoring services to China Merchants Group and/or its associates, and the potential transactions for which the Group may provide such services, including but not limited to the initial public offering, refinancing, merger and acquisition and restructuring; (ii) the efforts have been made and will continue to be made by the Group to improve the core capabilities of investment banking business to implement the "customer-oriented" customer service system and increase the comprehensive value contributions of corporate clients in order to realize the value guiding effect of investment banking business; (iii) the various initiatives and reforms in the PRC market, which the Group anticipates will create more demand and business opportunities for the underwriting and sponsoring business of the Group; and (iv) the expected growth in the equity and debt financial instruments to be issued by China Merchants Group and/or its associates in the next three financial years;

- the service fees, primarily financial advisory fees, to be received by the Group for providing other investment banking services to China Merchants Group and/or its associates is estimated to be approximately RMB10 million for each of the three years ending December 31, 2024, primarily taking into account the ongoing transactions for which the Group is providing advisory or other investment banking services to China Merchants Group and/or its associates, and the potential transactions for which the Group may provide such services, and given that merger and acquisition and restructuring are among the strategic goals of China Merchants Group;
- the business growth and diversification of China Merchants Group and/or its associates and the Group’s plan to enhance collaboration between the operations of the Group and other members of China Merchants Group will create more opportunities for the Group to provide financial services to China Merchants Group and/or its associates;
- the securities market in the PRC is expected to further develop alongside the economic growth, market reforms and increasingly diversified products and service offerings; and
- the Group’s leading position in the relevant markets would enable the Group to better seize the opportunities to provide financial services to China Merchants Group and/or its associates.

Reasons for and Benefits of Entering into the 2022 CMG Framework Agreement

The securities and financial products and transactions and financial services under the 2022 CMG Framework Agreement will be conducted in the ordinary course of business of the Group. Such transactions will continue to be entered into on arm’s length basis and based on terms which are fair and reasonable so far as the Group is concerned. In light of the past and current cooperation relationships between the Group and China Merchants Group and its associates in relation to “Collaboration between Industrial Companies and Financial Companies” (產融結合) and “Collaboration between Financial Companies” (融融結合), and that such transactions have contributed and will continue to contribute to the overall business operation and growth of the Group, the Board (including the Independent Board Committee having taken into account of the advice of the Independent Financial Adviser) considers that entering into the 2022 CMG Framework Agreement with China Merchants Group is beneficial to the Group.

Such transactions will create cost synergy by integrating the strengths of the Group and China Merchants Group and/or its associates, which will in turn improve the profitability of the Group and enhance the Group's leading position in the securities industry. The Board (including the Independent Board Committee having taken into account the advice of the Independent Financial Adviser) is of the view that the 2022 CMG Framework Agreement was: (i) entered into in the ordinary and usual course of business of the Group; (ii) on normal commercial terms (in accordance with the terms determined after arm's length negotiation or those no less favorable than the terms offered by the Group to independent third parties); and (iii) its terms and the Proposed CMG Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

THE 2022 COSCO FRAMEWORK AGREEMENT

Reference is made to the announcement of the Company dated December 30, 2020 in relation to the continuing connected transactions under the 2020 COSCO Framework Agreement.

As (i) the validity of the 2020 COSCO Framework Agreement expired on December 31, 2021; and (ii) the Group and COSCO Shipping and/or its associates expect to continually conduct securities and financial transactions with each other and provide securities and financial products to each other, and the Group expects to continually provide financial services to COSCO Shipping and/or its associates thereafter in the ordinary course of business based on normal commercial terms and market practices at prevailing market prices or rates, the Company entered into the 2022 COSCO Framework Agreement with COSCO Shipping on May 27, 2022 to renew the 2020 COSCO Framework Agreement. The term of the 2022 COSCO Framework Agreement shall take effect upon obtaining the approval from the Independent Shareholders, and shall expire on December 31, 2024.

The principal terms of the 2022 COSCO Framework Agreement are set out as follows:

Date

May 27, 2022

Parties

1. The Company; and
2. COSCO Shipping

Term

The term of the 2022 COSCO Framework Agreement shall take effect upon obtaining the approval from the Independent Shareholders, and shall expire on December 31, 2024.

Scope of the Transactions and Services

1. Securities and financial products and transactions

All the securities and financial products and transactions between the Group and COSCO Shipping and/or its associates have been provided to each other and conducted in the usual course of business pursuant to normal commercial terms. Such securities and financial products and transactions are related to securities and financial products and transactions conducted in the inter-bank bond markets, exchange bond markets, exchanges (including stock exchanges, futures exchanges, the Shanghai Gold Exchange and the China Foreign Exchange Trade System) and other OTC markets. The securities and financial transactions to be conducted between the Group and COSCO Shipping and/or its associates and the securities and financial products to be provided to each other include (but are not limited to) (i) fixed income products or transactions, (ii) equity products or transactions, (iii) financing transactions, and (iv) other securities and financial products and transactions as permitted by regulatory authorities.

Pursuant to the 2022 COSCO Framework Agreement, the securities and financial transactions to be conducted between the Group and COSCO Shipping and/or its associates and the securities and financial products to be provided to each other include (but are not limited to):

- (1) fixed income products or transactions – including bonds, funds with fixed income features, trust, wealth management products, asset management schemes, asset securitization products, convertible bonds, structured products, interest rates and credit risk derivative products and other fixed income products or transactions;
- (2) equity products or transactions – including stocks, equity, equity funds, trust, wealth management products, asset management schemes and equity derivative products or transactions;

- (3) financing transactions – including interbank lendings, repurchase, transfer of income right, pledged loans, reciprocal holding of debt certificates including but not limited to short-term financing bills, beneficiary certificates, subordinated bonds, corporate bonds, asset-backed securities, etc.; and
- (4) other related securities and financial products and derivative products – including swaps, futures, forward contracts, commodities and foreign exchange.

2. *Financial services*

The Group provides various financial services to its clients, which include COSCO Shipping and/or its associates, in its ordinary course of business. Due to the expertise and professional capabilities of the Group, the Group has been engaged by COSCO Shipping and/or its associates to provide financial services including but not limited to (i) underwriting and sponsoring services, (ii) other investment banking services, and (iii) other financial services from time to time.

Pursuant to the 2022 COSCO Framework Agreement, the financial services to be provided by the Group to COSCO Shipping and/or its associates include (but are not limited to):

- (1) underwriting and sponsoring services – including the underwriting and sponsoring of equity and bonds. The Group shall receive underwriting commissions and sponsoring fees for such services;
- (2) other investment banking services – including financial advisory services for, among others, mergers and acquisitions and restructuring. The Group shall receive financial advisory fees and/or other fees for such services; and
- (3) other financial services (excluding brokerage, agency sale of financial products and investment advisory services).

Pricing Basis

1. Securities and financial products and transactions

The securities and financial products are conducted through the PRC inter-bank bond market and the PRC exchange bond market, exchanges (including stock exchanges, futures exchanges, Shanghai Gold Exchange and China Foreign Exchange Trade System) and other OTC markets.

The transaction prices and related fees for each type of the securities and financial products and transactions shall be determined by the prevailing market price or the market price normally applicable to independent third parties for similar types of products and transactions as referred in the 2022 COSCO Framework Agreement at the time of the transaction. The pricings of such transactions are also subject to strict PRC regulatory supervision and requirements of the applicable PRC laws and regulations.

The fixed income products and transactions conducted in the PRC are mainly conducted through inter-bank bond markets and securities markets (through centralised bidding transaction mechanism, block trade platform and fixed income platform). Except for centralised bidding transactions conducted at securities markets, pricing of transactions conducted at inter-bank bond markets, block trade platform and fixed income platform of securities markets is determined mainly with reference to the bond valuation published by China Central Depository & Clearing Co., Ltd. (the “CCDC”) and China Securities Depository and Clearing Corporation Limited (the “CSDC”). The price quotations of the transactions conducted at inter-bank bond markets shall be within 2% of the valuation published by the CCDC. Otherwise, such transactions must be reported to CCDC. Abnormal pricing, if without reasonable reason(s), may result in warning or penalty by the regulatory institution(s). For fixed income products and transactions conducted at securities markets, prices of centralised bidding transactions are prevailing market prices and non-centralised bidding transactions are determined mainly with reference to the bond valuation published by the CSDC. In terms of subscriptions by the Group of the fixed-income financial instruments offered by COSCO Shipping and/or its associates, or subscription by COSCO Shipping and/or its associates of such financial instruments offered by the Group, the subscription price is determined by the issuers of such financial instruments with reference to the valuation published by CCDC of financial instruments of similar credit quality with a similar

term, and is the same subscription price as the subscriptions by other investors. Both the Group and COSCO Shipping and/or 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 instruments. In addition, fixed income products conducted outside the PRC are mainly conducted through OTC markets and pricing of the transactions is determined mainly with reference to the market price quotations obtained from market makers.

For equity products and transactions, certain of these products and transactions are conducted through securities markets (including stock exchanges) and majority of which are conducted through system(s), where the counterparties do not have knowledge of the identities with each other and the transaction prices are based on the quotes made by the counterparties in the market. The Company could access to the trading systems of the relevant exchanges to obtain the real-time quotations of the relevant securities and financial products. For equity products of which no reference market price can be obtained from the market, the Group will mainly make reference to the market-based valuation methods and the market price of products of similar nature to ascertain the price.

For financing transactions, (i) in terms of interbank lendings and interbank market repurchases, they are variably quoted based on SHIBOR of the National Interbank Funding Center and the time-weighted rate of repurchase at the front office along with certain factors, such as assessment of prevailing capital adequacy, the credit quality of counterparties and the quality of collaterals, such as pledged bonds. The pricings of such transactions are also subject to strict PRC regulatory supervision and requirements of the applicable PRC laws and regulations; and (ii) in terms of subscriptions by the Group of the financial instruments offered by COSCO Shipping and/or its associates, or subscriptions by COSCO Shipping and/or its associates of such financial instruments issued by the Group, the subscription price is determined by the issuers of such financial instruments with reference to the valuation published by CCDC of financial instruments of similar credit quality with a similar term, and is the same subscription price as the subscriptions by other investors. The Group and COSCO Shipping and/or 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 instruments.

The pricing in respect of transactions in OTC derivatives is determined mainly (i) based on the derivative pricing models, such as Monte Carlo simulation, B-S model; or (ii) with reference to the expected changes in the price of relevant subject.

For bullion products, futures and foreign exchange products tradings, such transactions are mainly conducted on the Shanghai Gold Exchange, the China Financial Futures Exchange and the China Foreign Exchange Trade System. Call auction mechanism is mainly adopted in these exchanges and the pricing is primarily determined with reference to the turnover of a particular securities and financial product. The Company has access to the trading systems of the relevant exchanges to obtain the real-time quotations of the relevant securities and financial products.

Securities and financial products and transactions also include subscriptions of funds, trust, wealth management products and asset management schemes (the “**Products**”). The pricing of such transactions is determined based on the unit net value of the relevant Products on the date of transaction. The unit net value of such Products is calculated by dividing the net asset value of the Products by the total number of the fund units. The net asset value of the Products is the sum of the values of various marketable securities and notes, principals and interests of bank deposits, fund subscription monies receivables and other assets invested by such Products, less the liabilities of such Products, the calculation of which shall be in compliance with the China Accounting Standards for Business Enterprises. The net value of such Products are audited by a manager, reviewed by a custodian and confirmed by an external audit firm on a regular basis. The calculation of the unit net value of the Products is set forth in the relevant fund contract and prospectus, and equally applies to all investors of the Products.

To ensure that the above transactions with COSCO Shipping and/or its associates are on normal commercial terms and to safeguard the interests of the Shareholders as a whole, including the minority Shareholders, the Group has put in place internal approval and monitoring procedures relating to the connected transactions, the details of which are set out in the section headed “Internal Control Measures of Continuing Connected Transactions” below.

2. *Financial services*

The pricing basis for the financial services to be provided by the Group to COSCO Shipping and/or its associates is as follows:

- (1) underwriting and sponsoring services – underwriting commissions and sponsoring fees shall be determined by arm’s length negotiation after taking into account numerous factors including the prevailing market conditions, size of the proposed issue and commission rates of recent issues of similar nature and size in the market generally as well as the rates that the Group charges from independent third parties. With respect to the equity-related underwriting and sponsor services, the fees are determined with reference to the prevailing market rates for transactions of similar type and size and taking into account the nature of the particular offering, the size of the transaction, the complexity of the transaction, the frequency the relevant customer engaging in transactions with the Company and the prevailing market conditions. Based on the above-mentioned factors, the fees are determined through competitive bidding and business negotiation or with reference to the standard fee charged by independent third parties in other similar projects.

With respect to the underwriting fees for enterprise bonds, the Company refers mainly to the standard underwriting fee proposed under the Notice of National Development and Reform Commission regarding Certain Matters on Instructing the Issue Size and Issue Approval for the First Batch of Enterprise Bonds in 2007 (《國家發展改革委關於下達二零零七年第一批企業債券發行規模及發行核准有關問題的通知》) and makes corresponding adjustments after taking into account the enterprise bond issuer’s qualifications and market conditions.

With respect to the underwriting fees for corporate bonds, asset securitization products and other interbank products, as there is no guidance formulated by the competent authorities on the underwriting fees of such products, the underwriting fees among the industry vary according to the issuer, type and term of the products. The rate charged by the Company generally ranges from 0.01% to 1.5%, which is mainly determined based on the above-mentioned factors and negotiations with issuer and competitive bidding;

- (2) other investment banking services – financial advisory fees and other services fees shall be determined after taking into account factors including the transaction nature and size, and the prevailing market conditions. As at the date of this announcement, it was estimated that the range of financial advisory fees for each case is approximately from RMB one million to RMB several ten million. The range of financial advisory fees and other services fees shall be determined in accordance with the nature and complexity of such transactions and then prevailing market rates for financial advisory fees and the relevant services fees for similar transactions;
- (3) other financial services – other financial services fees shall be determined after taking into account factors including market prices and industry practices, with reference to price level in respect of similar financial services provided by the Group to independent third parties.

The terms, including pricing terms, between COSCO Shipping and/or its associates and the Group to be entered into in respect of the provision of financial services above to be provided by the Group shall be comparable to those offered to the Group's other institutional clients of a similar size and with similar transaction volume who are independent third parties, and shall be subject to the same internal approval and monitoring procedures and pricing policies applicable to independent third party clients. For more details, please refer to the section headed "Internal Control Measures of Continuing Connected Transactions" below.

Condition Precedent

The 2022 COSCO Framework Agreement is conditional upon the obtaining of the approval from the Independent Shareholders.

Miscellaneous

The Company and COSCO Shipping agreed that under Rule 14A.54 of the Listing Rules, if at any time during the term of the 2022 COSCO Framework Agreement, the total transaction amount may or is expected to exceed the Proposed COSCO Annual Caps and thus requires re-approval from the Independent Shareholders, the Group shall fulfil all applicable and necessary regulatory obligations under the Listing Rules as soon as practicable. Before the fulfilment of all relevant regulatory requirements, both parties agreed to use their best efforts to prevent the aggregated amount for the relevant transaction in such year from exceeding the relevant monetary cap. Otherwise, the execution of relevant transactions under the 2022 COSCO Framework Agreement shall be suspended.

Historical Figures

1. *Securities and financial products and transactions*

The approximate historical figures of securities and financial products and transactions between the Group and COSCO Shipping and/or its associates for the three years ending December 31, 2021 were as follows:

	Historical figures (RMB million)		
	For the year ended December 31, 2019	For the year ended December 31, 2020	For the year ended December 31, 2021
Securities and financial products and transactions			
Inflow ⁽¹⁾	0.00	0.00	156.80
Outflow ⁽²⁾	650.00	241.00	319.75

Notes:

- (1) “Inflow” refers to the Group’s total cash inflow arising from the sale of fixed income products and equity products to, transactions of derivative products with, and/or borrowing/repurchase from financing transactions with, COSCO Shipping and/or its associates.
- (2) “Outflow” refers to the Group’s total cash outflow arising from the purchase of fixed income products and equity products from, transactions of derivative products with, and/or lending/resale from financing transactions with, COSCO Shipping and/or its associates.

2. *Financial services*

The approximate historical figures of revenue generated by the Group from providing financial services to COSCO Shipping and/or its associates for the three years ending December 31, 2021 were as follows:

	Historical figures (RMB million)		
	For the year ended December 31, 2019	For the year ended December 31, 2020	For the year ended December 31, 2021
Financial services			
Revenue generated by the Group	1.51	0.21	2.90

Proposed COSCO Annual Caps

The Proposed COSCO Annual Caps for the transaction amounts under the 2022 COSCO Framework Agreement are as follows:

1. Securities and financial products and transactions

The Company considers that it is impracticable and extremely difficult to set a separate cap for each category of the securities and financial products and transactions for the following main reasons: (i) the securities and financial products and transactions are frequently conducted at the prevailing market prices in the ordinary and usual course of business of the Group. Such transactions are market-driven and are entered into depending on various factors including the bidding price and timing; (ii) most of these transactions are conducted within a very short timeframe and are very sensitive to market prices; (iii) as the variety and characteristics of products are experiencing rapid innovations in the ever-changing securities and financial market, it is difficult to precisely estimate when new products will be launched, however, once new securities and financial products and transactions are launched, it is expected that the total inflow and the total outflow of securities and financial products and transactions between COSCO Shipping and/or its associates and the Group will increase; (iv) all such transactions will continue to be entered into at the prevailing market prices in the ordinary and usual course of business of the Group; and (v) if an annual cap is set for each category of these transactions, it would cause significant delay to such transactions and harm to the Group's existing operations and potential growth to the detriment of the Company and the Shareholders as a whole and restrict the Company's overall competitiveness in a highly competitive securities industry. In light of the above, the Company considers that it is more practicable to set a cap for the total inflow and the total outflow of all the securities and financial products and transactions under the 2022 COSCO Framework Agreement, instead of a separate cap for each category of those products and transactions.

The Proposed COSCO Annual Caps of expected total inflow⁽¹⁾ amount and total outflow⁽²⁾ amount of the securities and financial products and transactions between the Group and COSCO Shipping and/or its associates under the 2022 COSCO Framework Agreement for each of the three years ending December 31, 2024 are as follows:

The Proposed COSCO Annual Caps			
<i>(RMB million)</i>			
	For the year ending December 31, 2022	For the year ending December 31, 2023	For the year ending December 31, 2024
Securities and financial products and transactions			
Inflow ⁽¹⁾	1,600	1,600	1,600
Outflow ⁽²⁾	3,640	3,650	3,660

Notes:

- (1) “Inflow” refers to the Group’s total cash inflow arising from the sale of fixed income products and equity products to, transactions of derivative products with, and/or borrowing/repurchase from financing transactions with, COSCO Shipping and/or its associates.
- (2) “Outflow” refers to the Group’s total cash outflow arising from the purchase of fixed income products and equity products from, transactions of derivative products with, and/or lending/resale from financing transactions with, COSCO Shipping and/or its associates.

In estimating the Proposed COSCO Annual Caps of the total inflow amount and the total outflow amount of the securities and financial products and transactions between the Group and COSCO Shipping and/or its associates for the three years ending December 31, 2024, the Group has considered, among other things, the following key factors:

- approximate historical figures of the total inflow amount and the total outflow amount of securities and financial products and transactions between the Group and COSCO Shipping and/or its associates for the three years ending December 31, 2021;

- the expected amounts of securities and financial products and transactions to be conducted between the Group and COSCO Shipping and/or its associates. Certain of the expected amounts, subject to market condition, are as follows:
 - it is estimated that the outflow from the purchase of the financial instruments to be issued by COSCO Shipping and/or its associates by the Group will be approximately RMB3.54 billion, RMB3.55 billion and RMB3.56 billion in 2022, 2023 and 2024, respectively, while the inflow from the redemption by the Group of such financial instruments issued by COSCO Shipping and/or its associates will be approximately RMB1.50 billion each year, which was estimated based on the following facts:
 - i. the financing demands of the parties will continue to increase in order to support their respective rapid business growth;
 - ii. it is estimated that for each of the three years ending December 31, 2024, the expected inflow and outflow from the purchase and redemption of the fixed-income financial instruments to be issued by COSCO Shipping and/or its associates by the Group will be approximately RMB1 billion, respectively, which was determined with reference to (i) the average scale of purchase of the fixed-income financial instruments issued by COSCO Shipping and/or its associates by the Group in the past three years (2019-2021); (ii) the Group has started to invest in REITs products since June 2021, the size of investment in REITs products by the Group in 2021 was approximately RMB130 million. It is expected that in the next three financial years, the size of investment in REITs products by the Group will be approximately RMB500 million, respectively, among which, the inflow and outflow from the subscription for and redemption of the REITs products to be issued by COSCO Shipping and/or its associates by the Group is estimated to be approximately RMB100 million; (iii) for the period from 2019 to 2021, the annual size of investment of the Group in asset-backed securities and credit bonds issued by COSCO Shipping and/or its associates was approximately RMB500 million. After taking into consideration of expansion of operation scale of COSCO Shipping and/or its associates as well as a closer collaboration with the Group

between industrial companies and financial companies, it is expected that in the next three financial years, the annual size of investment of the Group in asset-backed securities and credit bonds issued by COSCO Shipping and/or its associates will be approximately RMB900 million, the inflow and outflow of approximately RMB900 million will then be generated annually; and (iv) the Group may further strengthen business cooperation with COSCO Shipping and/or its associates;

- iii. in accordance with the development initiative of “collaboration between investment banking and underwriting” (投承聯動) of the Group, it is estimated that the total amounts of the financial instruments issued by COSCO Shipping and its associates to be underwritten by the Group will be approximately RMB3 billion for each of the next three financial years and approximately 16% of such products will be fully underwritten by the Group, resulting in an outflow of approximately RMB0.48 billion for each of the three years ending December 31, 2024; and
- iv. it is estimated that the inflow from agency primary bond auction business, flow trading and market making and forward contracts/forward trading conducted between the Group and COSCO Shipping and its associates will be approximately RMB500 million for each of the three years ending 31 December 2024, while the estimated outflow from flow trading and market making and forward contracts/forward trading conducted between the Group and COSCO Shipping and its associates will be approximately RMB2 billion;
- it is expected that there will be an increase in the total inflow amount and the total outflow amount for the three years ending December 31, 2024 taking into account (i) the new types of securities and financial products that the Group may offer; (ii) the business growth and diversification of COSCO Shipping and/or its associates, which will create more opportunities for the Group to conduct securities and financial transactions with China Merchants Group and/or its associates and for the Group and China Merchants Group and/or its associates to provide securities and financial products to each other; and

- given that (i) the inherent nature of the securities and financial products and transactions described above, including their market-sensitivity and timeliness, (ii) the Group’s limited control over the counterparties in those transactions, and (iii) the volatility and unpredictability of the financial market in general, an adequate buffer should be provided to prevent undue restriction on the future business operations of the Group.

2. *Financial services*

The Proposed COSCO Annual Caps of the revenue to be generated by the Group from the financial services transactions under the 2022 COSCO Framework Agreement for each of the three years ending December 31, 2024 are as follows:

	The Proposed COSCO Annual Caps		
	<i>(RMB million)</i>		
	For the year ending December 31, 2022	For the year ending December 31, 2023	For the year ending December 31, 2024
Financial services			
Revenue to be generated by the Group	71.00	71.20	71.50

In estimating the Proposed COSCO Annual Caps of the revenue to be generated by the Group from the provision of financial services to COSCO Shipping and/or its associates for the three years ending December 31, 2024, the Group has considered, among other things, the following key factors:

- historical amounts of the revenue generated by the Group from providing financial services to COSCO Shipping and/or its associates for the three years ending December 31, 2021, including the different service rates and fees the Group charged for the provision of different types of financial services, and considering, in particular, that the Group’s provision of financial services to COSCO Shipping and/or its associates is mainly market-driven. Therefore, the Proposed COSCO Annual Caps shall include an adequate buffer to cover any market volatility and changes. Otherwise, an annual cap that is too restrictive might cause undue disruption to the operations of the Group and hamper its ability to respond quickly to changes in the highly volatile financial market;

- as part of its normal course of business, the Group will continue to provide underwriting and sponsoring services for the equity and debt financial instruments to be issued by COSCO Shipping and/or its associates, which is expected to generate a revenue of approximately RMB41.00 million, RMB41.20 million and RMB41.50 million in 2022, 2023 and 2024, respectively. The above estimation was made based on: (i) the ongoing transactions for which the Group is providing underwriting or sponsoring services to COSCO Shipping and/or its associates, especially the ongoing restructuring of COSCO Shipping, and the potential transactions for which the Group may provide such services, including but not limited to the potential initial public offering, refinancing, merger and acquisition and restructuring to be conducted by COSCO Shipping and/or its associates; (ii) the efforts have been made and will continue to be made by the Group to improve the core capabilities of investment banking business to implement the “customer-oriented” customer service system and increase the comprehensive value contributions of corporate clients in order to realize the value guiding effect of investment banking business; (iii) the various initiatives and reforms in the PRC market, which the Group anticipates will create more demand and business opportunities for the underwriting and sponsoring business of the Group; and (iv) the expected growth in the equity and debt financial instruments to be issued by COSCO Shipping and/or its associates in the next three financial years;
- it is expected that there will be an increase in other investment banking service fees to be received by the Group for providing services to COSCO Shipping and/or its associates in areas such as merger and acquisition and restructuring as a result of their expansion of such business in the three years ending December 31, 2024. The service fees, primarily financial advisory fees, to be received by the Group for providing other investment banking services to COSCO Shipping and/or its associates is estimated to be approximately RMB30.00 million for each of the three years ending December 31, 2024. Taking into account (i) the ongoing transactions for which the Group is providing advisory or other investment banking services to COSCO Shipping and/or its associates, and the potential transactions for which the Group may provide such services; (ii) merger and acquisition and restructuring are among the strategic goals of COSCO Shipping; and (iii) the Group’s plan to strengthen its financial advisory business, it is expected that there will be more opportunities for the Group to provide financial advisory services to COSCO Shipping and/or its associates, and that the revenue of the Group derived from such services is expected to show significant growth in the next three years;

- considering (i) the business growth and diversification of COSCO Shipping and/or its associates; and (ii) the enhanced cooperation between the Group and COSCO Shipping and/or its associates as COSCO Shipping has become a substantial shareholder of the Company, more opportunities will be created for the Group to provide financial services to COSCO Shipping and/or its associates;
- the securities market in the PRC is expected to further develop alongside the economic growth, market reforms and increasingly diversified products and service offerings; and
- the Group's leading position in the relevant markets which would enable the Group to better seize the opportunities to provide financial services to COSCO Shipping and/or its associates.

Reasons for and Benefits of Entering into the 2022 COSCO Framework Agreement

The securities and financial products and transactions and financial services under the 2022 COSCO Framework Agreement will be conducted in the ordinary course of business of the Group. Such transactions will continue to be entered into on arm's length basis and based on terms which are fair and reasonable so far as the Group is concerned. In light of the past and current cooperation relationships between the Group and COSCO Shipping, and that such transactions have contributed and will continue to contribute to the overall business operation and growth of the Group, the Board (including the Independent Board Committee having taken into account of the advice of the Independent Financial Adviser) considers that entering into the 2022 COSCO Framework Agreement with COSCO Shipping is beneficial to the Group.

Such transactions will comprehensively capitalize on the resource advantages of the Group and COSCO shipping and/or its associates, enhance the market competitiveness of the parties' cooperation business, and create cost synergy by integrating the strengths of the parties, which will in turn improve the profitability of the Group and enhance the Group's leading position in the securities industry. The Board (including the Independent Board Committee having taken into account the advice of the Independent Financial Adviser) is of the view that the 2022 COSCO Framework Agreement was: (i) entered into in the ordinary and usual course of business of the Group; (ii) on normal commercial terms (in accordance with the terms determined after arm's length negotiation or those no less favorable than the terms offered by the Group to independent third parties); and (iii) its terms and the Proposed COSCO Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL MEASURES OF CONTINUING CONNECTED TRANSACTIONS

To safeguard the interests of the Shareholders as a whole, including minority Shareholders, the Group has implemented internal approval and monitoring procedures for connected transactions, which include the following:

- the Group has formulated and established internal guidance and policies for various securities and financial products and transactions and financial services, as well as internal procedures and system for the approval and monitoring of such transactions. Such policies and guidance set forth requirements regarding pre-transaction inquiry, applicable price, pricing procedures, approving body and procedures, record retention, supervision and review procedures. Relevant departments of the Group, including but not limited to headquarter for wealth management and institutional business (for securities and financial products and transactions and financial services), headquarter for investment banking (for financial services), headquarter for financial market investment, fund management department (for securities and financial products and transactions) and subsidiaries of the Company, including but not limited to China Merchants Securities International Company Limited, China Merchants Futures Co., Limited and China Merchants Securities Asset Management Co., Ltd. (for securities and financial products and transactions), are responsible for reviewing the actual transaction amount and determining whether the Proposed Annual Caps have been exceeded;
- the relevant connected transaction management department will regularly or irregularly collect data from all departments and subsidiaries, to ensure the Proposed Annual Caps will not be exceeded and will remind relevant departments and subsidiaries to keep such connected transactions not exceeding the Proposed Annual Caps. Legal and compliance department will also review such transactions and grant approval when and as appropriate;
- while offering or selling the same batch of securities and financial products and transactions and financial services to customers (including both connected persons and independent third parties), the Group will offer the same pricing terms to all the customers and no preferential terms shall be provided to the customers who are the Group's connected persons;

- in order to ensure that the price/market rate is with reference to the then prevailing market prices/rates, the Group will obtain market references or quotations for similar products/services/transactions. For fixed income products or transactions, the Group will obtain market references or quotations from similar products offered in the inter-bank markets or the PRC stock exchange markets. For equity products or transactions, the Group will obtain market references or quotations from similar products offered in the PRC stock exchange markets. The Group will normally obtain three to five market references or quotations (depending on available information). The Group will then adopt evaluation methods to ascertain the market price for similar products or transactions and determine whether the price offered by connected person is fair and reasonable. For other products/services/transactions where there are no active markets (for example, forward contracts), the Group will obtain market references or quotations for similar products/services/transactions offered in an active market (for example, futures market) and/or market references or quotations in that inactive market. Depending on the availability of information, the Group will compare the information collected from both active and inactive markets to ascertain the market price of such products/services/transactions and determine whether the price offered by connected person is fair and reasonable;
- the Group has formulated internal guidelines requiring additional approval procedures, including prior assessment and approval by independent Directors before the matter is submitted for consideration by the Board for transactions that exceed certain monetary amounts;
- for securities and financial products and transactions, the Group has implemented the following internal control procedures to ensure that the terms are normal commercial terms or better:

 - the investment department and the investment management department will determine the reasonable pricing of fixed income products and equity products according to the pricing model for the issuing of such products or purchase such products issued by China Merchants Group, COSCO Shipping and/or their associates. For fixed income products or transactions, under normal circumstances, the Group will determine the reasonable pricing of such products or transactions from multiple dimensions such as subject, rating and financial indicators. The Group will evaluate the terms and the credit risk of such products and transactions based on the rating of such products provided by the external

rating agencies after their evaluation and the internal rating system developed by the Group. The rating evaluated by the external rating agencies will be verified and evaluated by the internal rating system to ensure that the terms of such products and transactions are on normal commercial terms or better. For equity products and transactions, under normal circumstances, the Group will determine the reasonable pricing of such products or transactions in accordance with market-based valuation methods (such as, price-earnings ratio valuation method, PS valuation method, PEG valuation method, price-to-book ratio valuation method, marketrate valuation method, DCF valuation method, etc.) Different valuation methods will be adopted depending on the ability to continue as a going concern, financial condition and risk condition of the industry of the issuer or the financier. Should there be no direct market comparable, the Group will also consider price of derivative of such products and also market price of such products of similar nature for reference when necessary in order to determine the market price of such products or transactions. The Group will take priority to consider price of derivative of such products to determine the market price. If there are no derivatives of such products, the Group will consider products of similar nature to determine the market price. The Group will select comparable of products of similar nature with reference to, among other things, industry of the issuer or the financier, its business and financial scale, its price-to-earnings ratio and its price-to-book ratio. The Group will select two to three market comparables and determine a range of market price of these comparables as reference to determine, among others, whether the price offered by China Merchants Group, COSCO Shipping and/or their associates is normal commercial terms or better. With reference to the above-mentioned, the Group can ascertain the value of certain securities and financial products and transactions and ensure whether the terms are normal commercial terms or better.

The independent non-executive Directors and auditors of the Company will conduct an annual review on the continuing connected transactions of the Group (including the ratios offered by and to China Merchants Group, COSCO Shipping and/or their associates) and provide their annual confirmations in accordance with the Listing Rules that, among others, the relevant transactions are conducted in the ordinary and usual course of business of the Group and in accordance with the terms of the agreement that are fair and reasonable and in the interests of the Company and the Shareholders as a whole, on normal commercial terms or better and in accordance with the pricing policy of the Group.

GENERAL INFORMATION OF THE COMPANY, CHINA MERCHANTS GROUP AND COSCO SHIPPING

The Company is a joint stock company incorporated in the PRC with limited liability, the domestic shares of which are listed on the Shanghai Stock Exchange and the H Shares of which are listed on the Main Board of the Stock Exchange. The Group mainly engages in brokerage and wealth management and institutional business, investment banking business, investment management business, and investment and trading business.

China Merchants Group is a large-scale conglomerate with diversified businesses incorporated in the PRC and directly administered by Stated-owned Assets Supervision and Administration Commission of the State Council. At present, China Merchants Group mainly focuses on three core industries: comprehensive transportation, featured finance, holistic development and operation of residential communities and industrial parks. It has also been engaging in the transformation from these three primary industries to the three platforms of industrial management, financial services, and investment and capital operation.

COSCO Shipping is a state-owned enterprise incorporated in the PRC and directly wholly owned by the State Council and is a substantial shareholder of the Company. Its business mainly focuses on shipping, logistic, shipping finance, equipment manufacturing, and shipping services.

BOARD APPROVAL

Pursuant to Rule 14A.68(8) of the Listing Rules, as Mr. HUO Da, Mr. LIU Weiwu, Mr. DENG Weidong, Ms. SU Min, Mr. WU Zongmin, Ms. PENG Lei and Mr. GAO Hong are directors connected to China Merchants Group, they are deemed to have material interests in the transactions contemplated under the 2022 CMG Framework Agreement and thus have abstained from voting on the board resolution in respect of the entering into of the 2022 CMG Framework Agreement, and the transactions contemplated thereunder (including the Proposed CMG Annual Caps). Save as disclosed above, none of the Directors has any material interest in the transaction contemplated under the 2022 CMG Framework Agreement and thus be required to abstain from voting on the relevant board resolution.

Pursuant to Rule 14A.68(8) of the Listing Rules, as Mr. HUANG Jian is a director connected to COSCO Shipping, he is deemed to have material interests in the transactions contemplated under the 2022 COSCO Framework Agreement and thus has abstained from voting on the board resolution in respect of the entering into of the 2022 COSCO Framework Agreement and the transactions contemplated thereunder (including the Proposed COSCO Annual Caps). Save as disclosed above, none of the Directors has any material interest in the transaction contemplated under the 2022 COSCO Framework Agreement and thus be required to abstain from voting on the relevant board resolution.

IMPLICATIONS UNDER THE LISTING RULES

China Merchants Group is a controlling shareholder of the Company. As at the date of this announcement, China Merchants Group indirectly holds approximately 44.17% in aggregate of the equity interest of the Company. Accordingly, China Merchants Group and its associates are connected persons of the Company under the Listing Rules, and the transactions contemplated under the 2022 CMG Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the transactions contemplated under the 2022 CMG Framework Agreement exceed 5%, the transactions contemplated under the 2022 CMG Framework Agreement are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

COSCO Shipping is a substantial shareholder of the Company. As at the date of this announcement, COSCO Shipping indirectly holds approximately 10.02% in aggregate of the equity interest of the Company. Accordingly, COSCO Shipping and its associates are connected persons of the Company under the Listing Rules, and the transactions contemplated under the 2022 COSCO Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios in respect of the transactions contemplated under the 2022 COSCO Framework Agreement exceed 5%, the transactions contemplated under the 2022 COSCO Framework Agreement are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Company will obtain the Independent Shareholders' approval for the transactions contemplated under the 2022 CMG Framework Agreement and the 2022 COSCO Framework Agreement at the general meeting of the Company. China Merchants Group, COSCO Shipping and their respective associates will abstain from voting on the relevant resolutions.

The Independent Board Committee, comprising all the independent non-executive Directors, has been established to consider the 2022 CMG Framework Agreement and the 2022 COSCO Framework Agreement and to advise the Independent Shareholders on the entering into of the 2022 CMG Framework Agreement and the 2022 COSCO Framework Agreement. Lego Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms of the 2022 CMG Framework Agreement and the 2022 COSCO Framework Agreement are on normal commercial terms or better in the ordinary and usual course of business of the Company and are in the interests of the Company and the Shareholders as a whole.

GENERAL

Pursuant to Chapter 14A of the Listing Rules, the Company is required to prepare a circular containing, amongst others, further details of the 2022 CMG Framework Agreement and the 2022 COSCO Framework Agreement, a letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders and a letter from the Independent Board Committee to the Independent Shareholders on the same and its recommendation on voting, on the terms of the 2022 CMG Framework Agreement and the 2022 COSCO Framework Agreement and the Proposed Annual Caps. Since the Company requires additional time to prepare the circular, it is expected that the circular will be despatched to the Shareholders on or before July 22, 2022.

DEFINITIONS

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

“2016 CMG Framework Agreement”	the Securities and Financial Products, Transactions and Services Framework Agreement entered into between the Company and China Merchants Group on September 21, 2016
“2019 CMG Framework Agreement”	the Securities and Financial Products, Transactions and Services Framework Agreement entered into between the Company and China Merchants Group on May 21, 2019
“2019 Half Year Agreement”	the Securities and Financial Products, Transactions and Services Framework Agreement entered into between the Company and China Merchants Group on February 15, 2019
“2020 COSCO Framework Agreement”	the Securities and Financial Products, Transactions and Services Framework Agreement entered into between the Company and COSCO Shipping on December 30, 2020
“2022 CMG Framework Agreement”	the Securities and Financial Products, Transactions and Services Framework Agreement entered into between the Company and China Merchants Group on May 27, 2022
“2022 COSCO Framework Agreement”	the Securities and Financial Products, Transactions and Services Framework Agreement entered into between the Company and COSCO Shipping on May 27, 2022
“A Share(s)”	PRC domestic listed share(s) with a par value of RMB1.00 each in the share capital of the Company, listed on the Shanghai Stock Exchange and traded in RMB
“associate(s)”	has the meaning ascribed to this term under the Listing Rules
“Board” or “Board of Directors”	the board of Directors of the Company

“China Merchants Bank”	China Merchants Bank Co., Ltd. (招商銀行股份有限公司) (including its headquarters, branches and subsidiaries), a commercial bank established in the PRC in March 1987, and as at the date of this announcement, China Merchants Group, being its shareholder, holds approximately 29.97% of its equity interest
“China Merchants Fund”	China Merchants Fund Management Co., Ltd. (招商基金管理有限公司), which is owned as to 45% by the Company and 55% by China Merchants Bank respectively
“China Merchants Group”	China Merchants Group Limited (招商局集團有限公司), a state-owned enterprise established in the PRC in October 1986, which is directly administered by State-owned Assets Supervision and Administration Commission of the State Council and is a controlling shareholder of the Company
“CMS Asset Management”	China Merchants Securities Asset Management Co., Ltd. (招商證券資產管理有限公司), a wholly-owned subsidiary of the Company
“Company”	China Merchants Securities Co., Ltd., a joint stock company incorporated in the PRC in August 1993 with limited liability, the H Shares and A Shares of which are listed on the Main Board of the Stock Exchange (stock code: 6099) and on the Shanghai Stock Exchange (stock code: 600999), respectively
“connected person(s)”	has the meaning ascribed to this term under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to this term under the Listing Rules
“COSCO Shipping”	China COSCO Shipping Corporation Limited (中國遠洋海運集團有限公司), a state-owned enterprise established in the PRC in February 2016, which is directly wholly owned by the State Council and is a substantial shareholder of the Company
“Director(s)”	director(s) of the Company

“Group”	the Company and its subsidiaries
“H Share(s)”	overseas-listed foreign shares in the share capital of the Company with nominal value of RMB1.00 each, listed on the Stock Exchange and traded in Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors
“Independent Financial Adviser”	Lego Corporate Finance Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser appointed by the Company for the purpose of advising the Independent Board Committee and the Independent Shareholders in respect of the 2022 CMG Framework Agreement and the 2022 COSCO Framework Agreement, and the transactions contemplated thereunder (including the Proposed Annual Caps)
“Independent Shareholders”	in respect of the resolution regarding entering into of the 2022 CMG Framework Agreement, means Shareholders other than China Merchants Group and its associates; in respect of the resolution regarding entering into of the 2022 COSCO Framework Agreement, means Shareholders other than COSCO Shipping and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, and for the purposes of this circular only, excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Proposed Annual Caps”	the Proposed CMG Annual Caps and the Proposed COSCO Annual Caps

“Proposed CMG Annual Caps”	the proposed annual caps for the transactions contemplated under the 2022 CMG Framework Agreement
“Proposed COSCO Annual Caps”	the proposed annual caps for the transactions contemplated under the 2022 COSCO Framework Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	the ordinary share(s) in the share capital of the Company with a nominal value of RMB1.00 each comprising A Shares and H Shares
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.

By order of the Board of Directors
China Merchants Securities Co., Ltd.
HUO Da
Chairman

Shenzhen, the PRC
May 27, 2022

As at the date of this announcement, the executive directors of the Company are Mr. HUO Da and Mr. WU Zongmin; the non-executive directors of the Company are Mr. LIU Weiwu, Mr. DENG Weidong, Ms. SU Min, Ms. PENG Lei, Mr. GAO Hong, Mr. HUANG Jian and Mr. WANG Wen; and the independent non-executive directors of the Company are Mr. XIANG Hua, Mr. XIAO Houfa, Mr. XIONG Wei, Mr. HU Honggao and Mr. WONG Ti.