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China Industrial Securities International Financial Group Limited

興證國際金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8407)

REVISION OF TERMS OF, REVISION OF ANNUAL CAP FOR AND RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH INDUSTRIAL SECURITIES CONSULTANCY SERVICE (SHENZHEN) COMPANY LIMITED

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



BACKGROUND

Reference is made to the Prospectus, containing among other things, the non-exempt connected transaction in relation to the Service Agreement with a term for three years from 1 January 2016 to 31 December 2018.

SUPPLEMENTAL SERVICE AGREEMENT

In view that the Group will require broader services from Industrial Securities (Shenzhen) and it is anticipated that the annual service fee to be payable to Industrial Securities (Shenzhen) under the Service Agreement will exceed the original 2018 Annual Cap, on 3 April 2018 (after trading hours), the Company and Industrial Securities (Shenzhen) entered into the Supplemental Service Agreement to revise the service scope under the Service Agreement and to revise the 2018 Annual Cap to cater for transactions relating to the New Services contemplated thereunder.

RENEWAL SERVICE AGREEMENT

As the Service Agreement (as amended by the Supplemental Service Agreement) will expire on 31 December 2018, on 3 April 2018 (after trading hours), the Company and Industrial Securities (Shenzhen) entered into the Renewal Service Agreement to renew the Service Agreement (as amended by the Supplemental Agreement) for a further term of three years from 1 January 2019 to 31 December 2021.

LISTING RULES IMPLICATIONS

As Industrial Securities (Shenzhen) is a subsidiary of Industrial Securities (Hong Kong), which is a controlling shareholder of the Company, Industrial Securities (Shenzhen) is a connected person of the Company. Therefore, the transactions contemplated under the Supplemental Service Agreement and the Renewal Service Agreement constitute continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules.

Supplemental Service Agreement

As all of the applicable percentage ratios as defined under the GEM Listing Rules in respect of the revised 2018 Annual Cap exceed 0.1% but less than 5%, the transactions contemplated under the Supplemental Service Agreement (including the revised 2018 Annual Cap) are subject to the requirements of annual review, reporting and announcement, but are exempt from circular (including independent financial advice) and approval by the Independent Shareholders under Chapter 20 of the GEM Listing Rules.

Renewal Service Agreement

As one or more of the applicable percentage ratios as defined under the GEM Listing Rules in respect of the largest annual cap under the Renewal Service Agreement exceed 5% and the total consideration is more than HK\$10,000,000, the transactions contemplated under the Renewal Service Agreement (including the annual caps in relation thereto) are subject to annual review, reporting, announcement, circular (including independent financial advice) and approval by the Independent Shareholders at the EGM under Chapter 20 of the GEM Listing Rules.

EGM

The EGM will be convened to consider and, if thought fit, to approve, among other things, the Renewal Service Agreement and the transactions contemplated thereunder (including the annual caps in relation thereto).

A circular containing, among other things, (i) details of the Renewal Service Agreement; (ii) a letter from the Independent Board Committee; (iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM, is expected to be despatched to the Shareholders on or before 20 April 2018 in accordance with the GEM Listing Rules.

BACKGROUND

Reference is made to the Prospectus, containing among other things, the non-exempt connected transaction in relation to the Service Agreement with a term for three years from 1 January 2016 to 31 December 2018.

On 27 September 2016, the Company and Industrial Securities (Shenzhen) entered into the Service Agreement, pursuant to which Industrial Securities (Shenzhen) agreed to provide consultancy services to the Group, including the provision of consultancy services on economic information, and assisting the Group in collecting and analysing information on macroeconomics, industry news and market information in the PRC (the “**Consultancy Services**”) for a term of three years from 1 January 2016 to 31 December 2018.

SUPPLEMENTAL SERVICE AGREEMENT

Pursuant to the Service Agreement, the service fee payable to Industrial Securities (Shenzhen) is cost plus a mark-up of 6%, representing the business tax of 6% on the revenue of Industrial Securities (Shenzhen).

Due to the rapid growing business needs and development of the Group in the PRC, the Group has been actively consulting Industrial Securities (Shenzhen) on economic information and seeking their assistance in collecting and analysing information on macroeconomics, industry news and market information in the PRC. Further, in the second half of year 2018, the Group will require broader services from Industrial Securities (Shenzhen) regarding (i) provision of services and support to the Group’s clients in core regions in the PRC (non-regulated activities); (ii) brand establishment and promotion; and (iii) provision of cross-border information technology support (the “**New Services**”).

Accordingly, Industrial Securities (Shenzhen) is investing more resources to support its business needs and development and expects to employ 27 new hires with the relevant expertise for the year ending 31 December 2018.

As such, the service scope under the Service Agreement has to be revised and the Board anticipates that the annual service fee to be payable to Industrial Securities (Shenzhen) under the Service Agreement will exceed the original 2018 Annual Cap.

On 3 April 2018 (after trading hours), the Company and Industrial Securities (Shenzhen) entered into the Supplemental Service Agreement to revise (i) the service scope under the Service Agreement and (ii) the 2018 Annual Cap.

Revision of service scope

In addition to the Consultancy Services, Industrial Securities (Shenzhen) shall also provide the New Services to the Group.

Revision of 2018 Annual Cap

	For the year ending 31 December 2018 (HK\$ million)
Original 2018 Annual Cap	12.1
Revised 2018 Annual Cap	36

The revised 2018 Annual Cap is determined with reference to:–

- (a) the actual service fee paid to Industrial Securities (Shenzhen) for provision of the Consultancy Services for the years ended 31 December 2016 and 31 December 2017 of approximately HK\$4.8 million and HK\$10.2 million, respectively;
- (b) operation costs incurred by Industrial Securities (Shenzhen) for provision of the Services of the two months ended 28 February 2018 of approximately HK\$1.9 million;
- (c) the broader scope of service to be provided by Industrial Securities (Shenzhen) under the Supplemental Service Agreement as compared to the one for the years ended 31 December 2016 and 31 December 2017; and
- (d) the estimated increase of and the forecast of the operation costs to be incurred by Industrial Securities (Shenzhen) for the year ending 31 December 2018 resulting from the anticipated increases of human resources costs and office expenses.

Save for the revision of the scope of Services and the 2018 Annual Cap as set out above, the other terms of the Service Agreement remain unchanged.

RENEWAL SERVICE AGREEMENT

As the Service Agreement (as amended by the Supplemental Service Agreement) will expire on 31 December 2018, on 3 April 2018 (after trading hours), the Company and Industrial Securities (Shenzhen) entered into the Renewal Service Agreement to renew the transactions contemplated under the Service Agreement (as amended by the Supplemental Service Agreement) for a further term of three years from 1 January 2019 to 31 December 2021.

Principal terms

Date:	3 April 2018
Parties:	(1) the Company (2) Industrial Securities (Shenzhen)
Term:	From 1 January 2019 to 31 December 2021
Service fee:	Cost plus a mark-up of 6% representing the business tax of 6% on the revenue of Industrial Securities (Shenzhen)

In view of the reasons as set out under the sections of “Supplemental Service Agreement” above and “Reasons for and the Benefits of the Transactions” below, the Board anticipates that the Company will continue to engage Industrial Securities (Shenzhen) for provision of the Services to the Group.

Accordingly, under the Renewal Service Agreement, the Company and Industrial Securities (Shenzhen) agrees to renew the Service Agreement (as amended by the Supplemental Service Agreement) for a term of three years commencing from 1 January 2019 to 31 December 2021, pursuant to which, among other terms, Industrial Securities (Shenzhen) agrees that:–

- (a) it will not provide any Services to any independent third party unless it has first satisfied the needs of the Group for such Services;
- (b) if it cannot satisfy the need of the Group for the Services or if independent third parties can offer terms more favorable than those offered by it, the Group is entitled to procure the Services from independent third parties;
- (c) it is entitled to provide the Services to independent third parties provided that this will not affect its provision of the Services to the Group;

- (d) it will not, and will procure its subsidiaries (if any) not to, provide the Services to the Group on terms which are less favorable than those offered to independent third parties; and
- (e) the execution of the Renewal Service Agreement will not affect the Group's right to choose its counterparty for transactions or enter into transactions with third parties.

Historical transaction amounts

The actual amounts paid by the Company to Industrial Securities (Shenzhen) for the provision of the Consultancy Services for the two years ended 31 December 2016 and 2017 were approximately HK\$4.8 million and HK\$10.2 million, respectively.

Proposed annual caps and price determination

	For the year ending 31 December 2019 (HK\$ million)	For the year ending 31 December 2020 (HK\$ million)	For the year ending 31 December 2021 (HK\$ million)
Proposed annual cap	68	105	153

It is expected that the proposed annual caps for the three years ending 31 December 2019, 2020 and 2021 would increase by approximately 88.9%, 54.4% and 45.7%, respectively, due to estimated increases in operation costs, including but not limited to human resources costs and office expenses. Each of the annual caps is calculated and rounded up to the nearest 1 million.

It is expected that for the three years ending 31 December 2019, 2020 and 2021, the increase of salary costs (including the costs resulted from the new hires) will be approximately RMB21.9 million (equivalent to approximately HK\$27.1 million), RMB25.1 million (equivalent to approximately HK\$31.0 million) and RMB35.1 million (equivalent to approximately HK\$43.4 million), respectively, and the increase of office expenses (including the rental expenses, the management fee and utility expenses) will be approximately RMB1.1 million (equivalent to approximately HK\$1.4 million), RMB0.2 million (equivalent to approximately HK\$0.2 million) and RMB0.4 million (equivalent to approximately HK\$0.5 million), respectively for each of the years ending 31 December 2019, 2020 and 2021.

In addition, it is expected that there will also be inflation with a rate of approximately 10% in the PRC in the coming three years which will further increase the overall costs.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

Industrial Securities (Shenzhen) has been appointed on an annual basis as the service provider of the subsidiaries of Industrial Securities (Hong Kong) (including the Group) for provision of the Consultancy Services. The major reason for such arrangement is to lower the staff and other operating costs for the Group. Industrial Securities (Shenzhen) has substantial experience in handling the needs of the Group and throughout the years, it has always provided the Consultancy Services to the Group in a timely and reliable manner.

It is the Group's strategic positioning and goal to expand the clients' services (non-regulated activities) in the core regions in the PRC and strengthen the support of such client's services in such regions. Accordingly, in addition to the Consultancy Services, the Company intends to engage Industrial Securities (Shenzhen) to provide the New Services to the Group. Given that Industrial Securities (Shenzhen) will provide a deeper, broader and more diversified Services to the Group, Industrial Securities (Shenzhen) has to hire more employees with relevant expertise to provide the New Services. As a result, the human resources costs, travelling expenses and office expenses will be increased accordingly.

Also, given that Industrial Securities (Shenzhen) can provide such diversified and tailor-made Services to the Group, the Board anticipates to continue to engage Industrial Securities (Shenzhen) for provision of the Services for a further term of three years from 1 January 2019 to 31 December 2021.

As such, (i) the service scope under the Service Agreement has to be revised, it is expected that (ii) the annual service fee to be payable to Industrial Securities (Shenzhen) under the Service Agreement will exceed the original 2018 Annual Cap; and (iii) the Company will continue to engage Industrial Securities (Shenzhen) for provision of the Services for a term of three years commencing from 1 January 2019 to 31 December 2021.

As Mr. Yang Huahui is the chairman of the board of Industrial Securities, Industrial Securities (Hong Kong) and CISI Holdings, respectively, Mr. Huang Yilin is the vice president of Industrial Securities and director of Industrial Securities (Hong Kong) and CISI Holdings, respectively and Mr. Huang Jinguang is the director of Industrial Securities (Hong Kong) and CISI Holdings, respectively; and authorised representative of Industrial Securities (Shenzhen), they are considered to have material interests in the Supplemental Service Agreement and were required to abstain from voting on the Board resolutions in respect of the Supplemental Service Agreement. The Directors (including the independent non-executive Directors, but excluding Mr. Yang Huahui, Mr. Huang Yilin and Mr. Huang Jinguang), are of the view that the terms of the Supplemental Service Agreement has been negotiated on an arm's length basis and are on normal commercial terms and in the ordinary and usual course of business of the Company that are fair and reasonable and in the interest of the Shareholders and will be so in the future, and the transactions contemplated thereunder (including the revised 2018 Annual Cap) are fair and reasonable and in the interests of the Shareholders as a whole.

As Mr. Yang Huahui is the chairman of the board of Industrial Securities, Industrial Securities (Hong Kong) and CISI Holdings, respectively, Mr. Huang Yilin is the vice president of Industrial Securities and director of Industrial Securities (Hong Kong) and CISI Holdings, respectively and Mr. Huang Jinguang is the director of Industrial Securities (Hong Kong) and CISI Holdings, respectively; and authorised representative of Industrial Securities (Shenzhen), they are considered to have material interests in the Renewal Service Agreement and were required to abstain from voting on the Board resolutions in respect of the Renewal Service Agreement. The Directors (excluding (i) Mr. Yang Huahui, Mr. Huang Yilin and Mr. Huang Jinguang; and (ii) the independent non-executive Directors whose opinion on the matter be set forth in the circular after taking into account the advice of the Independent Financial Adviser) are of the view that the continuing terms of the Renewal Service Agreement has been negotiated on an arm's length basis and are on normal commercial terms and in the ordinary and usual course of business of the Group that are fair and reasonable and in the interest of the Shareholders and will be so in the future, and the transactions contemplated thereunder (including proposed annual caps set out above) are fair and reasonable and in the interests of the Shareholders as a whole.

GENERAL INFORMATION

Information of the Group

The Company is an investment holding company. The Group is principally engaged in the provision of brokerage services, loans and financing services, investment banking services, asset management services and financial products and investments.

Information of Industrial Securities (Shenzhen)

Industrial Securities (Shenzhen) is mainly engaged in the provision of consultancy services to the subsidiaries of Industrial Securities (Hong Kong) (including the Group).

LISTING RULES IMPLICATIONS

As at the date of this announcement, Industrial Securities (Hong Kong) holds the entire issued share capital of CISI Holdings, which in turn directly holds 2,061,519,644 Shares, representing approximately 51.54% of the issued share capital of the Company. Therefore, Industrial Securities (Hong Kong) is a controlling shareholder of the Company. As Industrial Securities (Shenzhen) is a subsidiary of Industrial Securities (Hong Kong), Industrial Securities (Shenzhen) is a connected person of the Company. As such, the transactions contemplated under the Supplemental Service Agreement and the Renewal Service Agreement constitute continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules.

Supplemental Service Agreement

As all of the applicable percentage ratios as defined under the GEM Listing Rules in respect of the revised 2018 Annual Cap exceed 0.1% but less than 5%, the transactions contemplated under the Supplemental Service Agreement (including the revised 2018 Annual Cap) are subject to the requirements of annual review, reporting and announcement, but are exempt from the requirements of circular (including independent financial advice) and the approval by the Independent Shareholders under Chapter 20 of the GEM Listing Rules.

Renewal Service Agreement

As one or more of the applicable percentage ratios as defined under the GEM Listing Rules in respect of the largest annual caps under the Renewal Service Agreement exceed 5% and that the total consideration is more than HK\$10,000,000, the transactions contemplated under the Renewal Service Agreement (including the annual caps in relation thereto) are subject to the annual review, reporting, announcement, circular (including independent financial advice) and the approval by the Independent Shareholders at the EGM under Chapter 20 of the GEM Listing Rules.

EGM

The Independent Board Committee comprising all the independent non-executive Directors have been established to advise the Independent Shareholders regarding the transactions contemplated under the Renewal Service Agreement (including the annual caps in relation thereto) and to advise the Independent Shareholders on how to vote at the EGM. GF Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this connection.

The EGM will be convened to consider and, if thought fit, to approve, among other things, the Renewal Service Agreement and the transactions contemplated thereunder (including the annual caps in relation thereto).

A circular containing, among other things, (i) details of the Renewal Service Agreement; (ii) the letter from the Independent Board Committee; (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM, is expected to be despatched to the Shareholders on or before 20 April 2018 in accordance with the GEM Listing Rules.

DEFINITIONS

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

“2018 Annual Cap”	the annual cap for the Consultancy Services or the Services (where applicable) that may be payable by the Company to Industrial Securities (Shenzhen) for the year ending 31 December 2018
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“CISI Holdings”	China Industrial Securities International Holdings Limited, a company incorporated on 20 July 2015 in the Cayman Islands with limited liability under the laws of the Cayman Islands, whose sole shareholder is Industrial Securities (Hong Kong) and a controlling shareholder of the Company

“Company”	China Industrial Securities International Financial Group Limited, a company incorporated on 21 July 2015 with limited liability under the laws of the Cayman Islands
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules
“connected transactions”	has the meaning ascribed to it under the GEM Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving the Renewal Service Agreement and the transactions contemplated thereunder (including the annual caps in relation thereto)
“GEM”	the GEM of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM as amended, supplemented or otherwise modified from time to time
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an independent committee of the Board (which comprises Ms. Hong Ying, Mr. Tian Li and Mr. Qin Shuo, all being independent non-executive Directors) established to advise the Independent Shareholders with regard to the terms of the Renewal Service Agreement and the transactions contemplated thereunder (including the annual caps in relation thereto)

“Independent Financial Adviser” or “GF Capital”	GF Capital (Hong Kong) Limited, a corporation licensed under the SFO to conduct type 6 (advising on corporate finance) regulated activities and the independent financial adviser to the Independent Board Committee and the Independent Shareholders with regard to the terms of the Renewal Service Agreement and the transactions contemplated thereunder (including the annual caps in relation thereto)
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the relevant resolutions at the EGM due to their material interests in the transactions contemplated under the Renewal Service Agreement (including the annual caps in relation thereto)
“independent third party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the GEM Listing Rules) any Directors, chief executive or substantial shareholders of the Company, its subsidiaries or their respective associates
“Industrial Securities”	興業證券股份有限公司 (Industrial Securities Co., Ltd.*), a company established under the laws of the PRC on 30 June 1994 with limited liability whose shares are listed on the Shanghai Stock Exchange (stock code: 601377) and a controlling shareholder of the Company
“Industrial Securities (Hong Kong)”	Industrial Securities (Hong Kong) Financial Holdings Limited (興證(香港)金融控股有限公司), a company incorporated under the laws of Hong Kong on 5 July 2011 with limited liability whose sole shareholder is Industrial Securities and a controlling shareholder of the Company
“Industrial Securities (Shenzhen)”	興證諮詢服務(深圳)有限公司 (Industrial Securities Consultancy Service (Shenzhen) Company Limited*), a company established under the laws of the PRC on 25 November 2013 with limited liability and currently a subsidiary of Industrial Securities (Hong Kong)
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Prospectus”	prospectus of the Company dated 30 September 2016

“Renewal Service Agreement”	the service agreement dated 3 April 2018 entered into between the Company and Industrial Securities (Shenzhen) in relation to the renewal of the transactions contemplated under the Service Agreement (as amended by the Supplemental Service Agreement) for a further term of 3 years from 1 January 2019 to 31 December 2021
“RMB”	Reminibi, the lawful currency of PRC
“Services”	the Consultancy Services and the New Services collectively
“Service Agreement”	the service agreement dated 27 September 2016 entered into between the Company and Industrial Securities (Shenzhen) in relation to the provision of the Consultancy Services for a term of three years from 1 January 2016 to 31 December 2018 by Industrial Securities (Shenzhen) to the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of HK\$0.1 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Shares from time to time
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it in the SFO
“Supplemental Service Agreement”	the supplemental agreement dated 3 April 2018 entered into between the Company and Industrial Securities (Shenzhen) supplemental to the Service Agreement in relation to the revisions of service scope under the Service Agreement and the 2018 Annual Cap
“%”	per cent

By Order of the Board of
China Industrial Securities International Financial Group Limited
Yang Huahui
Chairman

Hong Kong, 3 April 2018

As at the date of this announcement, the Board comprises two non-executive Directors, namely Mr. Yang Huahui (Chairman) and Mr. Huang Yilin, three executive Directors, namely Mr. Huang Jinguang, Mr. Wang Xiang and Ms. Zeng Yanxia, and three independent non-executive Directors, namely Ms. Hong Ying, Mr. Tian Li and Mr. Qin Shuo.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the GEM website (www.hkgem.com) for at least 7 days from the date of its publication and on the website of the Company (www.xyzq.com.hk).

For purpose of illustration only and unless otherwise specified in this announcement, certain amounts denominated in Renminbi are translated into Hong Kong dollars at the rate of HK\$1.2362 to RMB1.00.

** For identification purposes only*