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

(Stock Code: 03958)

CONNECTED TRANSACTION ACQUISITION OF PART OF EQUITY INTERESTS OF CITI ORIENT

ACQUISITION OF PART OF EQUITY INTERESTS OF CITI ORIENT

Reference is made to the announcement of the Company dated December 16, 2018 in relation to receipt of the Notice of Intention not to Extend the Joint Venture Term by Citigroup Asia. On January 8, 2019, the Board considered and approved the Resolution relating to the Acquisition of Part of Equity Interests of Citi Orient Securities Co., Ltd. and the Related-party/Connected Transaction, according to which, the Company proposed to acquire the entire 33.33% equity interests of Citi Orient held by Citigroup Asia at a transaction price of the audited net assets of Citi Orient as at December 31, 2018 multiplied by 33.33%, the capital contribution proportion of Citi Orient held by Citigroup Asia. As at the date of this announcement, Citi Orient is a subsidiary of the Company and the Company holds 66.67% equity interests of it. Upon the completion of the Acquisition, Citi Orient will be a wholly-owned subsidiary of the Company.

IMPLICATIONS OF THE HONG KONG LISTING RULES

As at the date of this announcement, Citi Orient is a subsidiary of the Company and the Company holds 66.67% equity interests of it. Citigroup Asia holds 33.33% equity interests of Citi Orient and accordingly is a substantial shareholder of Citi Orient. Therefore, pursuant to Rule 14A.07(1) of the Hong Kong Listing Rules, Citigroup Asia is a connected person of the Company at the subsidiary level, and the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

Pursuant to Rule 14A.101 of the Hong Kong Listing Rules, as (1) Citigroup Asia is a connected person of the Company at the subsidiary level; (2) the Board has approved the Acquisition; and (3) the Directors (including the independent non-executive Directors) are of the view that the terms of the Acquisition are fair and reasonable, on normal commercial terms or better for the Company and has been entered into in the ordinary and usual course of business of the Company, and the Acquisition is in the interests of the Company and its Shareholders as a whole, accordingly, the Acquisition is subject to the reporting and announcement requirements, and is exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The transaction price of the Acquisition is based on the audited net assets of Citi Orient as at December 31, 2018 multiplied by 33.33%, the capital contribution proportion of Citi Orient held by Citigroup Asia, and will be determined after the completion of financial data auditing for the year 2018 of Citi Orient. Therefore, the consideration ratio (as defined in Rule 14.07 of the Hong Kong Listing Rules) applicable to the Acquisition has yet to be determined. The Company expects that the highest applicable percentage ratio (as defined in Rule 14.07 of the Hong Kong Listing Rules) of the Acquisition is higher than 0.1% but less than 5%. If the transaction price of the Acquisition is determined and the Company needs to perform additional compliance obligations under the Hong Kong Listing Rules according to the actual calculated applicable percentage ratios of the Acquisition, the Company will issue further announcement(s) and fulfill its obligations accordingly.

As the Acquisition is subject to the approval or filing from relevant securities regulatory authorities and state-owned assets supervision and administration departments in the PRC, as well as the completion of related matters such as equity transfer, investors are advised to pay attention to investment risks.

OVERVIEW

Reference is made to the announcement of the Company dated December 16, 2018 in relation to receipt of the Notice of Intention not to Extend the Joint Venture Term by Citigroup Asia. On January 8, 2019, the Board considered and approved the Resolution relating to the Acquisition of Part of Equity Interests of Citi Orient Securities Co., Ltd. and the Related-party/Connected Transaction, according to which, the Company proposed to acquire the entire 33.33% equity interests of Citi Orient held by Citigroup Asia at a transaction price of the audited net assets of Citi Orient as at December 31, 2018 multiplied by 33.33%, the capital contribution proportion of Citi Orient held by Citigroup Asia. As at the date of this announcement, Citi Orient is a subsidiary of the Company and the Company holds 66.67% equity interests of it. Upon the completion of the Acquisition, Citi Orient will be a wholly-owned subsidiary of the Company.

The Board considered and agreed to authorize the management of the Company to deal with the specific matters related to the equity transfer afterwards, including but not limited to entering into the equity transfer agreement and terminating the joint venture agreement and other relevant legal documents as well as the completion of regulatory approval, payment and delivery, change to industrial and commercial registration and the name change of Citi Orient.

DETERMINATION OF THE TRANSACTION PRICE

Pursuant to the requirements of the shareholders agreement entered into by the Company and Citigroup Asia on June 1, 2011, Citigroup Asia shall transfer its entire 33.33% equity interests of Citi Orient to the Company at a price of the audited net assets of Citi Orient as at December 31, 2018 multiplied by 33.33%, the capital contribution proportion of Citi Orient held by Citigroup Asia.

The transaction price will be paid by the Company in cash from its own funds.

REASONS AND EXPECTED BENEFITS OF THE ACQUISITION

On January 8, 2019, the Board considered and approved the Resolution relating to the Acquisition of Part of Equity Interests of Citi Orient Securities Co., Ltd. and the Related-party/Connected Transaction. The Directors (including the independent non-executive Directors) are of the view that the Acquisition is to enhance the effective coordination in overall development strategy between Citi Orient and the Company and strengthen the continuity and stability of the overall operation of Citi Orient, while taking into account the aim of Citigroup Asia to adjust its investment strategy and business layout in the PRC; the Acquisition is based on the shareholders agreement entered into by the Company and Citigroup Asia when establishing Citi Orient, and the transaction price based on the audited net assets of Citi Orient as at December 31, 2018 is fair and reasonable and the price determination method is in compliance with laws and regulations, without jeopardizing the interests of the Company and the Shareholders; the Acquisition does not affect the independence of the Company, as the principal businesses of the Company do not depend on the related-party/connected person as a result of this related-party/connected transaction; and the voting procedures for the Board's approval of the resolution relating to the Acquisition of part of equity interests of Citi Orient are in compliance with relevant laws, regulations and the Articles of Association, and are legal and valid.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Acquisition are fair and reasonable, on normal commercial terms or better for the Company and has been entered into in the ordinary and usual course of business of the Company, and the Acquisition is in the interests of the Company and its Shareholders as a whole. None of the Directors has a material interest in the Acquisition or is required to abstain from voting on the resolution for considering and approving the Acquisition by the Board.

IMPLICATION OF THE HONG KONG LISTING RULES

As at the date of this announcement, Citi Orient is a subsidiary of the Company and the Company holds 66.67% equity interests of it. Citigroup Asia holds 33.33% equity interests of Citi Orient and accordingly is a substantial shareholder of Citi Orient. Therefore, pursuant to Rule 14A.07(1) of the Hong Kong Listing Rules, Citigroup Asia is a connected person of the Company at the subsidiary level, and the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

Pursuant to Rule 14A.101 of the Hong Kong Listing Rules, because of (1) Citigroup Asia is a connected person of the Company at the subsidiary level; (2) the Board has approved the Acquisition; and (3) the Directors (including the independent non-executive Directors) are of the view that the terms of the Acquisition are fair and reasonable, on normal commercial terms or better for the Company and has been entered into in the ordinary and usual course of business of the Company, and the Acquisition is in the interests of the Company and its Shareholders as a whole. Accordingly, the Acquisition is subject to the reporting and announcement requirements, and is exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The transaction price of the Acquisition is based on the audited net assets of Citi Orient as at December 31, 2018 multiplied by 33.33%, the capital contribution proportion of Citi Orient held by Citigroup Asia, and will be determined after the completion of financial data auditing for the year 2018 of Citi Orient. Therefore, the consideration ratio (as defined in Rule 14.07 of the Hong Kong Listing Rules) applicable to the Acquisition has yet to be determined. The Company expects that the highest applicable percentage ratio (as defined in Rule 14.07 of the Hong Kong Listing Rules) of the Acquisition is higher than 0.1% but less than 5%. If the transaction price of the Acquisition is determined and the Company needs to perform additional compliance obligations under the Hong Kong Listing Rules according to the actual calculated applicable percentage ratios of the Acquisition, the Company will issue further announcement(s) and fulfill its obligations accordingly.

As the Acquisition is subject to the approval or filing from relevant securities regulatory authorities and state-owned assets supervision and administration departments in the PRC, as well as the completion of related matters such as equity transfer, investors are advised to pay attention to investment risks.

INFORMATION ABOUT CITI ORIENT

As at the date of this announcement, Citi Orient is a subsidiary of the Company and the Company holds 66.67% equity interests of it. Citigroup Asia holds 33.33% equity interests of Citi Orient. The basic information of Citi Orient is as follows:

Company name	Citi Orient Securities Co., Ltd.
Enterprise nature	Limited liability company (Taiwan, Hong Kong or Macau and domestic joint venture)
Registered address	24/F, No. 318 South Zhongshan Road, Huangpu District, Shanghai
Legal representative	Ma Ji
Registered capital	RMB0.8 billion
Principal businesses	(1) securities (excluding treasury bonds, financial bonds of policy banks, short-term financing bills and medium-term notes) underwriting and sponsorship; (2) other businesses permitted by the CSRC. 【For items subject to approval stipulated by laws, its operations could only be commenced upon approval by relevant authorities】
Date of incorporation	June 4, 2012

Citi Orient is currently engaged in underwriting and acting as sponsor of corporate stocks and debentures, underwriting of corporate bonds and asset backed securities, merger and restructuring, and financial advisory services relating to NEEQ listing and corporate restructuring. The following table sets forth the audited financial information as at December 31, 2016 and December 31, 2017 and unaudited financial information as at June 30, 2018 of Citi Orient:

Unit: RMB in ten thousand

Item	December 31, 2016 (audited)	December 31, 2017 (audited)	June 30, 2018 (unaudited)
Total assets	224,405.86	217,608.06	178,387.10
Net assets	110,646.91	129,494.65	142,291.64

Item	From January to December 2016 (audited)	From January to December 2017 (audited)	From January to June 2018 (unaudited)
Operation income	115,510.52	103,938.92	45,336.58
Net profit	25,847.30	18,823.59	12,796.98

Note: The above financial data for the year 2016 and 2017 have been audited and standard unqualified audit reports were issued by KPMG Huazhen LLP (Special General Partnership), which holds qualifications required for securities and futures business.

The property right of the equity interests of Citi Orient held by Citigroup Asia is clear and free from any mortgages, pledges and any other selling restrictions. It is not involved in any litigation, arbitration or subject to judicial measures such as seizure or freezing of assets, nor subject to any other issues that may affect the transfer of ownership. Upon the completion of the Acquisition, Citi Orient will be a wholly-owned subsidiary of the Company. The Acquisition will not result in a change in the scope of consolidation for the consolidated statements of the Company.

INFORMATION ABOUT CITIGROUP ASIA

As at the date of this announcement, Citi Orient is a subsidiary of the Company and the Company holds 66.67% equity interests of it. Citigroup Asia holds 33.33% equity interests of Citi Orient and accordingly is a substantial shareholder of Citi Orient. Therefore, pursuant to Rule 14A.07(1) of the Hong Kong Listing Rules, Citigroup Asia is a connected person of the Company at the subsidiary level. The basic information of Citigroup Asia is as follows:

Company name	Citigroup Global Markets Asia Limited
Enterprise nature	Private limited company
Registered address	50th Floor, Champion Tower, Three Garden Road, Central, Hong Kong
Legal representative	Not applicable
Registered capital	HK\$2,876,877,130 (issued share capital)
Principal businesses	Provision of securities brokerage services, financial instrument transactions, securities underwriting and corporate finance, financial advisory and mergers and acquisitions
<i>De facto</i> controller	Citigroup Inc.
Date of incorporation	April 29, 1988

Citigroup Asia is an indirect wholly-owned subsidiary of Citigroup Inc. and is the principal legal entity of Citigroup Inc. to carry out securities and banking business in the Asia Pacific region. Citigroup Asia provides brokerage and proprietary trading services for Hong Kong-listed securities, futures and option contracts. Citigroup Asia is also engaged in investment banking, securities underwriting, corporate finance advisory, research and wealth management businesses. As at December 31, 2017, Citigroup Asia had total assets of HK\$6.038 billion, net assets of HK\$3.555 billion. It recorded operating losses of HK\$154 million and net losses of HK\$125 million for the period from January 1, 2017 to December 31, 2017.

Except for the joint ownership of Citi Orient and the corresponding corporate management and operation arrangements, there exists no other significant relationship between Citigroup Asia and the Company in terms of property rights, businesses, assets, credits and debts or human resources.

INFORMATION ABOUT THE COMPANY

The Company primarily engages in securities sales and trading, investment management, brokerage and securities financing, investment banking, headquarters and other businesses.

DEFINITIONS

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

“Acquisition”	the acquisition by the Company of 33.33% equity interests of Citi Orient held by Citigroup Asia
“Articles of Association”	Articles of Association of 東方證券股份有限公司, as revised from time to time
“Board”	the board of Directors of the Company
“Citi Orient”	Citi Orient Securities Co., Ltd. (東方花旗證券有限公司), a limited liability company established in the PRC. As at the date of this announcement, Citi Orient is a controlling subsidiary of the Company in which the Company holds 66.67% equity interests and Citigroup Asia holds 33.33% equity interests
“Citigroup Asia”	Citigroup Global Markets Asia Limited, a private limited company established in Hong Kong
“Company”	東方證券股份有限公司, a joint stock company established in the PRC, whose H shares are listed on the Hong Kong Stock Exchange (stock code: 03958) and A shares are listed on the Shanghai Stock Exchange (stock code: 600958)

“connected person(s)”	shall have the meaning ascribed to it under the Hong Kong Listing Rules
“CSRC”	the China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“NEEQ”	National Equities Exchange and Quotations (全國中小企業股份轉讓系統)
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the shareholder(s) of the Company, including holders of H shares and holders of A shares

By order of the Board of Directors
PAN Xinjun
Chairman

Shanghai, PRC
January 8, 2019

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