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恒 投 證 券
HENGTOU SECURITIES

(A joint stock company incorporated in the People's Republic of China with limited liability under the Chinese corporate name “恒泰证券股份有限公司” and carrying on business in Hong Kong as “恒投證券” (in Chinese) and “HENGTOU SECURITIES” (in English))

(the “Company”)
(Stock Code: 01476)

**CONTINUING CONNECTED TRANSACTIONS
FRAMEWORK AGREEMENT
FOR
PROPERTY LEASING AND RELATED SERVICES**

FRAMEWORK AGREEMENT

Desheng Investment has been leasing various premises, which mainly comprises of offices, to the Group. The Existing Leases were previously de minimis continuing connected transactions of the Company. As the number of premises to be leased by the Group and the total amount of rentals and property service fees payable are expected to increase, the Company entered into the Framework Agreement on 27 September 2022 with Desheng Investment to govern the Leases for a period of three years from 1 January 2022 to 31 December 2024.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Tianfeng Securities held approximately 26.49% of the Company's total issued share capital, and therefore is a substantial shareholder of the Company. Tianfeng Asset Management is a wholly-owned subsidiary of Tianfeng Securities and therefore a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules.

Tianfeng Asset Management is the issuer and manager of the ABS Scheme which, through a private equity investment fund, holds Desheng Investment which in turn holds the Properties. As such, the Company considered it appropriate to treat Desheng Investment as a “deemed connected person” of the Company in respect of the Framework Agreement pursuant to the articles of association of the Company, the connected transactions management system of the Company and Rule 14A.20 of the Listing Rules. Accordingly, transactions contemplated under the Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since one or more of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the highest proposed annual caps for the Framework Agreement exceed 0.1% but do not exceed 5%, the Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements, but exempt from the independent Shareholders’ approval requirement under Chapter 14A of the Listing Rules.

BACKGROUND

Desheng Investment has been leasing various premises, which mainly comprises of offices, to the Group. The Existing Leases were previously de minimis continuing connected transactions of the Company. As the number of premises to be leased by the Group and the total amount of rentals and property service fees payable are expected to increase, the Company entered into the Framework Agreement on 27 September 2022 with Desheng Investment to govern the Leases for a period of three years from 1 January 2022 to 31 December 2024.

FRAMEWORK AGREEMENT

Details of the Framework Agreement are as follows:

- Date: 27 September 2022
- Parties: the Company, as the lessee
Desheng Investment, as the lessor
- Term: The term is deemed to have commenced from 1 January 2022 to 31 December 2024.
- Premises to be leased: Pursuant to the Framework Agreement, Desheng Investment (as lessor) may, from time to time, lease the Properties and provide related services (such as property management services) to the Group (as lessee) for its office use.

The Group and Desheng Investment will enter into individual agreements in respect of each of the Leases in accordance with the terms of the Framework Agreement, the Listing Rules and applicable laws.

The specific amount, timing of payment and payment method of the rent payable by the Group to Desheng Investment shall be set out in the individual agreements.

Pricing policy: The rentals and property service fees for each of the Leases shall be determined between the Group and Desheng Investment after their arm's length negotiations based on normal commercial principles with reference to the prevailing market prices with similar locations and sizes to the relevant properties.

Existing Leases: The terms of the Framework Agreement also apply to the Existing Leases. In case of inconsistency, terms of the Framework Agreement prevail.

HISTORICAL TRANSACTION AMOUNTS

The Group did not lease any properties from Desheng Investment for the two years ended 31 December 2019 and 31 December 2020.

The table below shows the historical transaction amounts paid by the Group to Desheng Investment for the three years ended 31 December 2021 under the Existing Leases (i.e. value of right-of-use assets and property service fees related to the Existing Leases entered into in the year ended 31 December 2021):

	For the year ended 31 December		
	2019 <i>(RMB)</i>	2020 <i>(RMB)</i>	2021 <i>(RMB)</i>
Value of right-of-use assets	N/A	N/A	14,438,000
Property service fees	N/A	N/A	235,000

ANNUAL CAPS

The Company estimates the annual caps for the value of right-of-use assets and property service fees related to the Leases which has been or to be entered into for the three years ended 31 December 2024 are as follows:

	For the year ended 31 December		
	2022	2023	2024
	(RMB)	(RMB)	(RMB)
Value of right-of-use assets	15,000,000	96,000,000	0
Property service fees	1,500,000	4,000,000	7,000,000

According to the accounting standard IFRS 16, the Group is required to recognize a right-of-use asset and a lease liability. The right-of-use assets should be initially measured at cost and should be amortised on a straight line basis using the shorter of the useful life of the right-of-use asset and the lease term. Lease liability should be initially measured at the present value of the lease payables that are not paid as at commencement day of the lease term, discounted using the lessees' incremental borrowing rate. As a result, the Group is required to set annual caps on the total value of right-of-use assets related to the Leases entered into in each year under the Framework Agreement.

The above annual caps represent the total value of annual caps of right-of-use assets and property service fees related to the Leases which has been or to be entered into by the Group in each year under the Framework Agreement and are determined by the Directors with reference to (i) the weighted average lessees' incremental borrowing rate applied to the lease liabilities; (ii) the expected rentals and property service fees of the Properties payable to Desheng Investment by the Group during the term of the Framework Agreement, after taking into accounts the relocation plan of the Group as further described below and the agreed arrangements that the rentals and property service fees shall be payable every six months and the unit price of which shall increase by 2% on 16 September each year comparing to the previous year; (iii) the expected rental level and property service fees of offices in the PRC in the property market; and (iv) provision of buffer for an unexpected increase in the demand for the leasing of the properties from Desheng Investment and the level of rental and property service fees of premises in the PRC in the property market.

REASONS FOR AND BENEFITS OF ENTERING INTO THE FRAMEWORK AGREEMENT

As disclosed in the announcement of the Company dated 14 September 2021, the Company subscribed for the subordinated class of ABS in the amount of RMB247.5 million, representing 15% of the total ABS issued under the ABS Scheme. The ABS Scheme, through a private equity investment fund, holds Desheng Investment which in turn holds the Properties. The Company, being a holder of the ABS, will enjoy the economic benefits generated from the Properties.

To accommodate the business needs of the Group, the Group continuously and actively considers different means to control its costs in order to maintain or enhance its competitiveness. Currently, offices of various members of the Group are located in different parts in Beijing. Taking into account of the relationship between the Group and Desheng Investment and the rental level of Desheng International Center being generally lower than current offices, the Directors (including the independent non-executive Directors) considered that it would be commercially beneficial to the Group to lease office units from Desheng Investment because the Group can benefit from the well-developed supporting facilities available at the Desheng International Center and the relocation of various offices of the Group to Desheng International Center will expand and synergize the Company's various business lines, which then in turn will improve the Group's efficiency in operation and management. The relocation of various offices begins gradually after expiry of the respective lease of current offices, and is expected to complete by the end of 2023. Accordingly, the Company and Desheng Investment have entered into the Framework Agreement to set out a framework of the terms on which they may renew or enter into certain individual lease agreements.

In view of the above, the Directors (including the independent non-executive Directors) consider that the terms of the Framework Agreement and the transactions contemplated thereunder, including the proposed annual caps, are fair and reasonable; and the Framework Agreement and the transactions contemplated thereunder are on normal commercial terms or better, in the ordinary and usual course of business of the Group and in the interests of the Group and its Shareholders as a whole. According to the connected transactions management system of the Company, a Director who holds a position in a legal entity that can directly or indirectly control the counterparty of the connected transaction shall abstain from voting on the Board resolutions approving such transaction. Mr. Yu Lei and Mr. Wang Linjing, the non-executive Directors, hold various positions in Tianfeng Securities, respectively, who may directly or indirectly control the counterparties to the Framework Agreement. To avoid any potential conflict of interest, each of them has abstained from voting on the Board resolutions approving the Framework Agreement and the transactions contemplated thereunder.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Tianfeng Securities held approximately 26.49% of the Company's total issued share capital, and therefore is a substantial shareholder of the Company. Tianfeng Asset Management is a wholly-owned subsidiary of Tianfeng Securities and therefore a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules.

Tianfeng Asset Management is the issuer and manager of the ABS Scheme which, through a private equity investment fund, holds Desheng Investment which in turn holds the Properties. As such, the Company considered it appropriate to treat Desheng Investment as a "deemed connected person" of the Company in respect of the Framework Agreement pursuant to the articles of association of the Company, the connected transactions management system of the Company and Rule 14A.20 of the Listing Rules. Accordingly, transactions contemplated under the Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Since one or more of the applicable percentage ratios stipulated under Rule 14.07 of the Listing Rules in respect of the highest proposed annual caps for the Framework Agreement exceed 0.1% but do not exceed 5%, the Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement and annual review requirements, but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

INTERNAL CONTROL MEASURES

In addition to compliance with the requirements on annual review by external auditors and independent non-executive Directors under the Listing Rules in respect of the Group's continuing connected transactions, the supervisory committee of the Company is in charge of internal control and risk management to perform internal review and control over the continuing connected transactions of the Company, making sure the decision-making process for connected transactions of the Company was in line with requirements under relevant laws, regulations and the articles of association of the Company, the price of connected transaction is fair and the transaction procedure is legal and effective, and there is no harm to the interests of the Company and other Shareholders. In addition, the Company has set up Connected Transactions Management System to ensure the connected transactions carried out by the Group in strict compliance with the Listing Rules under the principles of impartiality, openness and fairness.

The Company arranges compliance trainings for the directors, supervisors, senior management and staff from the relevant departments of the Group from time to time, primarily focusing on the rules relating to connected transactions under Chapter 14A of the Listing Rules.

INFORMATION ON THE PARTIES

The Company is principally engaged in the securities brokerage business.

Desheng Investment is a company established in the PRC with limited liability on 4 July 2000. It is held through a private equity investment fund under the ABS Scheme. It is wholly-owned by the fund manager, namely, Kailong Private Equity Fund Management (Shanghai) Co., Ltd. (凱龍私募基金管理(上海)有限公司), which is an independent third party of the Company. Desheng Investment is principally engaged in investment activities with own funds.

DEFINITIONS

“ABS”	the asset-backed securities to be issued pursuant to the ABS Scheme;
“ABS Scheme”	the Tianfeng-Desheng Asset-backed Special Scheme (天風一得勝資產支持專項計劃) managed by the Tianfeng Asset Management to securitize the properties owned by Desheng Investment by issuing ABS, details of the scheme are disclosed in the Company’s announcement dated 14 September 2021;
“Board”	the board of Directors;
“Company”	Hengtou Securities (恒投證券), a joint stock company established in the PRC with limited liability on 28 December 1998 under the Chinese corporate name “恒泰证券股份有限公司” and carrying on business in Hong Kong as “恒投證券” (in Chinese) and “HENGTOU SECURITIES” (in English) and the shares of which are listed on the Stock Exchange (stock code: 01476);
“connected person”	has the meaning ascribed to it under the Listing Rules;
“continuing connected transactions”	has the meaning ascribed to it under the Listing Rules;
“Director(s)”	the director (s) of the Company;

“Desheng Investment”	Beijing Desheng Investment Co., Ltd. (北京德勝投資有限責任公司), a company established in the PRC with limited liability on 4 July 2000;
“Existing Leases”	leases entered into between the Group and Desheng Investment prior to the Framework Agreement;
“Framework Agreement”	the framework agreement for property leasing and related services entered into between the Company and Desheng Investment on 27 September 2022;
“Group”	the Company and its subsidiaries;
“IFRS 16”	International Financial Reporting Standard 16 “Leases”, effective on 1 January 2019;
“Leases”	leases which have been or to be entered into between the Group and Desheng Investment under the Framework Agreement, including the Existing Leases;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	for the purpose of this announcement, the People’s Republic of China, excluding Hong Kong, Macau Special Administrative Region and Taiwan;
“Properties”	certain units of Desheng International Center, located at No. 83, Deshengmenwai Street, Xicheng District, Beijing, the PRC, which have been leasing and will be leased by Desheng Investment to the Group under the Framework Agreement;
“RMB”	Renminbi, lawful currency of the PRC;
“Shareholder(s)”	the holder (s) of shares of the Company;
“Tianfeng Asset Management”	Tianfeng (Shanghai) Securities Asset Management Co., Ltd.* (天風(上海)證券資產管理有限公司), a company established in the PRC with limited liability on 24 August 2020 and a wholly-owned subsidiary of Tianfeng Securities;

“Tianfeng Securities” Tianfeng Securities Co., Ltd. (天風證券股份有限公司), a joint stock limited company incorporated in the PRC and listed on the Shanghai Stock Exchange, and a substantial shareholder of the Company; and

“%” per cent.

* *for identification purpose only*

By order of the Board
Wu Yigang
Acting Chairman

Beijing, the PRC
27 September 2022

As at the date of this announcement, the Board comprises Mr. Wu Yigang as executive Director; Mr. Yu Lei, Mr. Wang Linjing, Ms. Dong Hong and Ms. Gao Liang as non-executive Directors; Dr. Lam Sek Kong, Mr. Xie Deren and Mr. Dai Genyou as independent non-executive Directors.